



# REPORT OF THE MANAGEMENT BOARD

on the operations of TAURON Polska  
Energia S.A. and TAURON Capital Group  
for the financial year 2022

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

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

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

Pursuant to art. 49b, art. 10 of the *Act of September 29, 1994 on accounting* (Journal of Laws of 2019, item 351), TAURON Polska Energia S.A. presents the information on the key non-financial performance indicators related to the entity's operations and the information on the employee related and environmental issues in the Non-Financial Report of TAURON Capital Group published on the company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/raporty-okresowe>.

## 1.1. General information

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

The Company does not have any branches (divisions).

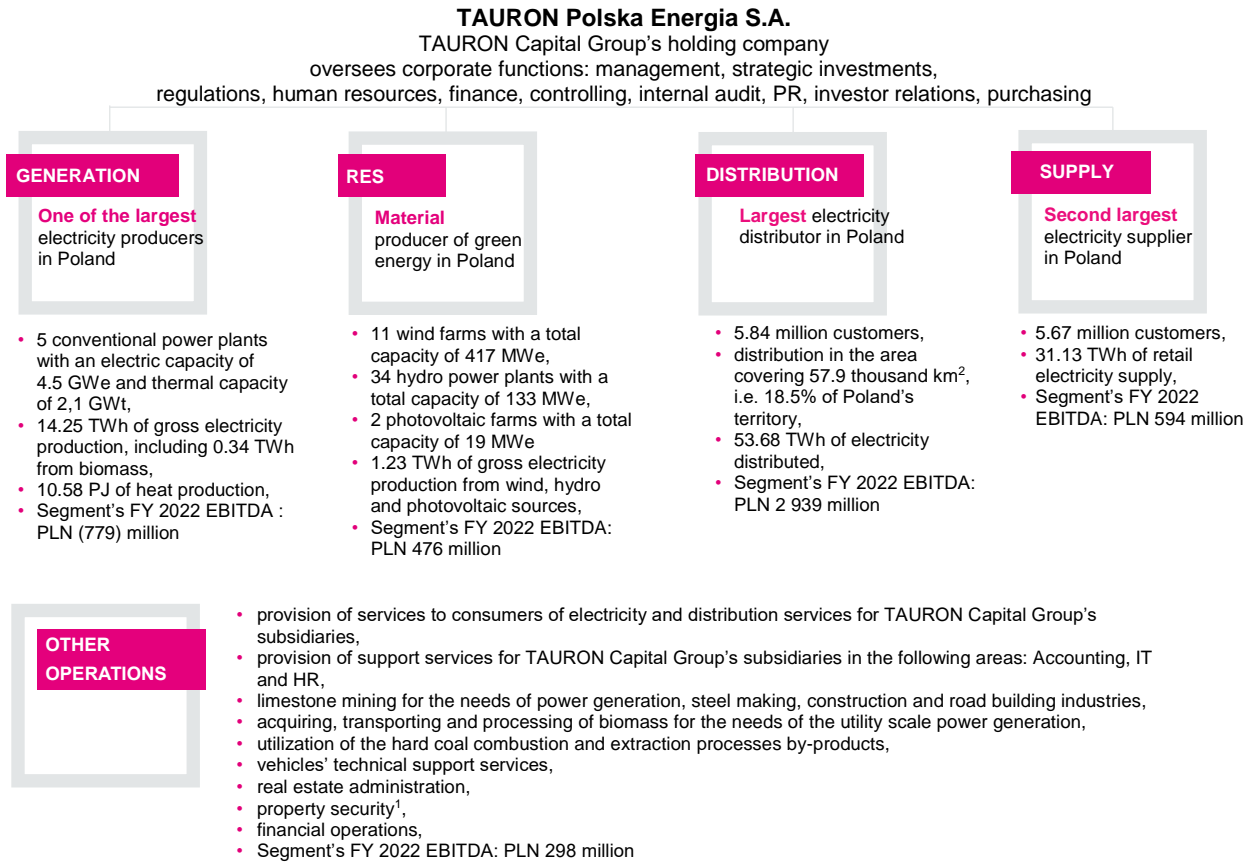
On December 31, 2022 the Capital Group discontinued operations in the segment of hard coal mining as a result of transfer of ownership right to the shares of TAURON Wydobywanie S.A. (TAURON Wydobywanie) from the Company to State Treasury. On October 21, 2022 the Company and State Treasury signed conditional agreement for the sale of all shares of TAURON Wydobywanie held by the Company, constituting 100% of the company's share capital, for the price of PLN 1, subject to joint fulfilment of the conditions precedent defined in the said agreement. Following the fulfilment of the conditions precedent, on December 31, 2022 entry was made in the register of shareholders of TAURON Wydobywanie indicating State Treasury as the purchaser of shares in the abovementioned company.

*Detailed information on transfer of ownership right to the shares of TAURON Wytwarzanie was presented in section 12.2. of this report.*

Divestment of shares in TAURON Wydobywanie is in line with the *TAURON Group's Strategy for the years 2022-2030 with an outlook until 2050* (Strategy), adopted on June 22, 2022. Due to the ever more stringent policy of financial institutions and investors of the financial market related to financing entities using coal based assets in their operations, divestment of shares in TAURON Wydobywanie should allow to expand the base of investors in order to acquire funds for execution of investments and at the same time should facilitate execution of strategic objectives presented in the Strategy.

The below figure presents the composition of TAURON Capital Group by business segments, in accordance with the International Financial Reporting Standard (IFRS) 8 Operating Segments as of December 31, 2022.

Figure no. 1. TAURON Capital Group







<sup>1</sup>Operations conducted until December 30, 2022, as a result of the loss of control by TAURON Group over the Wsparcie Grupa TAURON sp. z o.o. (Wsparcie Grupa TAURON) subsidiary as of that date, as a result of the transaction, carried out by TAURON Dystrybucja S.A. (TAURON Dystrybucja), involving a transfer of 100% of the shares in Wsparcie Grupa TAURON to Polski Holding Obronny sp. z o.o. (Polski Holding Obronny).

## 1.2. Segments of operations

In accordance with TAURON Group's Business and Operational Model (Business Model), TAURON Capital Group's business operations were conducted, in 2022, by the units defined as: the Corporate Center, the Lines of Business (Segments) (Trading, Generation, Renewable Energy Sources (RES), Heat, Distribution and Supply) and the Shared Services Centers (SSC) (Centra Usług Wspólnych - CUW). *The detailed information related to the Business Model is presented in Section 1.9 of this report.*

For the purpose of reporting TAURON Group's results its continued operations were, as of December 31, 2022, divided into 4 main Segments (Operating Segments), hereinafter also referred to as the Lines of Business:

-  **Generation Segment**, that comprises mainly electricity generation using conventional sources, including co-generation, as well as electricity generation from biomass burning. This Segment also includes heat generation and supply as well as the generation equipment's overhaul operations.
-  **Renewable Energy Sources (RES) Segment**, that comprises electricity generation from renewable energy sources, i.e. hydroelectric, wind and solar power plants.
-  **Distribution Segment**, that comprises distribution of electricity using the distribution grids located on the territory of the following provinces: Małopolska, Lower Silesia, Opole, Silesia, partly: Świętokrzyskie, Podkarpackie, Łódź, Wielkopolska and Lubuskie. The Segment also includes the operations that cover the technical support services related to the electricity metering systems and the metering data acquisition.
-  **Supply Segment**, that comprises electricity and natural gas supply to the final consumers and electricity, natural gas and derivative products wholesale trading, as well as trading and management of the CO<sub>2</sub> emission allowances, property rights and innovative services related to, among others, the management and maintenance of the street lighting, smart city products, e-mobility products, as well as the services focused on energy efficiency.

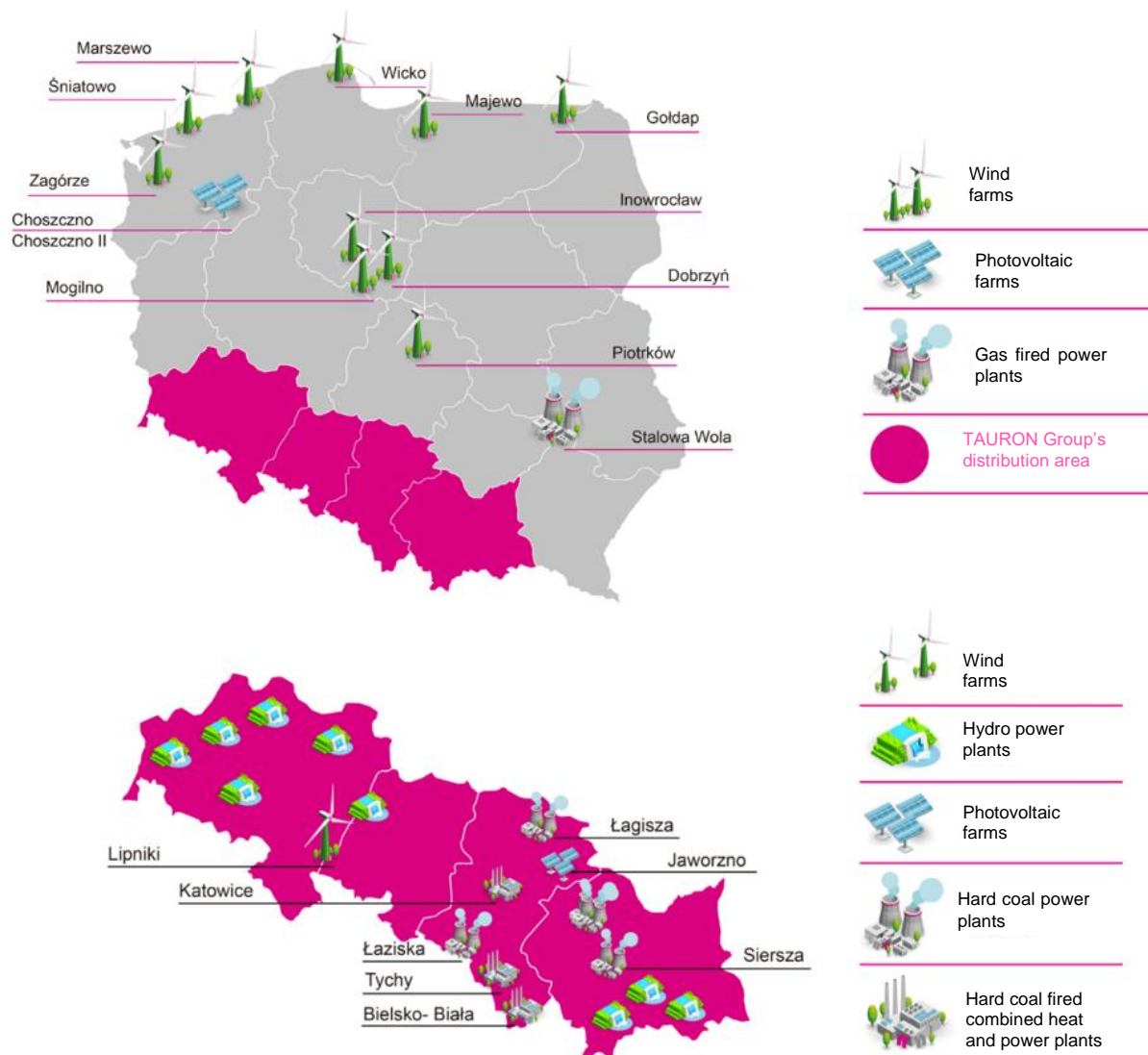
Apart from the main Segments of operations, TAURON Capital Group is also conducting the operations presented as part of the **Other Operations** that comprise, among others, the customer service for TAURON Capital Group's customers, the provision of the support services for TAURON Capital Group's subsidiaries with respect to accounting, human resources (HR) management, information and communications technology (ICT), as well as the

operations related to the extraction of stone (rocks) and the production of sorbing agents. The Other Operations also include the financial operations, utilization (management) of the hard coal combustion and extraction processes' by-products, biomass processing, real estate administration, as well as the technical support services for the vehicles.

Until December 31, 2022, TAURON Group had also been conducting operations in the Mining Segment that comprised the mining, cleaning (upgrading) of the hard coal in Poland. As of December 31, 2022, the operations in this Segment were discontinued as a result of the divestment of the shares in the TAURON Wydobycie subsidiary to the State Treasury.

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

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



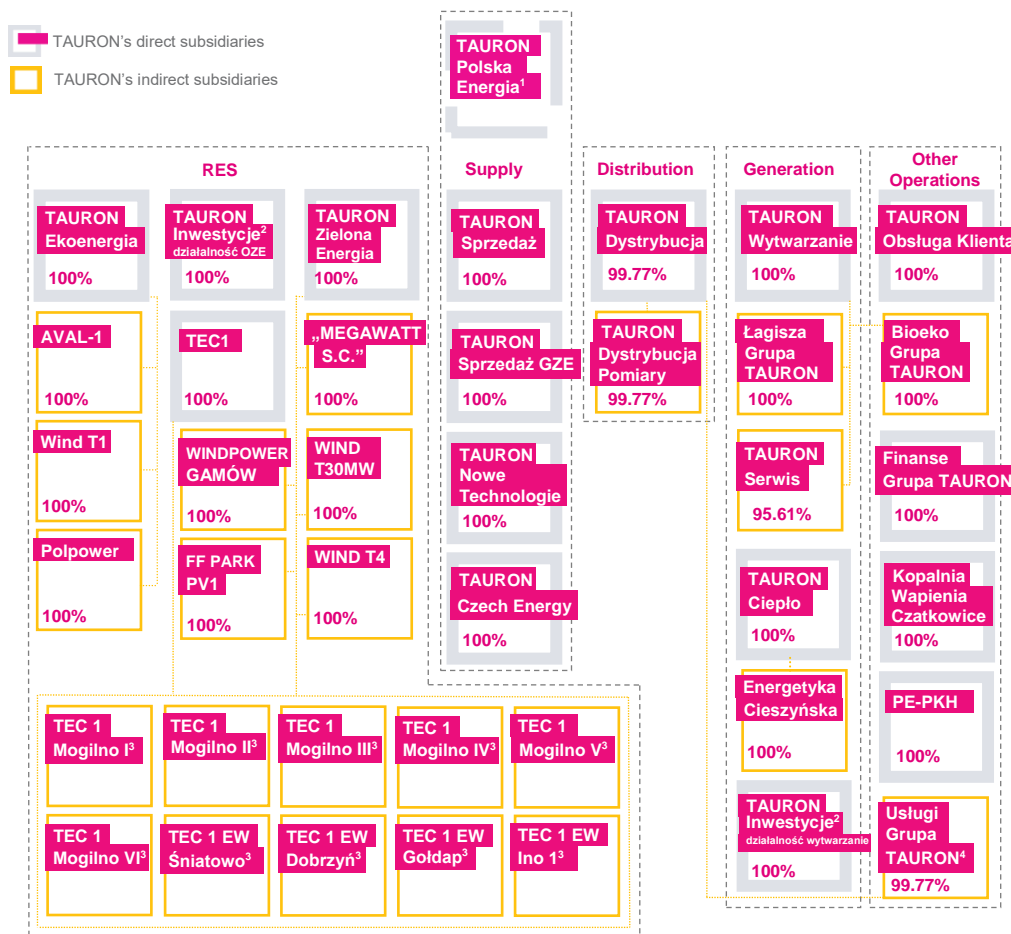
### 1.3. Organization of TAURON Capital Group and the changes thereof, as well as the entities subject to consolidation

As of December 31, 2022, and as of the date of drawing up this report, TAURON Capital Group's key subsidiaries, besides TAURON parent company, included 39 subsidiaries subject to consolidation, that are listed below. In addition, as of December 31, 2022, and as of the date of drawing up this report, the Company held, directly or indirectly, shares in the other 33 companies.

#### Entities subject to consolidation

The below figure presents TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of December 31, 2022.

Figure no. 3. TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of December 31, 2022



<sup>1</sup>TAURON is included in the Supply Segment.

<sup>2</sup>the company's operations related to the generation of electricity from renewable sources are included in the Renewable Energy Sources (RES) Segment. The company's operations related to investment projects, research and development activities, as well as the generation of electricity from the non-renewable sources are included in the Generation Segment.

<sup>3</sup>TEC1 sp. z o.o. (TEC1) is the General Partner, TAURON Zielona Energia sp. z o.o. (TAURON Zielona Energia) is the Limited Partner.

<sup>4</sup>formerly Marselwind sp. z o.o. (Marselwind)

## Changes to the organization

The following changes to the organization of TAURON Capital Group had taken place in 2022 and by the date of drawing up this information:

### Changes in the organization related to the implementation of the program to spin off TAURON Group's hard coal based generation assets and transfer such assets to the National Energy Security Agency (Narodowa Agencja Bezpieczeństwa Energetycznego - NABE)

In 2022, TAURON Capital Group was carrying out the *Program to spin off TAURON Group's hard coal based generation assets and transfer such assets to the National Energy Security Agency (Narodowa Agencja Bezpieczeństwa Energetycznego - NABE)* in order to implement the assumptions of the document entitled the *"Transition of the power sector in Poland. The spinning off of the hard coal based generation assets from the companies with the State Treasury shareholding"* (The NABE Government Concept), adopted by the Council of Ministers by way of the Resolution No. 44/2022 of March 1, 2022. The NABE Government Concept assumes the acquisition by the State Treasury (directly or indirectly) of the shares of/interests in the companies from the energy groups around which the assets related to the generation of electricity from hard coal will be integrated, including, inter alia, the contributed shares of/interests in the support services companies. The Concept assumes also ensuring the self-sufficiency of the companies integrating the assets, while at the same time keeping within the energy groups those assets that provide the potential for investments in the new capacity, including the real estate to be used for the construction of the new generation sources.

The goal of the transition defined in the NABE Government Concept is to ensure the socially acceptable costs of the electricity purchases, with the uninterrupted supply thereof, which will not be possible in the current regulatory regime and market environment without a fundamental change in the structure of Poland's energy mix.



The timing of the completion of the process and the spin-off of the hard coal assets to NABE depends on the completion of a number of agreements between the Treasury, the participants in the process and the financial institutions, among others. Thus, due to the fact that the Company is one of the participants in the process, the Company does not have a direct impact on the final timetable of the process.

As part of the preparation of the hard coal based generation assets of TAURON Capital Group for the sale to the State Treasury, in accordance with the assumptions of the NABE Government Concept, the following activities and changes in the organization had been implemented in 2022 and by the date of drawing up this report:

1. as part of an internal reorganization aimed at integrating TAURON Group's hard coal based generation assets:

- 1) on May 31, 2022, the ownership of 87 897 shares in TAURON Serwis sp. z o.o. (TAURON Serwis), constituting 95.61% of the shares in the share capital of the company, and 180 000 shares in Bioeko Grupa TAURON sp. z o.o. (Bioeko Grupa TAURON), constituting 100% of the shares in the share capital of the company, held by TAURON, was transferred from TAURON to TAURON Wytwarzanie S.A. (TAURON Wytwarzanie). As a consequence of the above, TAURON is no longer a direct shareholder of the above mentioned companies.

Thus, a capital group made up of the spun-off companies with the leading role of TAURON Wytwarzanie was set up, as part of which TAURON Serwis and Bioeko Grupa TAURON will be performing the support services and the operational support functions for the generation units spun off to NABE,

- 2) on June 1, 2022, the provision of processes related services, along with employees, was transferred from TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta) to TAURON Wytwarzanie, and thus the accounting and financial services as well as the Human Resources and payroll services for the entities of TAURON Capital Group, planned to be included in the sale transaction to the State Treasury, were organized in TAURON Wytwarzanie,
- 3) on July 1, 2022, the District Court Katowice-Wschód in Katowice, the 8th Commercial Division of the National Court Register, registered the split of TAURON Wytwarzanie and the establishment of the company TAURON Inwestycje sp. z o.o. (TAURON Inwestycje). The split was carried out pursuant to Art. 529, §1, clause 4 of the *Commercial Companies Code* by spinning off and transferring the spun-off assets, i.e. the Investment Division (Arm), to the newly established company - TAURON Inwestycje. As a result of the split, the share capital of TAURON Wytwarzanie was reduced by the amount of PLN 77 986 600, corresponding to the net value of the assets of the organized part of TAURON Wytwarzanie - the Investment Division, i.e. from PLN 106 236 230 to PLN 28 249 630. The share capital of TAURON Inwestycje amounts to PLN 779 800 and is divided into 7 798 shares with a nominal value of PLN 100 each, while the surplus, arising in connection with the acquisition of the company's shares at a value higher than their nominal value, i.e. PLN 77 206 800, was contributed to the supplementary capital of this company. All of the shares in the share capital of TAURON Inwestycje have been awarded to the current shareholder of TAURON Wytwarzanie, i.e. TAURON.

Thus, the assumption of keeping within TAURON Capital Group those assets that provide the potential for investments in the new capacity, including the real estate to be used for the construction of the new generation sources, was enacted. TAURON Inwestycje is conducting investment, research and development activities and is also operating a photovoltaic farm located in Jaworzno. As part of the organized part of the operations, the shares in the following companies: Elektrociepłownia Stalowa Wola S.A. (EC Stalowa Wola) - 50% of shares in the share capital, Energopomiar sp. z o.o. - 22.53% of shares in the share capital, have additionally been spun off and allocated to TAURON Inwestycje.

The assets spun off out of the TAURON Wytwarzanie subsidiary to the TAURON Inwestycje subsidiary were responsible for generating EBITDA in the amount of PLN -19.3 million in 2022.

- 4) on July 29, 2022, the ownership of 1 284 020 shares in Nowe Jaworzno Grupa TAURON sp. z o.o. (Nowe Jaworzno Grupa TAURON) that constituted 100% of the shares in the company's share capital was transferred from TAURON to TAURON Wytwarzanie.

Thus, all of the assets of TAURON Capital Group to be spun off to NABE were concentrated within TAURON Wytwarzanie. The assets grouped in TAURON Wytwarzanie were responsible for generating EBITDA in the amount of PLN -902 million in 2022.

- 5) on October 3, 2022, the District Court Katowice-Wschód in Katowice, the 8th Commercial Division of the National Court Register, registered the merger of TAURON Wytwarzanie (the Acquiring Company) and Nowe Jaworzno Grupa TAURON (the Acquired Company). The merger was carried out in accordance with Article 516 of the *Commercial Companies Code* by way of the acquisition of the Acquired Company by the Acquiring company, which is the sole shareholder of the Acquired company, without increasing the share capital of the Acquiring Company and without changing its Articles of Association. The merger of the companies took place by transferring all of the assets of the Acquired Company to the Acquiring Company (merger by acquisition).

2. as part of carrying out the adopted assumptions with respect to the preparation of the generation assets for the divestment, within the framework of the NABE Program, in addition to the above mentioned integration activities, TAURON Wytwarzanie, on November 28, 2022, divested all of its shares/interests in the following companies in which TAURON Wytwarzanie had been a minority shareholder:

- 1) to TAURON – 138 403 shares in Huta Łaziska S.A., constituting 0.21% of the shares in the share capital,
- 2) to TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż) – 5 639 shares in ENESTA sp. z o.o. undergoing a restructuring process, constituting 11.19% of the shares in the share capital.

### Other changes in the organization

#### **Acquisition by TAURON Zielona Energia sp. z o.o. of the shares in the company "MEGAWATT S.C." sp. z o.o.**

On June 9, 2022, TAURON Zielona Energia acquired 100% of the shares in the share capital of MEGAWATT S.C. sp. z o.o., a company holding the right to implement the Mierzyn wind farm construction project with a capacity of 58.5 MW, located in the north western part of Poland. On the date of the acquisition, the wind farm development project was in the ready for construction phase, and in accordance with the adopted assumptions, the company will complete the project's implementation by the end of 2024.

#### **Acquisition by TAURON of the shares in the company PGE Baltica 4 sp. z o.o.**

On September 28, 2022, TAURON, as the buyer, and PGE Polska Grupa Energetyczna S.A. (PGE), as the seller, entered into a dispositive agreement for the sale of the shares in the project company (SPV) PGE Baltica 4 sp. z o.o. (PGE Baltica 4), dedicated to the implementation of the offshore wind power investment projects in the Polish Exclusive Economic Zone.

As a result of the transaction concluded, TAURON acquired 526 shares, with a total nominal value of PLN 526 000, in the share capital of PGE Baltica 4, that constitute 526/1170 (45%) of the share capital and granting the right to the same number of votes at the General Meeting of that company. The remaining shares are held by PGE.

#### **Acquisition by TAURON Zielona Energia sp. z o.o. of the shares in the company WIND T4 sp. z o.o.**

On October 3, 2022, TAURON Zielona Energia acquired 100% of the shares in the share capital of WIND T4 sp. z o.o., a company holding the rights to implement the Nowa Brzeźnica wind farm construction project with a capacity of 19.6 MW, located in the Łódź province. On the date of the acquisition, the wind farm development project was in the ready for construction phase, and in accordance with the adopted assumptions, the company will complete the project's implementation in 2025.

#### **Merger of the company KOMFORT Zarządzanie Aktywami sp. z o.o. with the company TAURON Dystrybucja Pomiary sp. z o.o.**

On October 7, 2022, the District Court for Kraków Śródmieście in Kraków, the 12th Commercial Division of the National Court Register, registered the merger of TAURON Dystrybucja Pomiary sp. z o.o. (the Acquiring Company) with KOMFORT Zarządzanie Aktywami sp. z o.o. (the Acquired Company).

The merger was carried out in accordance with Art. 492, § 1, clause 1) of the *Commercial Companies Code*, i.e. by transferring all of the assets of KOMFORT Zarządzanie Aktywami to TAURON Dystrybucja Pomiary (merger by acquisition). Due to the capital (equity) structure of the companies taking part in the merger (the Acquiring Company holds 100% of the shares in the share capital of the Acquired Company), the merger took place pursuant to the provisions allowing for the so-called simplified procedure for merging companies (Art. 516, § 6 of the *Commercial Companies Code*), and as a consequence, the merger took place without an increase in the share capital of the Acquiring Company and without amending the Acquiring Company's Shareholders' Agreement, in accordance with the rules provided for in the Merger Plan.

#### **Sale of the shares in Marselwind sp. z o.o. to TAURON Dystrybucja S.A.**

On October 10, 2022, TAURON Dystrybucja acquired from TAURON 2 200 shares in Marselwind, which constitute 100% of the shares in the company's share capital.

As a consequence of the above, TAURON Dystrybucja became the sole shareholder of Marselwind.

#### **Acquisition by TAURON Zielona Energia sp. z o.o. of the shares in the company FF PARK PV 1 sp. z o.o.**

On October 13, 2022, TAURON Zielona Energia acquired 100% of the shares in the share capital of the company FF PARK PV1 sp. z o.o., a company holding the rights to implement the Proszówek photovoltaic farm construction project with a capacity of 45.6 MW, located in the Lower Silesia province. On the date of the acquisition, the photovoltaic farm development project was in the ready for construction phase, and in accordance with the adopted assumptions, the company will complete the first stage of the project in the fourth quarter of 2023.

### **Sale by TAURON of the shares in the company InnoEnergy Central Europe sp. z o.o.**

On November 18, 2022, TAURON sold a stake (representing 5.88% in the share capital) in the company InnoEnergy Central Europe sp. z o.o., as a result of which TAURON is no longer a shareholder in this company.

The majority shareholder of InnoEnergy Central Europe sp. z o.o. made a tender offer to buy all of the shares from the Company's other shareholders. Due to the fact that InnoEnergy Central Europe sp. z o.o. has recently changed its business profile, and TAURON's capital involvement in the company had been no longer bringing the expected benefits for TAURON Group, the decision was taken to accept the tender offer.

### **Acquisition by TAURON Zielona Energia sp. z o.o. of the shares in the company WINDPOWER Gamów sp. z o.o.**

On November 24, 2022, TAURON Zielona Energia acquired 100% of the shares in the share capital of WINDPOWER Gamów sp. z o.o. (WINDPOWER Gamów), a company holding the rights to implement the Gamów wind farm construction project with a capacity of 33 MW, located in the Silesia province.

On the date of the acquisition, the wind farm development project was in the ready for construction phase, and in accordance with the adopted assumptions, the company will complete the project's implementation in the fourth quarter of 2024.

### **Acquisition by TAURON Zielona Energia sp. z o.o. of the shares in the company WIND T30MW Gamów sp. z o.o.**

On November 24, 2022, TAURON Zielona Energia acquired 100% of the shares in the share capital of WIND T30MW sp. z o.o. (WIND T30MW), a company holding the rights to implement the Warblewo wind farm construction project with a capacity of 30 MW, located in the Pomerania province.

On the date of the acquisition, the wind farm development project was in the ready for construction phase, and in accordance with the adopted assumptions, the company will complete the project's implementation in the fourth quarter of 2024.

### **Taking up by TAURON Ciepło sp. z o.o. of 100% of the shares in Energetyka Cieszyńska sp. z o.o.**

On December 7, 2022, the District Court in Bielsko-Biała, the 8th Commercial Division of the National Court Register registered a reduction, i.e. a redemption of the shares with a total nominal value of PLN 13 059 000, owned by the Municipality of Cieszyn, and a simultaneous increase by the same value of the share capital (a cash contribution by TAURON Ciepło sp. z o.o.) of Energetyka Cieszyńska sp. z o.o. (Energetyka Cieszyńska).

As a result of the above, TAURON Ciepło sp. z o.o. (TAURON Ciepło) became the sole shareholder of Energetyka Cieszyńska, i.e. it holds 29 259 shares, which constitute 100% of the shares in the share capital of the above mentioned company.

### **Change of the name of the company Marselwind sp. z o.o. to Usługi Grupa TAURON sp. z o.o.**

On December 23, 2022, the District Court of Katowice-Wschód in Katowice, the 8<sup>th</sup> Commercial Division of the National Court Register registered the change of the name of the Marselwind sp. z o.o. to Usługi Grupa TAURON sp. z o.o.

### **Contribution of 100% of the shares in the company Wsparcie Grupa TAURON sp. z o.o. to Polski Holding Obronny sp. z o.o.**

On December 30, 2022, TAURON Dystrybucja contributed 100% of the shares in the company Wsparcie Grupa TAURON to the company Polski Holding Obronny in exchange for the acquisition of 161 835 newly created shares of the above mentioned company (which constitute approximately 4.3% of the share capital), which were created in the increased share capital. Wsparcie Grupa TAURON was conducting activities in the field of protection of persons and property security.

The above was related to the initiative of Polski Holding Obronny and the Ministry of State Assets aimed at increasing the level of security of the critical infrastructure in Poland.

### **Transfer of the ownership of 100% of the shares in TAURON Wydobywanie S.A. to the State Treasury**

As of December 31, 2022, the ownership of 100% of the shares in TAURON Wydobywanie was transferred from TAURON to the State Treasury.

As a result of the above, the company Spółka Usług Górniczych sp. z o.o., whose shareholder is TAURON Wydobywanie, is no longer an indirect subsidiary of TAURON.

## Merger of AVAL-1 sp. z o.o. and "Polpower" sp. z o.o. with TAURON Ekoenergia sp. z o.o.

On March 1, 2023 (an event that took place after the balance sheet date), the Extraordinary Shareholders Meetings of the companies TAURON Ekoenergia sp. z o.o. (TAURON Ekoenergia), AVAL-1 sp. z o.o. (AVAL-1) and "Polpower" sp. z o.o. ("Polpower") adopted the resolutions on the incorporation by TAURON Ekoenergia sp. z o.o. (the Acquiring Company) of AVAL-1 and "Polpower" (the Acquired Companies).

The completion of the merger of the companies is aimed at optimizing and simplifying the ownership structure and the management of the companies' assets, and above all at reducing the costs of operating these companies.

Due to the capital structure of the companies involved in the merger (100% of the shares in the share capitals of the Acquired Companies are held by the Acquiring Company), the merger will take place based on the regulations allowing for the so-called simplified merger procedure (Article 516, § 6 of the Code of Commercial Companies), in accordance with Article 492, § 1, item 1 of the Code of Commercial Companies, i.e. by transferring all of the assets of the Acquired Companies to the Acquiring Company.

As of the date of drawing up this report, the merger of the two companies has not yet been registered with the National Court Register.

### 1.4. Organizational or equity ties with other entities

Apart from the equity ties with the companies presented in section 1.3. of this report, the organizational or equity ties are applicable to the material joint subsidiaries (co-subidiaries) in which the Company held, directly or indirectly, shares.

The below tables presents the list of material joint subsidiaries (co-subidiaries) as of December 31, 2022.

**Table no. 1. List of material joint subsidiaries (co-subidiaries) as of December 31, 2022**

Company name	Registered office	TAURON's share in the company's capital and in the parent company	Subsidiary holding directly shares in the company
1. EC Stalowa Wola	Stalowa Wola	50.00%	TAURON Inwestycje
2. TAMEH HOLDING sp. z o.o. (TAMEH HOLDING)	Dąbrowa Górnicza	50.00%	TAURON
3. TAMEH POLSKA sp. z o.o. (TAMEH POLSKA)	Dąbrowa Górnicza	50.00%	TAMEH HOLDING
4. TAMEH Czech s.r.o.	Ostrava, Czech Republic	50.00%	TAMEH HOLDING

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

The major domestic and foreign investments, as well as equity investments made in 2022 and by the date of drawing up this report are listed below.

#### Taking up or acquiring share securities in TAURON Capital Group's subsidiaries

The below table presents a summary of the equity increases in TAURON Capital Group's subsidiaries in 2022 and by the date of drawing up this report.

**Table no. 2. Summary of the equity increases in TAURON Capital Group's subsidiaries in 2022 and by the date of drawing up this report**

Company	Share capital increase (total price for taking up shares / interests) (PLN)	Company taking up shares / interests	Nominal value of shares / interest taken up (PLN)	Date of passing the resolution by the General Meeting of the Partners / Shareholders	Structure of the share capital following the increase
1. TAURON Wydobywanie	3 977 601 000	TAURON Polska Energia	39 776 010	21.10.2022	TAURON Polska Energia 100%
2. Marselwind <sup>1</sup>	6 200 000	TAURON Dystrybucja	6 200 000	04.11.2022	TAURON Dystrybucja 100%
3. Energetyka Cieszyńska <sup>2</sup>	13 059 000	TAURON Ciepło	13 059 000	18.11.2022	TAURON Ciepło 100%

<sup>1</sup>formerly Marselwind

<sup>2</sup>before the share capital of the company was increased, it had been reduced (redemption of the shares with a total nominal value of PLN 13 059 000).

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

The below table presents a summary of the equity increases in the other companies, in which TAURON holds an equity stake, implemented in 2022 and by the date of drawing up this report.

**Table no. 3. Summary of the equity increases in the other companies, in which TAURON holds an equity stake, implemented in 2022 and by the date of drawing up this report**

Company	Share capital increase (total price for taking up shares / interests) (PLN)	Company taking up shares / interests	Nominal value of shares / interest taken up (PLN)	Date of passing the resolution by the General Meeting of the Partners / Shareholders	Structure of the share capital following the increase
1. EEC Magenta spółka z ograniczoną odpowiedzialnością 2 ASI spółka komandytowo - akcyjna (EEC Magenta limited liability company 2 ASI limited joint stock partnership) (EEC Magenta 2 ASI)	141 974	EEC Ventures spółka z ograniczoną odpowiedzialnością 2 spółka komandytowa (EEC Ventures limited liability company 2 limited partnership) (EEC Ventures 2)	4 166	17.02.2022	EEC Ventures 2 2.94%
	6 962 200	PFR NCBR CVC FIZAN	69 622		PFR NCBR CVC FIZAN 49.03%
	6 820 200	TAURON	68 202		TAURON 48.03%
	176 866	EEC Ventures 2	5 200		EEC Ventures 2 2.94%
2. EEC Magenta 2 ASI	8 671 400	PFR NCBR CVC FIZAN	86 714	11.05.2022	PFR NCBR CVC FIZAN 49.03%
	8 494 600	TAURON	84 946		TAURON 48.03%
	99 863	EEC Ventures 2	2 942		EEC Ventures 2 2.94%
3. EEC Magenta 2 ASI	4 891 200	PFR NCBR CVC FIZAN	48 912	20.10.2022	PFR NCBR CVC FIZAN 49.03%
	4 791 400	TAURON	47 916		TAURON 48.03%

The other most significant equity investments in the financial assets as of December 31, 2022, include stakes in the following entities:

1. Polski Holding Obronny – with the balance sheet value of PLN 80 million,
2. Spółka Ciepłowniczo Energetyczna Jaworzno III sp. z o.o. (limited liability company) – with the balance sheet value of PLN 30 million,
3. Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o. (limited liability company) – with the balance sheet value of PLN 24 million,
4. ElectroMobility Poland S.A. (joint stock company) – with the balance sheet value of PLN 10 million.

#### Investments in the financial assets

TAURON and TAURON Capital Group's subsidiaries did not make any investments in the financial assets in 2022.

On March 2, 2022, TAURON granted a loan to EC Stalowa Wola in the amount of PLN 120 million with a repayment date of June 30, 2033.

TAURON also continued the financing of EC Stalowa Wola (Stalowa Wola CHP) in the form of loans in 2022, the total principal amount of which to be repaid, as of December 31, 2022, stood at the nominal value of PLN 532 million.

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

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

## 1.6. TAURON Group's Strategy for the years 2022-2030 with an outlook until 2050 and the implementation thereof

TAURON Group's Strategy for the years 2022-2030 with an outlook until 2050 was adopted in June 2022. The document is a response to the challenges arising from the situation prevailing on the market and in the power sector, in particular the situation related to the transition of the electric power industry. A thorough analysis of the macroeconomic, market and regulatory environment, as well as of the sector's forecasts and development directions, was carried out as part of the process of developing the Strategy and the results of this analysis was translated into the opportunities and risks for TAURON Group in the time frame up to 2030, with an outlook to reach climate neutrality by 2050.

### Mission, Vision and values

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

### TAURON CAPITAL GROUP'S MISSION

We care about the customer.  
We care about the planet.  
We choose the Green Turn of TAURON.

### TAURON CAPITAL GROUP'S VISION

TAURON – the company of first choice.

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



## TAURON Capital Group's Strategy

The Strategy presents an optimal path of sustainable development that will ensure TAURON Group's financial stability and growth prospects while taking into account the high volatility of the macro-economic environment.

The main objective is to build TAURON Group's value through modern solutions for customers and climate while maintaining its financial stability. This goal will be implemented based on the three priorities presented below.

The below figure presents the priorities of TAURON Group's Strategy for the years 2022-2030 with an outlook until 2050.

Figure no. 4. Priorities of TAURON Group's Strategy for the years 2022-2030 with an outlook until 2050



**Priority #1 – Sustainable operations** – will allow for the transition to climate neutrality and reduction of emissions as well as achieving climate neutrality by 2050. As part of Priority #1 the following directions have been adopted:

1. Increasing installed capacity in renewable energy, including an involvement in the development of offshore wind power as well as maintaining the capacity and improving the efficiency of hydro power as a stable renewable resource,
2. Exiting coal-fired power generation and hard coal mining operations as well as the transition of the district heating towards low- and zero-carbon sources,
3. Reducing emissions and achieving climate neutrality by 2050,

4. Commitment to the development of the Circular Economy,
5. Innovative solutions supporting the transition to the environmentally sustainable operations, enabling achieving climate neutrality in 2050.



**Priority #2 – Growth based on the largest customer base** – will allow the Group to remain a leading energy group on the domestic market in terms of reliability of electricity and heat distribution, as well as electricity supply and customer service. The key challenges will include: the decarbonization of district heating, guaranteeing the reliability of supply and quality of electricity and heat, minimizing the balancing difference in electricity and the heat transmission losses, attracting new customers, implementing smart metering solutions, further automation and digitization of the grid infrastructure, flexibility services and the elimination of the grid congestion, as well as developing product offerings and improving service quality. As part of Priority #2 the following directions have been assumed:

1. Ensuring the security of energy supply and the quality of electricity and heat,
2. Maintaining high customer satisfaction indices, modern IT tools,
3. Continuous development of the basket of products and services and new models of cooperation with customers,
4. Readiness to provide new distribution services under the new electricity market model.



**Priority #3 – An organization that keeps up with change** – will allow the Group to maintain a stable financial position based on improved efficiency and streamlined organization. Activities will focus on raising funds for the implementation of the investment program, maintaining a safe level of debt, optimizing the structure of TAURON Group and improving operational efficiency. As part of Priority #3 the directions include.

1. Ensured financing for investments and operations, including the use of strategic and capital (equity) partnerships for expansion,
2. Human capital management in order to develop and implement solutions that shape organizational culture and a friendly work environment,
3. Maximum use of the funds dedicated to the transition,
4. Operational efficiency based on the revised business model,
5. Information security as an important element of development.

The Strategy also indicates the directions and goals within the ESG areas (E - environmental protection, S - social responsibility and G - corporate governance). The Strategy emphasizes the importance of actions taken to achieve the UN Sustainable Development Goals. TAURON Group focuses on 5 goals: *Affordable and clean energy; Industry, Innovation and infrastructure; Sustainable cities and communities; Responsible consumption and production; Climate action.*

## Prospective goals and assumptions of TAURON Group's Strategy

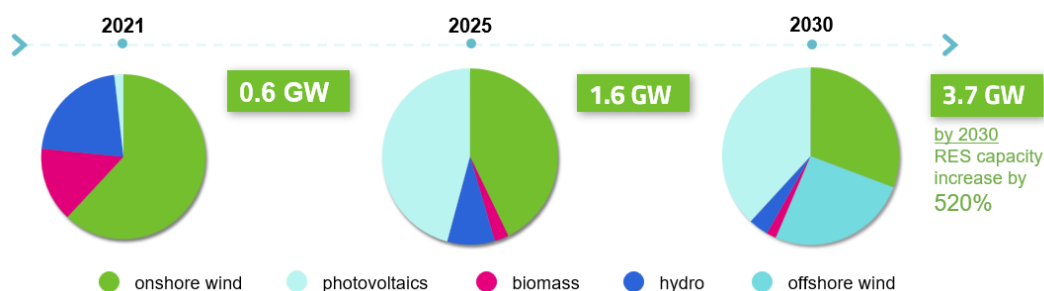
The Strategy, approved in 2022, assumes a number of actions to achieve the goals set for TAURON Capital Group. The key strategic objectives identified as part of the implementation of TAURON Group's priorities include:

1. EBITDA of PLN 4.5 billion in 2025 and more than PLN 6.5 billion in 2030,
2. Maintain the net debt to EBITDA ratio at a safe level,
3. Increase in installed RES capacity to 1.6 GW in 2025 and to 3.7 GW in 2030,
4. Reduce emissions to 200 kg CO<sub>2</sub>/MWh in 2025 and below 160 kg CO<sub>2</sub>/MWh in 2030,
5. Implementation of smart metering - 100% smart meters by 2030,
6. New connections of customers to the district heating network – approx. 450 MWt by 2030,
7. Maintain high customer service standards - First Time Resolution (FTR) rate > 90% in 2030.

Such a significant reduction in the CO<sub>2</sub> emissions, which will allow the Group to rank among the most environmentally responsible power companies, will be a consequence of the change in the structure of installed capacity at TAURON Capital Group.

TAURON Group's renewable energy installed capacity growth ambitions outlined in the Strategy are shown in the below figure.

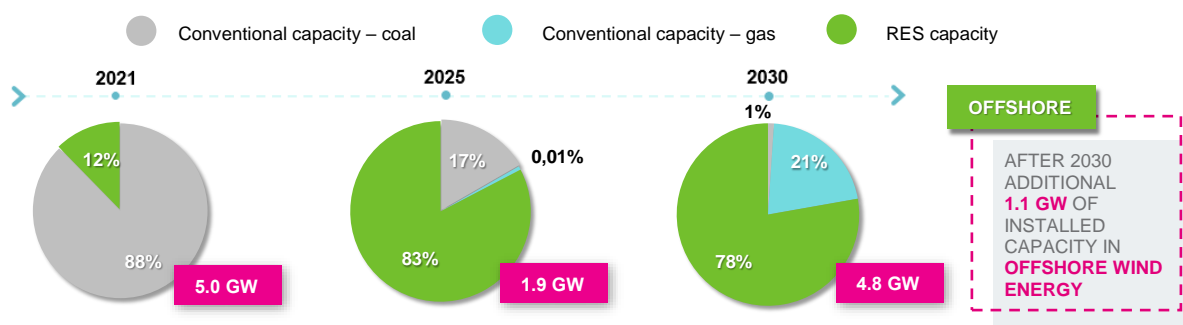
Figure no. 5. TAURON Group's renewable energy installed capacity growth ambitions outlined



As a result of the energy transition of TAURON Group, the Group's energy mix will change significantly - by 2030, the total installed capacity will stand at approx. 4.8 GW, of which approx. 80% will come from the renewable energy sources, and approx. 20% of the power will be generated from the gas-fired sources. It is assumed that after 2030 TAURON Group will have approx. 1.1 GW of offshore wind capacity.

The below figure presents the assumed change in TAURON Group's energy mix.

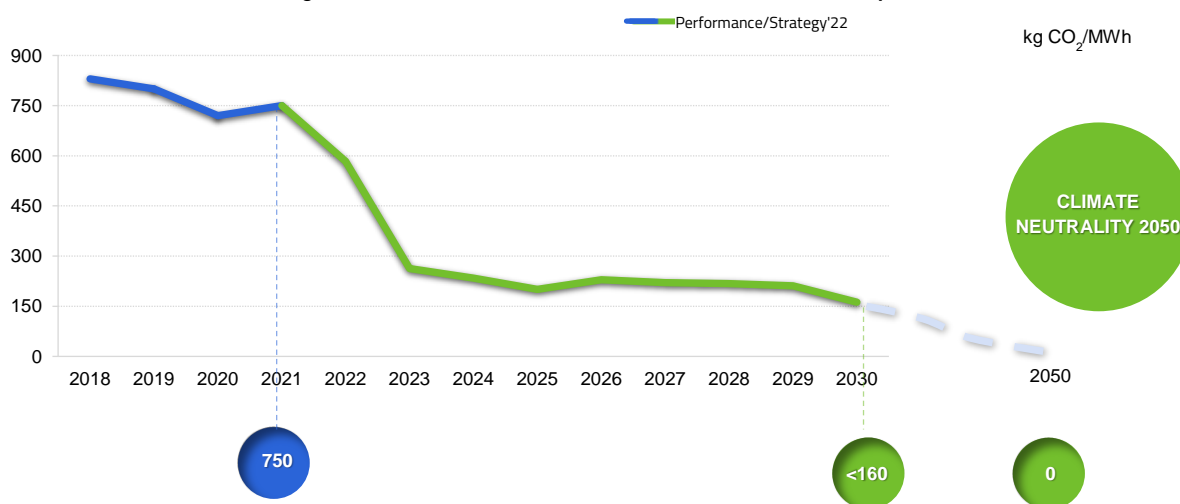
Figure no. 6. Assumed change in TAURON Group's energy mix



Sustainable investments, first and foremost, an increase in the capacity in renewable energy sources and the reduction of the heat generation emissions, along with a simultaneous decarbonization of TAURON Group, will allow for a significant reduction of the CO<sub>2</sub> emissions in the time frame up to 2030, and in the long term perspective for the implementation of TAURON Group's strategic aspirations to achieve climate neutrality by 2050 .

The below figure presents the forecast of the emissions reduction at TAURON Group.

Figure no. 7. Forecast of the emissions reduction at TAURON Group

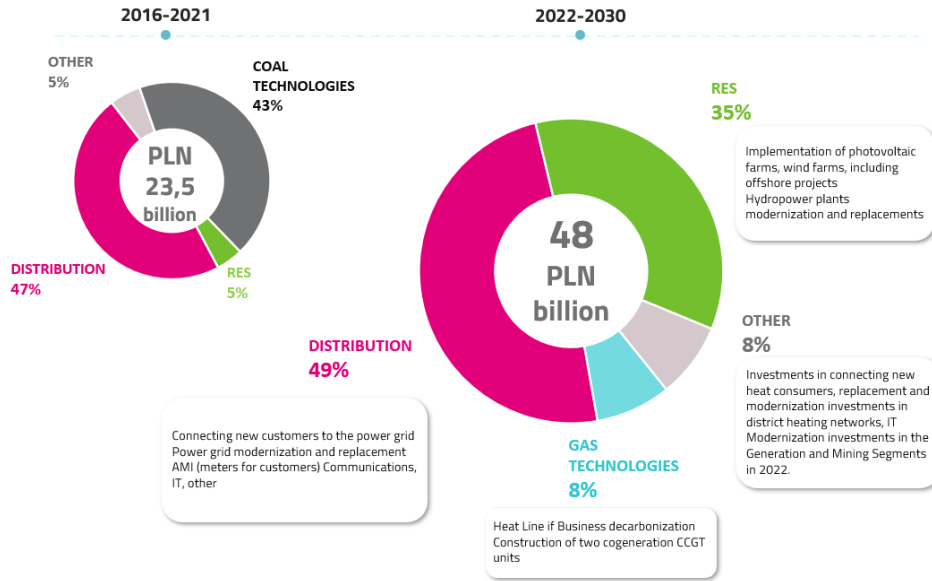


It is estimated that the implementation of the Strategy will require the capital expenditures of approx. PLN 48 billion in the years 2022-2030. The two main directions of the investments are related to the distribution of electricity (approx. 50%) and increasing of the capacity in the renewable energy sources (approx. 35%). Due to the very high volatility of the macroeconomic conditions and the availability of energy resources, a high degree of flexibility in the implementation of the investment projects will be necessary

The below figure presents the estimated capital expenditures of TAURON Group in the years 2022-2030.



Figure no. 8. Estimated capital expenditures of TAURON Group in the years 2022-2030



## Strategic goals and growth prospects in the individual operating Segments

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

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

Strategic goals	Growth prospects
<p><b>RES Segment</b></p> <p>The main goal of the Segment is to increase the installed RES capacity to 1.6 GW in 2025 and to 3.7 GW in 2030</p> <p>Investments in RES are the basis for the transition of TAURON Group, which assumes:</p> <ol style="list-style-type: none"> <li>0.7 GW of installed wind capacity by 2025 and 1.1 GW by 2030,</li> <li>0.7 GW of installed solar capacity by 2025 and 1.4 GW by 2030,</li> <li>participation in offshore wind development with strategic partners and in-house development of up to 1 GW of installed capacity by 2030; further 1.1 GW of capacity after 2030.</li> </ol> <p>The activities will also focus on improving the efficiency of hydro power, implementing energy storage technologies, including pumped storage power plants.</p> <p>In addition, TAURON Group will be striving to take advantage of the opportunities within the domestic supply chain in the construction of the offshore wind farms.</p>	<p>A strong growth of the RES sources has been observed over the last few years, in particular with respect to the photovoltaics (PV) installations. Poland improved its record investments in the photovoltaic installations previously reported in 2021, thanks to which it remained in the top three largest solar markets in Europe. According to the publicly available sources, 4.9 GW of PV capacity was installed in Poland in 2022 (in 2021: 3.8 GW). As of the end of 2022, Poland's installed capacity in PV sources stood at 12.2 GW.</p> <p>The technological changes with respect to wind farms, along with the favorable regulations (the Act on promoting electricity generation in offshore wind farms of 2021, the liberalization of the so-called distance act of 2023) are an opportunity for the growth of the segment.</p> <p>The aggression of the Russian Federation against Ukraine brought about an energy crisis due to the large increases in the prices of the raw materials, in particular the energy commodities, which translated into very high electricity prices. This forces an acceleration of the development of the low- and zero-emission energy sources.</p> <p>High electricity prices and the ecological issues will be driving the development of the renewable energy sources. In the coming years, the expansion of the RES line of business at TAURON Group will focus on investments in the solar farms and the onshore wind farms, and in the long term – the offshore wind farms.</p>
<p><b>Distribution Segment</b></p> <p>The main goal for the Distribution Segment is to maintain its leadership position with respect to the reliability of electricity distribution. Thanks to the continuous development and modernization of the grid, the Distribution Segment is to remain an area of stable, regulated revenues for the Group.</p> <p>In the time frame up to 2030, TAURON Group is planning to implement 100% smart metering of the grid by installing smart meters and will continue to be the largest electricity distributor in Poland in terms of volume and the number of customers.</p> <p>The activities under way are aimed at:</p> <ol style="list-style-type: none"> <li>Ensuring high reliability and quality of the electricity supply,</li> <li>Investments in the grid infrastructure to enable connecting of the new customers and the renewable sources to the grid,</li> <li>Implementation of the smart metering of the electricity distribution grid,</li> </ol>	<p>The activities aimed at ensuring the reliability of electricity supply and simplifying the procedures related to connecting the new consumers and micro-installations to the grid will be continued. The investment projects carried out will allow for adapting TAURON Capital Group's distribution assets to the growing volume of electricity generated by the distributed renewable sources, and also for preparing the grid to interoperate with the infrastructure to be used for charging electricity vehicles.</p> <p>The development of TAURON Group with respect to the smart grids and smart meters will allow for introducing additional functionalities, both on the part of the distributor, as well as the customer. The Distribution Segment's growth will be significantly affected by the ability to obtain aid funds, both with respect to improving the grid security, as well as the research and development (R&amp;D) activities.</p> <p>The above mentioned challenges will be dealt with on the regulated market that makes the distribution segment's operations dependent on the new elements of the regulatory policy introduced by the President of Energy Regulatory Office.</p>

4. Automation and digitization of the grid infrastructure,
5. Minimizing the level of the electricity balancing difference.

### Generation Segment



As part of the ongoing transition of TAURON Group towards climate neutrality, the activities conducted in the Generation Segment are focused on the decarbonization and the reduction of emissions to the level of 200 kg CO<sub>2</sub>/MWh in 2025 and below 160 kg CO<sub>2</sub>/MWh in 2030

TAURON is implementing the timetable of the NABE Government Concept.

Another equally important goal for the Segment is the transition of the district heating towards the low- and zero-emission sources. TAURON Group is planning new connections of the consumers to the district heating network at the level of approx. 450 MWt by 2030.

Achieving the position of a reliable producer and the largest supplier of heat in the region by 2030 will be possible thanks to:

1. Replacing coal fired sources with the modern low-emission units,
2. Ensuring high reliability and quality of the heat supply,
3. Improving of the technical and economic parameters, including minimizing of the losses in heat transmission,
4. Development of the district heating market by acquiring the new customers,
5. Support in eliminating the low emission sources,
6. Extending the range of the offering with the new products.

The future of the coal energy depends on the implementation of the NABE Government Concept. NABE will be the guarantor of a sustainable transition of the sector while ensuring energy security.

The spin-off of the hard coal fired generation assets out of TAURON Group will make it easier to obtain financing for other expansion projects, in particular the ones related to the RES.

Therefore, TAURON Group's Strategy assumes the spin-off of the assets related to the electricity generation by the coal fired units. No material capital expenditures are planned with respect to these assets until the spin-off.

With respect to the district heating, the replacement of the coal fired generation units with the low-emission sources is an issue of strategic importance. In the case of the large district heating sources, gas is considered to be the transition fuel on the way to achieving climate neutrality. The development of the heat market by expanding the district heating network and connecting the new customers provides the support for the reduction of the low emission sources.

### Supply Segment



The main goal of the Supply Segment is to maintain the status of the leading electricity supplier.

In the time frame up to 2030, TAURON assumes maintaining the position of the largest supplier of electricity in Poland in terms of the number of customers, and will also be striving to maintain the high standards of customer service - FTR (First Time Resolution) at the level of > 90%.

An increase in the customer satisfaction level is assumed, mainly through the implementation of the following activities:

1. An offering based on a diversified, attractive basket of products and services,
2. Modern, integrated sales and customer service channels, simplified procedures,
3. Development of the ecological products and services in response to the demand for the solutions stemming from the "green transition" and the SMART products and services,
4. Removal of barriers, introduction of facilities that guarantee a high quality of service for the customers with disabilities,
5. Ensuring a high level of security for the IT systems and the customer data.

The growing customer awareness is leading to the increased demands with respect to the products offered and the speed and quality of service delivery. The importance of ecology, the changing attitudes to the way electricity is consumed and the large increase in the number of prosumers are the factors that are ever more strongly influencing customer needs and expectations.

A further growth in the popularity of the digital customer service channels and the multichannel customer services is assumed. This will result in the transfer of the customer service to the digital platforms.

In response to the growing environmental awareness, the basket of the products and services related to the environmental and climate protection will also be changing.

In the long term, TAURON assumes having a broader range of services and products offered, including, among others, the energy efficiency improvement services and the products with a documented neutral or reduced environmental impact.

In the short term, the Supply Segment's development depends on the regulations shaping the retail electricity market.

### Mining Segment



Grupa TAURON zakładała wydzielenie aktywów górniczych poza Grupę. W 2021 r. podpisano list intencyjny ze Skarbem Państwa dotyczący zbycia spółki TAURON Wydobywie. TAURON Group assumed the spin-off of the mining assets out of the Group. A letter of intent was signed with the State Treasury in 2021, related to the divesting of the TAURON Mining subsidiary.

On December 31, 2022, 100% of TAURON Mining shares were transferred to the State Treasury.

The coal mining industry is facing unfavorable prospects as a result of the European Union's climate policy. The climate regulations lead to the reduction of the competitiveness of the coal energy. The prospect of the lowering of the demand and the further restrictions with respect to the environment protection, solid fuel quality, taxes and local government regulations pose a threat for the sector.

A social contract for the mining industry was signed in 2021, and the implementation of the government's program for the mining industry will ultimately determine the role of the Polish mining industry.

## The implementation of TAURON Group's Strategy in 2022

TAURON Capital Group's focuses on the implementation of the designated priorities and strategic directions as key for building TAURON's value.

The sustainable transition of TAURON Capital Group is implemented, first and foremost, through the investments in the renewable energy sources (RES) and the decarbonization process under way.



**Implementation of Priority #1 – Sustainable Operations** – with respect to the expansion of renewable energy sources and the reduction of emissions, the following activities were carried out in 2022:

1. a total of 44 MW of renewable capacity was commissioned (a 30 MW Piotrków wind farm and a 6 MW Majewo wind farm, as well as an 8 MW Choszczno II PV farm), the decisions on going ahead with the implementation of RES projects with a total capacity of 224 MW were taken,

2. preparations to take part in the offshore wind farm construction projects were under way. In September 2022, TAURON acquired a stake in PGE Baltica 4 from PGE. In April 2022, TAURON Group's special purpose vehicles filed applications for the issuing of permits for the erection or use of artificial islands in the Ławica Odrzana area. At the beginning of 2023, PGE Baltica 4 was granted a permit to erect and use artificial islands,
3. works were commenced to prepare a comprehensive program to modernize and improve the efficiency of the in-house hydroelectric power plants, the following investment projects were launched: the construction of a small 2 MW hydroelectric power plant in Rożnów and the installation of a turbine at the Lubachów Hydroelectric Power Plant using biological flow,
4. With respect to the transition of the district heating towards the low- and zero-emission sources, the following projects are being prepared: the energy transition of ZW Katowice and the construction of a PV farm, along with an energy storage facility for the needs of ZW Bielsko-Biała EC1. The projects at the implementation stage include: the construction of a 140 MWt gas fired boiler at ZW Katowice for the needs of the district heating market and the construction of a peaking and back-up boiler plant at ZW Bielsko-Biała EC-2.

As a result, at the end of 2022 TAURON Group had the following RES sources: 417 MW of installed wind power capacity, 133 MW of installed hydro power capacity, 90 MW of biomass capacity and 19 MW of photovoltaic capacity. The total installed RES capacity, at the end of 2022, came in at 659 MW, which corresponded to 42% of the RES target for 2025. At the same time, the share of the RES sources in TAURON Group's energy mix went up. 13% of TAURON Group's installed capacity came from the RES sources at the end of 2022, the CO<sub>2</sub>/MWh emissions clocked in at 767 kg/MWh in 2022.

As part of TAURON Group's efforts to decarbonize, in 2022 and until the date of drawing up this report, the following activities had been carried out:

1. as part of the implementation of the Letter of Intent signed with the State Treasury in 2021, ownership roght to 100% of the shares of TAURON Wytwarzanie were transferred to the State Treasury on December 31, 2022,
2. the assumptions of the Government's NABE Concept were implemented, in particular:
  - 1) an internal reorganization was carried out at TAURON Group – *The detailed information on the organizational changes at the Group is provided in Section 1.3 of this report*
  - 2) Vendor Due Diligence of TAURON Wytwarzanie and New Jaworzno Group TAURON (this subsidiary was taken over by TAURON Wytwarzanie, the registration of the merger took place on October 3, 2022) was carried out in 2022 in three key areas, established for all of the energy groups: legal, taxes and financials as well as the technical and environmental issues. Due to the ongoing updates and supplementing of the review - it was continued in 2023, the finalization of the acceptance of the reports from the review is under way,
  - 3) in accordance with the assumptions of the Government's NABE Concept, TAURON selected and began working with a consultant on the preparation of the valuations, the works on asset valuation are in progress,
  - 4) analyses were conducted and the representatives of TAURON Group were taking part in the works on the development of the next iterations of the market scenario and the financial model for the Ministry of State Assets (MAP) and the banks,
  - 5) On December 22, 2022, the Social Contract was concluded between the representatives of the government (represented by the Ministry of State Assets), the representatives of the Employers (the energy groups) and the workforce on the transition of the power sector and the lignite mining industry, including the spin-off of the coal based generation and mining assets out of the state owned companies (Social Contract).

In March 2023, the Ministry of State Assets submitted for consultation a draft act on the social protection for the employees of the power sector and the lignite mining industry. The submission of the draft act fulfills the obligations for the introduction of a system of social protection for the employees of the power sector and the lignite mining enterprises that the Government of the Republic of Poland assumed in the Social Contract of December 22, 2022. According to the draft law, the total cost of the cash benefits - i.e., the social benefits and one time cash severance payments - will be borne by the State Treasury, providing budget subsidies to cover them - in the period up to and including December 31, 2053.

The following works on the innovative solutions to support TAURON Group's transition were conducted in 2022:

1. works on the development and implementation of the energy storage technologies through the implementation of such projects as: Microgrid Project, Virtual Power Plant Project, ESS Cieszanowice Project, Small Energy Storage Facilities in the Low Voltage Grid, Energy Storage Facility in Ochotnica Dolna, Second Life ESS, e-BUS Project,
2. preparations for the construction of the Rożnów II pumped storage power plant (planning of the investment process),

- works related to the development of the projects with respect to the production and the use of green hydrogen as well as the production of ammonia from green hydrogen,
- works related to the preparation of TAURON Group to participate in the development of the nuclear energy, a Letter of Intent was signed on the cooperation between TAURON and KGHM Polska Miedź S.A. (KGHM Polska Miedź) with respect to the SMR technology.



**Implementation of Priority #2 – Growth based on the largest customer base** – the most important activities implemented in the Distribution Line of Business, affecting the improvement of the quality parameters, are as follows:

- increasing the degree of grid automation (in 2022, the number of the remotely controlled switches per 100 km of MV overhead line had increased to 13),
- upgrading the existing grids to the insulated overhead lines and cable lines (as of the end of 2022, more than 40% of the MV lines had been cabled),
- adapting the distribution grid to increased power flows in both directions (in 2022, micro-installations with the capacity of 908 MW had been connected to the grid),
- improving the diagnostics of the operating status of the MV and LV grids through the use of the smart substation metering technology and the digitalization of the metering databases (as of the end 2022 nearly 17% of the customers were equipped with the remote readout meters, and more than 87% of the transformer substations had remote readout meters installed).

With respect to the district heating market development, the Ligota Project – the expansion of the Katowice South district heating market and the Low Emission Elimination Program are being implemented.

As part of efforts aimed at maintaining high customer satisfaction indices and implementing modern IT tools, in 2022 the customer service quality indices (CSI, NSP, CES) were improved, customer service standards were raised and the digitalization of customer service channels was carried out,









**Implementation of Priority #3 – An organization that keeps up with change** – TAURON entered into a new syndicated loan agreement worth PLN 4 billion in 2022, the proceeds from which can be used, among other things, to finance the Group's capital expenditures, including RES.

In addition, TAURON Group took advantage of the aid funds available. The total amount of financing obtained for the investment projects carried out in 2022 stands at more than PLN 446 million.

With respect to the human capital management, the most important issue in 2022 was the effective conducting of the social dialogue with the workforce aimed at preparing for the changes in the employment structure and the evolution of the organization in connection with the spin-off of the generation, mining and security lines of business assets out of the structure of TAURON Group.

The below figure presents the status of the key strategic goals in 2022.

**Figure no. 9. Status of the key strategic goals in 2022**

	Strategic goals	Assumptions	Status in 2022
	EBITDA	PLN 4.5 billion in 2025 PLN 6.5 billion in 2030	PLN 4.0 billion
	Net debt to EBITDA ratio	at a safe level	2.9x
	RES installed capacity	1.6 GW in 2025 3.7 GW in 2030	0.66 GW
	Emissions	200 kg CO <sub>2</sub> /MWh in 2025 < 160 kg CO <sub>2</sub> /MWh in 2030	767 kg CO <sub>2</sub> /MWh
	Smart meters share	100% by 2030	17%
	New consumer connections to the district heating network	450 MWt in 2030	33.6 MWt
	FTR (First Time Resolution)	> 90% in 2030	more than 90% via the telephone channel (sales and delivery of electricity and gas); other channels and products - preparatory works to implement indicator monitoring

## 1.7. Description of the expansion policy and directions

The expansion directions adopted and implemented at TAURON Group are a response to the current challenges of the power sector, including the tightening climate and environmental policies of the EU in a changing

macroeconomic environment. The priority is to decarbonize TAURON Group and strive to achieve climate neutrality while maintaining a stable financial position.

TAURON Group's activities are focused on continuing the *Green Turn* while participating in the government solutions for the coal mining and coal fired energy.

## Implementation of the strategic investment (CAPEX) projects

### Key strategic investment (CAPEX) projects under way

The below table presents the activities carried out by TAURON Capital Group in 2022 and by the date of drawing up this report in connection with the implementation of the key strategic investment (CAPEX) projects.

**Table no. 5. Key strategic investment (CAPEX) projects' work progress in 2022 and by the date of drawing up this report**

Investment project	Investment project's work progress
<p>1. <i>Construction of 910 MW supercritical parameters power generation unit in Jaworzno</i></p> <p><b>Contractor:</b> Consortium of RAFAKO S.A. and MOSTOSTAL WARSZAWA S.A. (RAFAKO – Mostostal Warszawa)</p> <p><b>The unit started operation on November 13, 2020</b></p> <p><b>Planned end of transition period depends on the results of the mediation procedure</b></p> <p><b>Work progress:</b> 99%</p> <p><b>Expenditures incurred:</b> PLN 6 128.37 million (the amount increased by, among other things, training, fast wearing parts)</p>	<p>Due to start of the unit's operation, President of Energy Regulatory Office issued permission to produce energy for the period from November 20, 2020 to December 31, 2030.</p> <p>After fire incident that occurred on June 11, 2021 the unit was in emergency shutdown. As a result of inspections carried out during the shutdown, it turned out that works should be performed at several elements of the unit.</p> <p>On April 14, 2022, following the fixing of the defects and malfunctions, the 910 MW unit was re-synchronized with the National Power System (Krajowy System Elektroenergetyczny).</p> <p>From August 6 to September 2, 2022, the unit was placed in an emergency shutdown, during which the additional work was carried out to repair the boiler funnel.</p> <p>The ongoing operation of the unit is currently underway. The occurring emergency shutdowns of the unit are caused, among other things, by the failures occurring in the ash removal system and the mill systems. On the other hand, the temporary power losses during the operation of the unit are caused by the works related to the unit's tune-up and the optimization of equipment operation. Due to the fact that the work scheduled to be performed during the transition period had not been completed by the deadline provided for in the contract (i.e. October 30, 2022.), the tune-up, testing and optimization phase has not, up to now, been carried out after the restart of the unit.</p> <p>The parties are taking part in a mediation process before the Court of Arbitration at the General Counsel of the Republic of Poland, covering all of the issues related to the Contract.</p> <p>The agreement on conducting the mediation process between the Nowe Jaworzno Grupa TAURON subsidiary and the General Contractor of the investment project with the participation of the General Counsel of the Republic of Poland was signed on August 5, 2022.</p> <p>As of the date of drawing up this information, the mediation process had not been completed.</p> <p><i>The detailed information on the mediation process is presented in section 12.1. of this report</i></p>
<p>2. <i>Low Emission Elimination Program (PLNE – Program Likwidacji Niskiej Emisji) on the territory of the Silesia and Dąbrowa conurbation</i></p> <p><b>Contractor:</b> Contractors are being selected to carry out specific work (project) stages</p> <p><b>Planned project completion date:</b> Q4 2023</p> <p><b>Work progress:</b> 52%</p> <p><b>Expenditures incurred:</b> PLN 45.9 million</p>	<p>The PLNE program is carried out on the territory of the following metropolitan areas: Będzin, Chorzów, Czeladź, Dąbrowa Górnicza, Katowice, Siemianowice Śląskie, Sosnowiec and Świętochłowice.</p> <p>In the third quarter of 2022, the works related to installing the network connections had been continued under the network connection agreements concluded. Cumulatively, from the beginning of the Program's implementation, the agreements have been concluded for the total volume of 23.05 MWt - the program's target was achieved in terms of the contracted capacity (22 MWt).</p> <p>The construction part of the task, i.e. the physical connections of the heat consumers, is currently being implemented.</p>
<p>3. <i>TAURON Internet (POPC) – implementation of the project in the selected areas awarded (7 projects on the territory of the following areas: Rybnik, Katowice-Tychy, Oświęcim, Kraków, Wałbrzych A, Wałbrzych B, Sosnowiec)</i></p> <p><b>Contractor:</b> Atem Polska sp. z o.o. (Katowice-Tychy), MZUM sp. z o.o. (Sosnowiec), Atem Polska sp. z o.o. (Wałbrzych A), Mediamo Sp. z o.o. (Oświęcim), MX3 sp. z o.o. (Rybnik), MZUM sp. z o.o. (Wałbrzych B), ZICOM sp. z o.o. (Kraków-Tarnów)</p> <p><b>Project completion date:</b> December 2022</p> <p><b>Work progress:</b> 100%</p> <p><b>Expenditures incurred:</b> PLN 268.4 million</p>	<p>The Digital Poland Operational Program (POPC - Program Operacyjny Polska Cyfrowa) involves deploying an infrastructure to enable high speed internet connections for households (min 30 MB/s). The final product of the project will be the provision of the wholesale services enabling connecting of the end users by the retail service operators.</p> <p>All of the contractors had been conducting the works related to the deployment of the fiber optic network in the third quarter of 2022. The works related to switching over of the education facilities from the temporary subscriber lines to the optical fiber were completed. The deployment of the fiber optic network in the areas covered by the project is currently continued.</p> <p>As of the end of 2022, all the works in all areas, i.e. the Katowice, Tychy, Kraków, Tarnów, Sosnowiec, Rybnik and Oświęcim areas as well as in Wałbrzych, had been completed.</p>
<p>4. <i>Construction of the 30 MW Piotrków wind farm.</i></p>	<p>The construction of the wind farm had been completed in the third quarter of 2022. The wind farm was handed over for operation (commissioned) on September 30, 2022.</p>

Investment project	Investment project's work progress
<p><b>Contractor:</b> Consortium of MEGA S.A. and P&amp;Q sp. z o.o.</p> <p><b>Project completion date:</b> September 30, 2022</p> <p><b>Work progress:</b> 100%</p> <p><b>Expenditures incurred:</b> PLN 230.2 million</p>	
<p>5. <i>Construction of the 6 MW Majewo wind farm.</i></p> <p><b>Contractor:</b> HIUB Wróbel sp. z o.o.</p> <p><b>Project completion date:</b> September 29, 2022</p> <p><b>Work progress:</b> 100%</p> <p><b>Expenditures incurred:</b> PLN 47.3 million</p>	<p>The construction of the wind farm had been completed in the third quarter of 2022. The wind farm was handed over for operation (commissioned) on September 29, 2022.</p>
<p>6. <i>PV Choszczno II - construction of the photovoltaic installations with a total capacity of 8 MW</i></p> <p><b>Contractor:</b> MGM Projekt sp. z o.o.</p> <p><b>Project completion date:</b> July 31, 2022</p> <p><b>Work progress:</b> 100%</p> <p><b>Expenditures incurred:</b> PLN 19.9 million</p>	<p>The farm was handed over for operation (commissioned) on July 31, 2022. After the merger with the Choszczno I PV farm (6 MW), the total capacity of the farm reached 14 MWp.</p>
<p>7. <i>Construction of the 58.5 MW Mierzyn wind farm.</i></p> <p><b>Contractor:</b> Consortium EL PROFESSIONAL Sp. z o.o.</p> <p><b>Planned project completion date:</b> Q4 2024</p> <p><b>Work progress:</b> 16%</p> <p><b>Expenditures incurred:</b> PLN 78.06 million</p>	<p>In the third quarter of 2022, the construction of the wind farm had been commenced, the technical and detailed engineering documentation had been agreed upon and the project site had been surveyed.</p> <p>In the fourth quarter of 2022, the construction works at the construction site had been commenced.</p>
<p>8. <i>Construction of the 19.6 MW Nowa Brzeźnica wind farm</i></p> <p><b>Contractor:</b> E-Wind S.A.</p> <p><b>Planned project completion date:</b> Q2 2025</p> <p><b>Work progress:</b> 6%</p> <p><b>Expenditures incurred:</b> PLN 17.7 million</p>	<p>In late Q3 / early Q4 2022, the corporate approvals for the investment project's implementation had been obtained and the key contracts for the project's implementation had been signed. The construction site had been handed over to the Contractor on December 19, 2022.</p>
<p>9. <i>Construction of the 33 MW Gamów wind farm</i></p> <p><b>Contractor:</b> E-Wind S.A.</p> <p><b>Planned project completion date:</b> Q4 2024</p> <p><b>Work progress:</b> 8%</p> <p><b>Expenditures incurred:</b> PLN 29.3 million</p>	<p>In the fourth quarter 2022, the corporate approvals for the investment project's implementation had been obtained.</p> <p>The notice to proceed was issued to the Contractor on December 27, 2022.</p>
<p>10. <i>Construction of the 30 MW Warblewo wind farm</i></p> <p><b>Contractor:</b> E-Wind S.A.</p> <p><b>Planned project completion date:</b> Q4 2024</p> <p><b>Work progress:</b> 6%</p> <p><b>Expenditures incurred:</b> PLN 31.2 million</p>	<p>In the fourth quarter 2022, the corporate approvals for the investment project's implementation had been obtained the notice to proceed had been issued to the Contractor.</p> <p>The development of inter-industry technical and engineering documentation, as well as the mobilization of construction facilities is under way.</p>
<p>11. <i>Construction of the 140 MWT gas fired boiler at ZW Katowice (Katowice Generation Plant) for the district heating market needs</i></p> <p><b>Contractor:</b> Mostostal Warszawa S.A.</p> <p><b>Planned project completion date:</b> Q2 2024</p> <p><b>Work progress:</b> 52%</p> <p><b>Expenditures incurred:</b> PLN 27.9 million</p>	<p>In 2022, the works related to the laying down of the foundations for the boiler house and the electrical bay had been completed.</p> <p>The prefabrication works related to the steel structure, stack and the boiler heating surfaces are under way.</p>
<p>12. <i>Construction of the peaking and backup boiler house at ZW Bielsko Biała EC 2 (Bielsko Biała Generation Plant Combined Heat and Power Plant 2)</i></p> <p><b>Contractor:</b> Erbud Industry sp. z o.o.</p> <p><b>Planned project completion date:</b> Q3 2023</p> <p><b>Work progress:</b> 60%</p> <p><b>Expenditures incurred:</b> PLN 29.4 million</p>	<p>The construction works and the design works related to the gas network connection had been under way in 2022. The decision on the environmental conditions had been obtained. The roofs on the boiler house building and the electrical building had been completed. The construction of the fuel oil tanks had been completed.</p>
<p>13. <i>37 MW Mysłowice PV farm part II construction</i></p> <p><b>Contractor:</b> TAURON Serwis</p> <p><b>Planned project completion date:</b> Q3, 2023</p> <p><b>Work progress:</b> 38%</p> <p><b>Expenditures incurred:</b> PLN 56 million</p>	<p>The agreement with TAURON Serwis for the construction of the farm had been concluded in 2022. The works related to the construction of the fencing and the internal roads had been carried out and completed in 2022. Currently, the works related to the piling of the support structure for the PV panels and the installation of the panels are being carried out.</p> <p>As of the date of drawing up this report, 99% of the support structure had been built and more than 76% of the photovoltaic panels had been installed. The works have begun on the construction of the PV Farm Substation (grid connection point) and excavation work for the electrical installations. The inverters have been delivered to the construction site.</p>
<p>14. <i>Proszówek PV farm construction (stage I 45.6 MW)</i></p>	<p>In late Q3 / early Q4 2022, the corporate approvals for the investment project's implementation had been obtained. The construction site had been handed over at</p>

Investment project	Investment project's work progress
<p><b>Contractor:</b> TAURON Zielona Energia</p> <p><b>Planned project completion date:</b> Q4, 2023</p> <p><b>Work progress:</b> 1%</p> <p><b>Expenditures incurred:</b> PLN 11.4 million</p>	<p>the beginning of January 2023, and the construction works related to the PV farm were commenced in March 2023. The technical and detailed engineering documentation is being agreed upon.</p>

### Construction of "Grzegorz" shaft

In 2022, TAURON Group was also implementing the project *Construction of the "Grzegorz" shaft, including the infrastructure (above the ground and underground) and the accompanying longwall faces (headings)*, which, due to the transfer of the ownership of the shares of TAURON Wydobywanie to the State Treasury that took place on December 31, 2022, is currently being implemented outside TAURON Group's structure.

The following activities had been carried out in 2022:

1. The mediation proceedings with the General Contractor, with the participation of the General Counsel of the Republic of Poland, had been completed in April 2022. A draft settlement agreement had been agreed between the parties. On December 1, 2022, the court approved the wording of the mediation settlement agreement. The court's decision became legally binding on December 21, and on December 22, 2022, the annexes were signed with the General Contractor and the Design Engineer with respect to further implementation of the project,
2. The General Contractor resumed the works related to the shaft sinking (deepening) from the depth of 80.5 m, down to the depth of 591.2 m, in June 2022.

As of December 31, 2022, the depth of the shaft was 196 meters, and the headings excavation works were continued in accordance with the schedule. The work progress on the investment project stood at 42%, and the capital expenditures incurred in connection with the investment project clocked in at PLN 329.9 million.

### Other investment projects in the RES line of business

#### Photovoltaic (PV) farms

As part of the investment projects in the renewable energy sources (RES) line of business, the program of building the photovoltaic (PV) farms on TAURON Capital Group's land that was not utilized for business purposes (*TAURON PV Program*) was continued in 2022. The Program provides for the construction of the photovoltaic (PV) farms at several locations, with the total capacity of up to 150 MWp.

The works include obtaining the required administrative permits and decisions, with the final decisions on the projects' implementation to be made in the event there is a business case. Work is also under way on changing the scope of the *TAURON PV Program* in connection with the possibility of extending the program to cover the new sites.

#### Onshore wind farms

TAURON Capital Group is looking for the opportunities to acquire advanced wind farm projects ready for the construction and the operating onshore wind farm assets on the market. As part of such efforts, the internal analyses and due diligence studies of further potential acquisition projects had been carried out in cooperation with the developers in 2022.

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

In October of 2021 TAURON and PGE concluded a letter of intent with respect to undertaking the bilateral cooperation in the development of the offshore wind energy in Poland, and then signed a contingent agreement for the sale of the shares in a project (SPV) company whose task would be to obtain siting permits for the construction of the offshore farms in the Polish Exclusive Economic Zone of the Baltic Sea. The clearance of the Chairman of the Office of Competition and Consumer Protection (UOKiK) had been a condition precedent for the preliminary agreement, and it was obtained in January of 2022. On September 28, 2022, TAURON (as the buyer) and PGE (as the seller) concluded an agreement disposing of the sale of the shares in the above mentioned special purpose vehicle (SPV) company, i.e. PGE Baltica 4. *The detailed information related to the above topic is provided in section 1.3 of this report.* On January 9, 2023, the Minister of Infrastructure disclosed the information that in the adjudication proceeding for the issuance of a permit for the construction or use of the artificial islands, structures and devices in the area located on Słupsk Shoal (Ławica Słupska), designated as 43.E.1, for the construction of an offshore wind farm, the company PGE Baltica 4 was awarded the highest number of points.

In January and February of 2022, the Minister of Infrastructure disclosed the information on the possibility of submitting further applications for issuing of the permits for the construction or use of the artificial islands, structures and devices in the Polish maritime areas. In April 2022, the applications were submitted by TAURON Group's project special purpose vehicle (SPV) companies: En-Energia I sp. z o.o., En-Energia II sp. z o.o., En-Energia III sp. z o.o. and En-Energia IV sp. z o.o., to obtain the above mentioned permits in the areas located in the vicinity of Ławica Odrzana, designated as 14.E.1, 14.E.2, 14.E.3, 14.E.4.

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

In September 2016, in accordance with TAURON Group's Strategy for the years 2016-2025, as part of the priority of ensuring TAURON Capital Group's financial stability, the 413 MWe CCGT unit construction project including a heat production unit at TAURON Wytwarzanie Łagisza Power Plant Branch in Będzin (TAURON Wytwarzanie Oddział Elektrownia Łagisza w Będzinie) was halted due to the loss of its business case. On March 22, 2022, the Management Board of the Company approved the purchase order award procedure to be conducted by TAURON Wytwarzanie, the planned effect of which was supposed to be the obtaining of the bids from the potential contractors. The procuring of the bids was supposed to enable - after taking into account the other premises of the investment process, including the precondition of the favorable outcome of the capacity market auction scheduled for December 2022, as well as the market conditions mentioned below - the completion of the analyses of the project in terms of the long term profitability thereof. As a result of the organized procedure, no bids have been received by the company. The lack of the bids for the construction of the unit makes it impossible to participate in the capacity market auction in 2022, therefore further corporate decisions regarding the continuation of the project, a change of the scope thereof or a resignation from the implementation thereof are required. The decisions will be made taking into account the market conditions, including the demand for electricity and heat and, inter alia, the situation with respect to the terms of a long term contract for the supply of the gas fuel and the availability thereof, and such conditions should guarantee the project the expected level of profitability and the objective assessment of the possibility of completing the implementation of the project. As of the date of drawing up this information, the analytical works are under way on further project implementation scenarios.

## Capital expenditures (CAPEX)

TAURON Capital Group's capital expenditures came in at PLN 3 962 million in 2022 and they were higher by 35% than the investment outlays incurred in 2021, when they stood at PLN 2 932 million (excluding the equity investments). This is, first and foremost, due to the increase of the capital spending in the RES Segment, the Generation Segment, the Mining Segment, the Other Operations Segment and the Distribution Segment.

The below table presents the selected, highest by value, capital expenditures incurred by TAURON Capital Group's Lines of Business in 2022.

**Table no. 6. The highest by value, capital expenditures incurred by TAURON Capital Group's Lines of Business in 2022**

Item	Capital expenditures (PLN m)
<b>Distribution</b>	
1. Installation of the new grid connections	1 138
2. Existing grid assets' upgrades (refurbishments) and replacements	852
<b>Generation</b>	
3. CAPEX on replacements and upgrades (refurbishments), as well as components at TAURON Wytwarzanie	129
4. Construction of a 910 MWe super critical parameters generation unit in Jaworzno	56
5. Connecting of the new facilities to the grid	30
6. Construction of the peaking and back-up boiler houses at ZW Bielsko	29
7. Construction of the gas fired boiler house at ZWK with a capacity of 140 MWt	23
8. Investment projects related to the development (expansion) and maintenance of the district heating networks	17
9. Low Emission Elimination Program conducted by TC	17
<b>RES</b>	
10. Construction of the 30 MW Piotrków wind farm	162
11. Construction of the 58.5 MW Mierzyn wind farm	78



Item	Capital expenditures (PLN m)
12. Construction of the 37 MW Myslowice photovoltaic farm	78
13. Construction of the 6 MW Majewo wind farm	35
14. Construction of the 30 MW Gamów wind farm	29
15. Refurbishment of the hydroelectric power plants	20
16. Construction of the 19.6 MW Nowa Brzeźnica wind farm	18
17. Construction of the 45.6 MW Proszówek stage I photovoltaic farm	11
18. Construction of the 30 MW Warblewo wind farm	8
19. Construction of the 8 MW Choszczno II photovoltaic farm	3
<b>Mining</b>	
20. Preparation of the future production	337
21. Refurbishment and replacement tasks at the Coal Mines (ZG)	130
22. Construction of the "Grzegorz" shaft at the Sobieski Coal Mine (ZG Sobieski)	44
<b>Supply and Other Operations</b>	
23. IT related investment projects at Tauron Obsługa Klienta (Tauron Customer Service)	291
24. Construction of the broadband Internet access network as part of the Digital Poland Operational Program III (Program Operacyjny Polska Cyfrowa III - POPC III) project and CUB	78
25. Maintenance and development of the street lighting	68

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

## Evaluation of the capability to complete the intended investment projects

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

The Company is pursuing a policy of diversifying financing instruments and strives to secure the financing and maintain the ability of TAURON Capital Group's subsidiaries to meet both the current as well as the future obligations in the short and the long term, including the ones related to the capex plans. Steps are taken to acquire the new sources of financing, resulting in the concluding, in 2022, of the syndicated loan agreement worth PLN 4 000 million.

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

## 1.8. Major achievements in in the field of research, development and innovation

The research and development as well as innovations related activities (R+D+I), the importance of which is highlighted in the new Strategy, are reflected in the Strategic Research Agenda (SAB), adopted in 2018 and updated in 2022. As part of its activities in the Research and Innovation Area, TAURON Capital Group is applying portfolio based management of the research and development projects, ensuring a comprehensive approach to the implementation of the tasks in line with the innovative solutions indicated in the Strategy in support of TAURON Group's transition towards climate neutrality.

SAB is a document that describes in a precise manner the directions of innovations pursued and it is a detailed extension of the Strategy. The document includes four research portfolios:

1. Customer and His / Her Needs,
2. Smart distribution,
3. Green energy,
4. Sustainable heat.

Each portfolio sets the directions for the research and development projects. As part of the directions the problem areas have been defined for the selected detailed research areas that are important from the point of view of TAURON Group's development plans. Such a structure of the SAB supports the selection of specific projects and the rejection of others, as well as allows for an optimal allocation of the financial resources. This way, TAURON Capital Group's research and development as well as innovations related activities are carried out and developed based on the complete and detailed assumptions of the strategic nature – with the clearly defined goals and ambitions.

PLN 40 million was allocated to the functioning of the R+D+I area in 2022. 6 projects (including 1 start-up) were launched in various lines of business. As part of four portfolios of the Research and Innovations Area, 24 projects with the total value of more than PLN 85 million were carried out. For the implementation of some of these projects TAURON Capital Group obtained funding from the external sources in the total amount of almost PLN 31 million.

The below table presents the selected R&D projects carried out in 2022 by TAURON Capital Group's subsidiaries, co-financed from the external sources.

**Table no. 7. Selected R&D projects carried out in 2022 by TAURON Capital Group's subsidiaries, co-financed from the external sources**

Projects / programs / tasks	Co-financing source
1. Development and testing of an adaptive electricity storage system based on the second life of batteries from electric vehicles.	
2. Development of the industrial design of the carbonate fuel cells and ceramic electrolyzers enabling integration with the power-to-gas installations.	
3. Flexibility of the existing power generation units with limited capital expenditures.	
4. Development and demonstration of a computer system to be used for the operation control as well as availability and reliability management of industrial infrastructure based on artificial intelligence algorithms.	National Research and Development Center (Narodowe Centrum Badań i Rozwoju - NCBR)
5. Distributed energy solutions model 2.0 – self-balancing power grid areas..	
6. Development of an innovative system for effective monitoring and supporting of the protection devices compliant with the DMS (Distribution Management System). assumptions	
7. Development of the hybrid system for reducing the emission of acid components and fly ash from the flue gases.	
8. Development of advanced technology for monitoring and predictive analysis of the technical condition of the boiler in order to increase the reliability of the boiler unit	
9. Impact of the extreme weather conditions on the mining operations.	European Union's Coal and Steel Research Fund
10. Assessment of the environmental management and the measures aimed at the protection and repair thereof using the tools to analyze the state of the ecosystem.	
11. Energy storage systems for the DSO needs.	Operational Program Infrastructure and Environment

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

As part of the project, a pilot installation of a power microgrid was prepared, with the ability to independently cover the local demand for electricity. The pilot installation is composed of the renewable generation sources, energy storage facility, gas engine and the management system, along with the advanced network automation solution. In 2022, the assumptions were developed for a micro-grid offering for TAURON Capital Group's customers. In addition, the tests of the built pilot installation were carried out, involving a verification of the micro-grid in terms of its functionality, security, failures and communications between the various components of the installation.

### **Project TENNESSEE**

The scope of the project covers high efficiency electrolysis of water vapor supported by fuel cells, in order to increase the efficiency of the green hydrogen storage in the form of synthetic natural gas, with the use of CO<sub>2</sub> captured from the power generating units' flue gas. The technology is a promising solution for storing electricity from the non-controllable (intermittent) energy sources - wind farms (in particular, the planned off-shore wind farms) or photovoltaic cells. The testing (research) campaign based on the pilot installation completed at the Łaziska Power Plant was conducted in 2022.

### **Second Life ESS**

The goal of the project is to reuse the lithium-ion cells previously used in the urban transportation vehicles. As part of the project, the laboratory tests of the battery packs were carried out in 2022 in order to assess their condition and suitability for the stationary electricity storage facilities. In view of the satisfactory results of the tests, the construction of a prototype energy storage facility was commenced. In 2023, it is planned to test the prototype storage unit in the real life conditions.

### **OPTI AI UNIT**

The project is related to the development and demonstration of a computer system for controlling the operating parameters of the critical industrial infrastructure devices, as well as the construction of the models allowing for the dynamic management of their availability (dispatchability) and reliability. The solutions developed as part of the project, in line with the assumptions of the so-called Industry 4.0, will allow for, among others, predicting potential failures within the critical industrial infrastructure devices with an appropriate lead time (in advance). In 2022, the tests aimed at an empirical verification of the correctness of the models developed and the comprehensive predictive diagnostics system were conducted. In this regard, among other things, an electrical module, including the diagnostics of the transformer of the 460 MW unit at the Łagisza Power Plant, was installed and tested.

### HEMS Program

The main goal of the Home Energy Management System (HEMS) program is to develop, within a few years from the program's launch, innovative, specialized solutions in the field of the building energy systems, in order to increase the revenue stream from the sales of the high technology products and services. The goal of the program is also to tailor the sales and customer service tools and channels to their needs by creating digital consulting and communications tools to enable providing support for the customers in the process of planning and implementing building thermal insulation upgrade and energy saving projects.

As part of the program, the works related to the following projects were carried out in 2022:

1. Web site and e-consulting,
2. Thermal Comfort Management,
3. Energy storage facility for a photovoltaic installation.

### Internet of Things

The task aimed at implementing pilot solutions for the selected services for the smart city area was continued in 2022. The results of the research work will make it possible to assess the business case, the technical capabilities and organizational readiness of TAURON Capital Group to commercialize and develop the smart city services based on the use of the Group's energy infrastructure. This way, the possibility of introducing the new products to the cities and municipalities, stemming from the digitalization and the transition of the global economy towards sustainable development, will be determined. The operational works on the migration of the analytics platform, as well as the activities aimed at providing the missing element of the developed IT architecture, which is the basis for providing the comprehensive services in the smart city area, were carried out in 2022.

### Flexible Distribution

The project works aimed at developing a prototype of a decision support tool for purchasing of the flexibility services, based on the analytical and forecasting methods, were continued in 2022. In cooperation with the selected research unit, the prototype forecasting and analytical methods were produced and will be implemented in the prototype IT tool. The methods indicate the forecast loads of the high voltage grid elements over three time frames and perform the verification thereof against the current load parameters of these elements. The information obtained this way will make it possible to identify such areas in the distribution grid where it will be advisable to use the planned flexibility services, and it will enable performing of a preliminary cost analysis that would allow for determining the economic viability (business case) of purchasing the services.

### Hydrogen Poland

The project combines the scientific (research) and industrial potential of a number of entities with their competences representing the entire cycle of the circular hydrogen economy – the tasks related to research and development, implementation, production, application, conversion to other fuels and storage based on the new generation technologies, applicable in the large energy installations, prosumer installations and in transportation. The project was submitted to the IPCEI (Important Projects of Common European Interest) program. The works are underway on the preparation of the project documentation required at the pre-notification stage. Among other things, a feasibility study was prepared for the Hydrogen Poland project in 2022.

### Cooperation with start-ups

With respect to the cooperation with start-ups the year 2022 was the time of the further development of the TAURON Progres proprietary accelerator program. The introduction of the new rules for the program in 2021, had a positive impact, in 2022, on the interest in the cooperation among the members of the start-up community and led to an increased flow of applications to the program. The information and promotional activities were intensified, including with respect to the presence and involvement of TAURON Group's experts in the events organized for the participants of the start-up ecosystem. Developing greater market awareness of TAURON Group's innovation activities and openness to the cooperation also with the young technological entities will allow for the successive development of the activities and strengthening of the position of the TAURON Progres program in this ecosystem.

A pilot project was launched, in 2022, with Green CEnergy Sp. z o.o. - a *spin-out* company of the Warsaw University of Technology. The subject of the launched cooperation is the development of the OptyMator PV

system, which supports the construction, maintenance and operation of the photovoltaic farm installations. The task of the artificial intelligence based IT solution, supported by drones, will be to collect data from the photovoltaic farm. This comprehensive system, fed with the reliable data, will allow for a verification and prediction of the condition of the photovoltaic farm infrastructure, as well as for the optimization of the electricity production and will enable comprehensive management of the photovoltaic installation operation.

Continuing to build the strategic position of TAURON Capital Group with respect to the startups, TAURON carried out, in 2022, further investments as part of EEC Magenta - a CVC (corporate venture capital) type fund created in 2018. EEC Magenta increased its investment portfolio to the amount of PLN 103 million in 2022 and currently has 13 innovative startups therein.

The below table presents the projects with the startups carried out in 2022 as part of the accelerator programs, and which are the subject of EEC Magenta's investments.

**Table no. 8. Projects with the startups carried out in 2022**

Projects	Programs and activities related to cooperation with the startups
<p>1. <b>Green CEnergy Sp. z o.o.</b> that is offering a system to support the construction, maintenance and optimization of energy production from the photovoltaic installations. The goal of the project is to develop a universal solution that will improve the efficiency of the operation and use of the photovoltaic installations. It is planned to develop a method for a location assessment based on the local ecosystem parameters, supported by an unmanned aerial vehicle operating in an autonomous or an operator controlled mode. The data provided by the drone will allow for a verification of the production anomalies and damage, detected based on the IoT sensors' feed or on the data processed.</p>	<p><b>TAURON Progres</b></p>
<p>2. <b>Reliability Solutions sp. z o.o.</b> that is offering a solution responding to the problem of maintaining the process (operation) continuity in the manufacturing industry and the high costs of production downtime, i.e. the predictive maintenance system, which, through the use of artificial intelligence algorithms analyzing the data collected from the devices, predicts the possibility of an occurrence of a failure.</p>	
<p>3. <b>Take Task S.A.</b> that is offering a solution responding to the problem of managing the dispersed groups of employees, i.e. a platform for the mobile communications, creating and distributing tasks, as well as collecting feedback at the enterprises where the numerous groups of employees do not use computers every day.</p>	
<p>4. <b>Sinterit S.A.</b> that is manufacturing advanced, high-precision 3D printers operating based on the SLS technology, which are offered at the price of a consumer product. This way Sinterit S.A. fills a niche in the additive manufacturing market. Sinterit S.A. printers are a unique solution in the field of prototyping and production of short series of the spare parts.</p>	
<p>5. <b>Challengerocket sp. z o.o.</b> that is offering a solution that responds to a market problem with respect to recruiting top-class computer programmers, i.e. a platform. made available under the SaaS formula, used for the automatic evaluation of the programmers using the tests with a self-adapting level of difficulty. Based on the artificial intelligence technology the system enables a quick and reliable assessment of the candidates' skills.</p>	<p><b>EEC Magenta-</b> Companies in the investment portfolio of the CVC-EEC Magenta fund</p>
<p>6. <b>ICsec S.A.</b> that is offering the Scadvance system, enabling the monitoring of the process control networks and the detection of the potential threats and anomalies in the traffic among the devices of such network using the big data, machine learning and artificial intelligence mechanisms for this purpose.</p>	
<p>7. <b>Cash Director S.A.</b> that is digitizing the accounting processes in the small and medium-sized companies. The product replaces traditional accounting services and makes it easier for the entrepreneurs (businessmen) to make the optimal financial decisions by acting as a digital CFO. The platform is integrated with a bank account.</p>	
<p>8. <b>Waste24 Sp. z o.o.</b> that is offering a platform for effective management of the municipal waste, which is addressed to the enterprises and municipalities</p>	
<p>9. <b>DBR77 Sp. z o.o.</b> that is offering a unique marketplace for the industrial robots. The B2B platform enables the previously non-robotic companies to configure their production lines on their own and to select the optimal integrator that will implement the project. The platform uses the advanced 3D tools to visualize the projects.</p>	
<p>10. <b>Lekta Sp. z o.o.</b> that is offering a virtual consultant that automates the contact with the customer. Lekta Sp. z o.o. develops advanced speech and text intention recognition algorithms.</p>	
<p>11. <b>GeoFusion Sp. z o.o.</b> that is offering the comprehensive services with respect to the exploration and cleaning of the seabed of the unexploded ordnance and chemical weapons. The most prospective innovation offered by the company is the technology used for the extraction from the seabed and the utilization, on the ship at the site of the extraction, of the poisonous warfare agents. The technology is based on the destruction of the plasma.</p>	
<p>12. <b>Glopack Sp. z o.o.</b> that is a producer of an innovative pro-ecological stretch film, which, due to its physical properties, is more effective than a standard product. The advanced production technique ensures higher film efficiency and allows for an up to 66% reduction in the plastic consumption in transportation and trade.</p>	
<p>13. <b>Solwena Sp. z o.o.</b> that is developing the Percee system for managing energy in the buildings (BEMS) and acting as a virtual operator using the dedicated algorithms and scenarios. By implementing Solweny's solution, the customers can reduce the energy consumption in the buildings by up to 30%.</p>	
<p>14. <b>SmokeD Sp. z o.o.</b> that is offering customers a fire monitoring system for the forests, plantations and other vast areas. SmokeD develops deep learning algorithms for detecting fires by analyzing the camera images.</p>	

## 1.9. TAURON Group's Business and Operational Model

TAURON Capital Group is a fully integrated energy group with its business model, in 2022, covering all of the elements of the value chain: from generation, through distribution and supply of electricity and heat to the final consumers, supplemented with the innovations ecosystem and the development of the new businesses, closely integrated with the operations in the energy sector.

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

*TAURON Group's Business and Operational Model* defines the assumptions of the Group's operations (Group management) and outlines the division of tasks and responsibilities among the defined Group Units: Corporate Center, Lines of Business and Shared Service Centers. It is a response to the changing environment of the energy company and the basis for the organization's functioning within the entire value chain of TAURON Group.

TAURON Group has identified five process streams around which TAURON Group's activities are centered. These are: Strategy, Finance, Asset Management and Development, Corporate Support and Operational Processes.

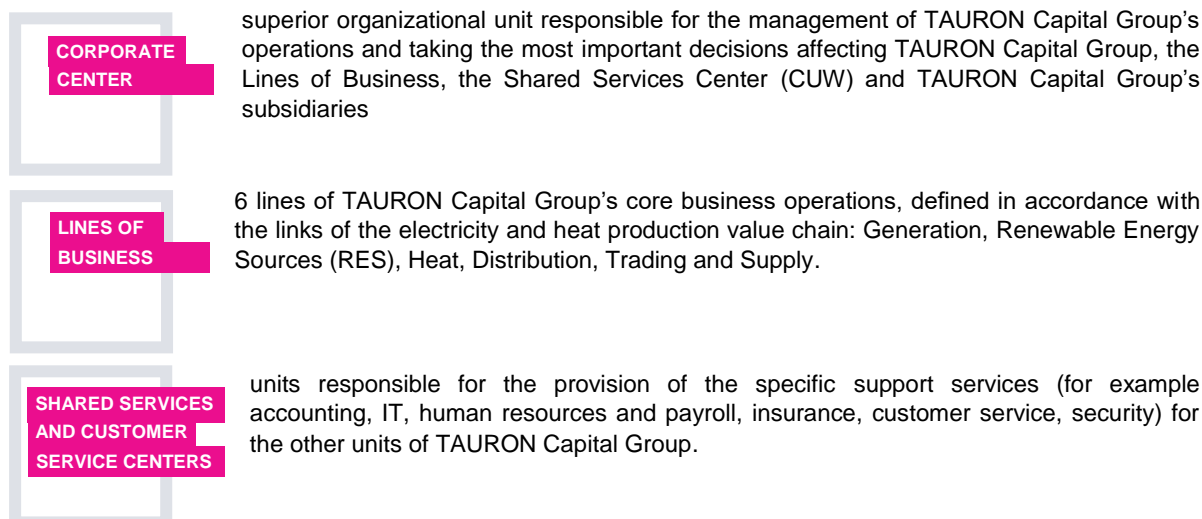
## Assumptions of TAURON Group's Business and Operational Model

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

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

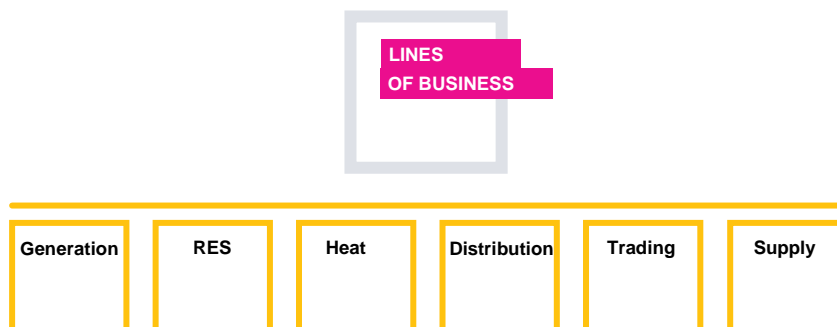
## TAURON Group Units

The division of roles and responsibilities is implemented in accordance with the Business and Operational Model in force, based on assigning the process competences to the following TAURON Group Units:



The above and below figures present the structure of TAURON Capital Group's Lines of Business in 2022, excluding the Mining Line of Business that had been functioning until December 31, 2022, in connection with the transfer of ownership of the shares of TAURON Wydobycie to the State Treasury as of that date.

Figure no. 10. Structure of TAURON Capital Group's Lines of Business



## TAURON Capital Group's Shared Services Centers (CUW)

Centralizing of the support services is aimed at relieving the Corporate Centre and the Lines of Business from performing the processes that are not directly associated with their core business operations (the so-called support processes) as well as at reducing the costs of the implementation of such processes due to the economies of scale and the increased operational efficiency. Within the structure of TAURON Capital Group the CUWs are placed in the following subsidiaries: TAURON Obsługa Klienta (CUW IT, CUW HR, CUW R), TAURON Ubezpieczenia sp. z o.o. (CUW Ubezpieczenia) and Wsparcie Grupa TAURON (CUW Ochrona) – until the transfer of ownership of the company's shares to an entity outside TAURON Group (December 30, 2022), i.e. Polski Holding Obronny. After the transfer of the shares, the provision of the security services is provided to TAURON Group's subsidiaries pursuant to the relevant SLAs.

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

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

### Principles of management of TAURON Polska Energia S.A.

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

*The detailed information on the matters lying within the competence of the Management Board, acting as a collective body, is provided in section 9.11. of this report.*

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

The Company shall carry out its tasks through:

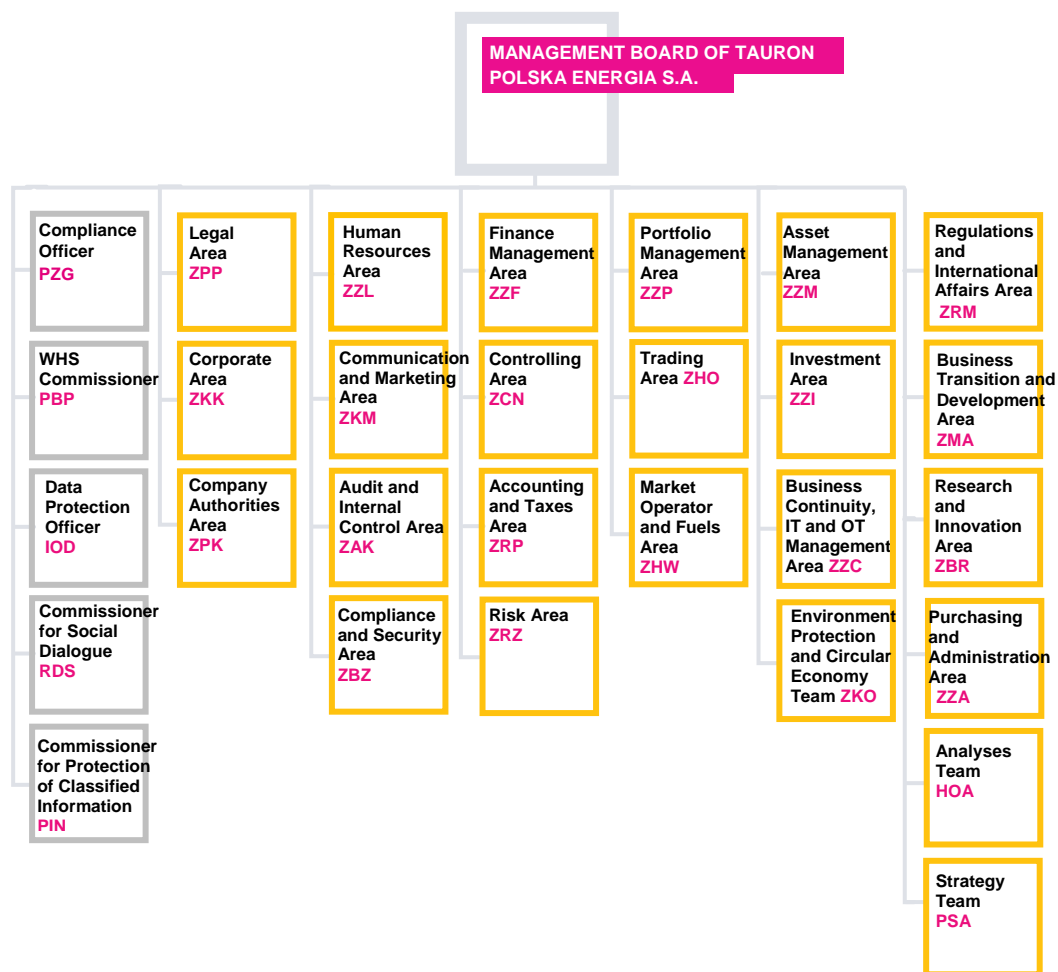
1. separate organizational units (business units):
  - 1) Business areas, comprising independent work positions and organizational units (business units) reporting directly to the Executive Directors. The work of the Executive Directors is managed (supervised) by the Members of the Company's Management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

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

In 2022 amendments were introduced to the Organizational Regulations that consisted in setting up of the Corporate Area, the tasks of which include formal corporate governance, process based management in TAURON Group, and development of internal and intra-corporate regulations in TAURON Group. In addition, the said amendments included unambiguous and precise division of task, competences, and responsibilities of individual Business Areas, independent work positions, and Teams reporting directly to members of the Management Board.

The below figure presents the organizational diagram of TAURON as of December 31, 2022, and as of the date of drawing up this report.

Figure no. 11. Organizational diagram of TAURON as of December 31, 2022, and as of the date of drawing up this report



As of September 15, 2022, the Management Board of the Company, by way of a resolution, assigned to the Members of the Management Board of the Company, directly, the individual business area and the independent (autonomous) work positions.

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

## Principles of management of TAURON Capital Group

The management of TAURON Group is carried out based on two internal documents: the Code of TAURON Group and TAURON Group's Business and Operational Model.

*Code of TAURON Group* regulates TAURON Group's operations, ensuring the implementation of the goals through the tailored solutions with respect to the management of TAURON Capital Group's entities, including, in particular, setting the objectives of the subsidiaries' business operations that would enable achieving of the effects assumed in the Strategy.

TAURON Group's Business and Operational Model assumes process based management of the Group, the essence of which is a clear and transparent division of competences and responsibilities, a continuous search for and implementation of the process improvements and modifications in order to improve the efficiency thereof. The processes are the superior organization in relation to the organizational structure of the individual subsidiaries and run horizontally across entire TAURON Capital Group.

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

The Members of the Management Board manage the mega processes assigned thereto. The owners of the mega processes are the designated Executive Directors at TAURON or persons holding other positions directly reporting to the Members of the Company's Management Board.

The process documentation (maps, diagrams and process sheets) defines and describes the decision making powers (competences) and actions to be undertaken by the individual organizational units within TAURON Capital Group's various subsidiaries. The owners of the mega processes decompose the processes into the lower level processes and appoint the owners thereof. Each process has its owner and process metrics defined by the process owner in accordance with the decision making competences assigned thereto, stemming from the process documentation. The process documentation also defines the course of action (interdependencies) and decision making competences for the recurring activities, along with descriptions of the products and services listed. The competencies and process dependencies described in the process documentation are complementary to the competencies stemming from the organizational structure of the individual subsidiaries and support the operation of TAURON Capital Group's subsidiaries as a unified organizational structure.

The following standing Committees functioned in TAURON Capital Group as of December 31, 2022:

1. Investment Committee,
2. Risk Committee,
3. TAURON Group's Liquidity Committee,
4. Sponsoring Committee.

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

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

The below figure presents the structure of TAURON Capital Group's processes in 2022 (mega processes).

**Figure no. 12. Structure of TAURON Capital Group's processes in 2022 (mega processes)**



## Changes to the principles of management of TAURON Capital Group

TAURON Group's Business and Operational Model was updated twice in 2022. The updates were related, in particular, to the inclusion of all of TAURON Group's subsidiaries in the Model - in order to standardize the principles of the management of the Group for all of its entities, the assignment of the subsidiaries to the Business Areas, the division of the functions and tasks with respect to the OT systems among the Group units, and the division of the competencies with respect to the acquisition of the entities with renewable energy projects.



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

### 2.1. Core products, goods and services

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

As the parent entity of TAURON Capital Group, TAURON performs the consolidating and management function at TAURON Capital Group. As a result of implementing the Business Model and centralizing of the functions, TAURON concentrated a number of competences related to the functioning of TAURON Capital Group's subsidiaries and it was carrying out operations, among others, in the following areas in 2022:

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

As a result of the transfer of ownership of 100% of the shares of TAURON Mining to the State Treasury as of December 31, 2022, and the participation of TAURON Group's subsidiaries in the process of spinning off the coal fired generation assets to NABE in the fourth quarter of 2022, some of the functions related to electricity trading and coordination of fuel supply were transferred to the TAURON Wytwarzanie subsidiary.

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

The Company is focusing on purchasing and selling electricity for the purpose of securing (hedging) the buy and sell positions of TAURON Capital Group's entities as well as on the wholesale electricity trading. The Company purchased and sold 45.6 TWh of electricity in 2022. Electricity sales carried out by TAURON during that period were mainly addressed to the following subsidiaries: TAURON Sprzedaż and TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE), with 72.2% of the electricity volume purchased sold thereto. The above mentioned subsidiaries are carrying out the retail electricity supply to the final consumers, and therefore TAURON is not dependent on any single electricity consumer. The next largest electricity purchasers, in terms of electricity volume purchased, are the Exchange Clearing House (Izba Rozliczeniowa Giełd) (14.4%), TAURON Wytwarzanie (6.5%, including 5.6% for Nowe Jaworzno Grupa TAURON during the time frame from January 1, 2022, to September 30, 2022, as of October 1, 2022, the subsidiary became a part of TAURON Wytwarzanie), TAURON Capital Group's others subsidiaries (4%), including TAURON Ciepło, TAURON Ekoenergia, TAURON Czech Energy s.r.o. (TAURON Czech Energy) and EC Stalowa Wola, as well as Polskie Sieci Elektroenergetyczne S.A. (PSE) (2%) and TAMEH POLSKA (0,8%).

Pursuant to the concluded SLA contracts with respect to the trading operations, TAURON is providing, among other things, the electricity and property rights portfolio management service as well as the *market access* service, as part of which it is operating on the Polish Power Exchange (Towarowa Giełda Energii S.A. - TGE) on its own behalf for the benefit of TAURON Wytwarzanie, TAURON Ciepło and, until September 30, 2022, Nowe Jaworzno Grupa TAURON (currently TAURON Wytwarzanie), fulfilling the power exchange electricity trading obligation for those subsidiaries.

However, having in mind the process related to TAURON Capital Group's transition and the planned spin-off of the hard coal fired generation assets out of TAURON Capital Group, as part of the Government NABE Concept's implementation, under way, in July 2022 the relevant annexes to the existing SLA contracts were concluded to ensure the continuity of the services provided and a decision was made to terminate the provision of the *market access* service for the benefit of TAURON Wytwarzanie.

As of November 1, 2022, an organizational structure was set up at TAURON Wytwarzanie in order to take over responsibility for the contracting of the coal fuel for the in-house needs. As of that date, the process of transferring the thermal coal sales contracts from TAURON to TAURON Wytwarzanie also began. Thus, TAURON will continue to be responsible for the coal fuel purchases solely with respect to TAURON Ciepło's demand.

The Company's additional operations include the wholesale trading in natural gas on the territory of the Republic of Poland based on the license for trading in the gas fuels issued by the President of the ERO on April 27, 2012. The original effective term of the license had commenced on May 4, 2012, and had expired on May 4, 2022. On March

11, 2021, the President of the ERO made a decision to change the effective term of the license and extend it until June 30, 2035. In 2022 the Company purchased and sold 4.3 TWh of the gas fuel. The Company is focusing on the sales of the natural gas for the supply needs of TAURON Sprzedaż, with 57.9% of the purchased gas fuel volume sold thereto.

The competences of the Company also include the management, for the needs of TAURON Capital Group, of the property rights related to the Guarantees of Origin (GOs) of energy (energy certificates), constituting the confirmation of electricity generation from the renewable sources (including the sources that utilize the agricultural biogas), as well as the property rights related to the electricity efficiency certificates. The principles of the cooperation are defined in the agreements for the management of the property rights' balance (TAURON Sprzedaż, TAURON Sprzedaż GZE, TAURON Wytwarzanie, TAURON Ciepło) as well as in the agreements for the provision of the trading services with respect to the management of the portfolio of the property rights and the Guarantees of Origin (GOs) of energy (energy certificates) (TAURON Ekoenergia, EW Dobrzyń, EW Śniatowo, EW Inowrocław, EW Goldap, EW Mogilno).

TAURON is a competence center with respect to the management and trading in the CO<sub>2</sub> emission allowances for TAURON Capital Group's subsidiaries. As a result of centralizing the trading in the emissions, a synergy effect was achieved, involving optimizing of the costs of utilizing the resources of TAURON Capital Group's entities. In the pursuit of the above mentioned objectives with respect to the CO<sub>2</sub> emission allowances trading, the Company is actively taking part in the trading on the ICE ENDEX exchange, the EEX exchange as well as on the OTC market. In connection with the centralizing of this function, TAURON is responsible for the settlements (clearing) of the subsidiaries' CO<sub>2</sub> emission allowances, securing (hedging) the subsidiaries' emission needs while taking into account the emission allowances allocated thereto.

TAURON is also performing the function of the Market Operator and the entity responsible for the trade balancing for TAURON Capital Group's subsidiaries as well as for the external customers. These functions are carried out under the transmission agreement concluded with the Transmission System Operator (TSO) and other regulations in this respect (Terms and Conditions for the Balancing and the Transmission Grid Code).

Until November 30, 2022, the Company had been holding exclusive control over the generation capacity with respect to the trading and technical capabilities related thereto, it had been responsible for optimizing the generation, i.e. the selection of the generation units to be utilized for the electricity production, as well as the adequate distribution of the loads in order to perform the contracts concluded, taking into consideration the technical conditions of the generation units, as well as the grid constraints (grid congestion) and other factors, over the various time frames. As part of the services provided for the Generation Segment the Company was taking part in preparing the overhaul plans, plans of the available (dispatchable) capacity, as well as the production plans for the generation units, over the various time frames, as well as in agreeing them with the relevant grid (network, system) operator. As of December 1, 2022, TAURON Wytwarzanie has been performing these functions on its own for its assets as part of the implementation of the Government's NABE Concept. TAURON is also developing its competences with respect to the Market Operator function for the gas under the transmission agreement with GAZ-SYSTEM S.A. Since July 2015, TAURON, as one of the first entities in Poland, has been providing services for a balancing group for the entities carrying out the trading transactions on the gas market and is currently conducting the balancing of the trading for two of TAURON Capital Group's entities, as well as for the external entities.

In 2022, TAURON was actively taking part in the secondary capacity market, securing the capacity obligation within TAURON Capital Group as well as concluding the transactions with the external counterparties on the OTC market.

As part of the works related to asset management, TAURON is conducting the activities aimed at ensuring consistent and efficient management of the production assets. Priority is given to the activities aimed at ensuring the required level of availability, business continuity and efficiency of the assets. Over the next few years, it is necessary to adjust the production assets to the changes stemming from the energy transition process. It is also important to coordinate the management of the research and development activities as well as to create a framework for the development of innovations and adequate technical and organizational standards.

## **The core products, goods and services of TAURON Capital Group**

TAURON Capital Group was conducting its operations and generating its revenue, first and foremost, from the electricity and heat supply and distribution, electricity and heat production in 2022. In connection with the Company's divestment of ownership rights to 100% of the shares in TAURON Wydobycie and the loss of control by TAURON Group over TAURON Wydobycie related thereto, as of 2023, TAURON Group has not been conducting operations with respect to the commercial coal mining and production.

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

TAURON Capital Group's core products included electricity and heat, as well as hard coal in 2022. In addition, TAURON Capital Group's subjects of operations, in 2022, included trading in the commodities: electricity, energy market products, gas, as well as the provision of the electricity distribution and supply services, including to the final consumers, heat distribution and transmission and other services related to the operations conducted thereby.

The below table presents TAURON Capital Group's 2021-2022 production and sales volumes.

**Table no. 9. 2021-2022 production and sales volumes**

Production and sales volumes	unit	2021	2022	Change in % (2021 / 2020)
1. Commercial coal production	Mg m	5.15	5.01	97%
2. Coal sales by the Mining Segment	Mg m	5.47	4.90	90%
3. Electricity generation (gross production), including:	TWh	15.59	15.55	100%
Electricity generation from renewable energy sources, including:	TWh	1.71	1.57	91%
1) Production from biomass	TWh	0.43	0.34	79%
2) Production of hydro, wind and photovoltaic power plants	TWh	1.28	1.23	95%
4. Heat production	PJ	12.00	10.58	88%
5. Heat supply	PJ	15.08	13.80	91%
6. Electricity distribution	TWh	53.97	53.68	99%
7. Electricity supply	TWh	47.11	46.03	98%
1) Retail	TWh	33.41	31.14	93%
2) wholesale	TWh	13.70	14.89	109%
8. Number of customers – Distribution	'000	5 777	5 836	101%

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

## 2.2. Markets and sources of supply

### Markets

#### Hard coal sales

At TAURON Capital Group, the hard coal sales were carried out in 2022 by the TAURON Wydobycie subsidiary in and TAURON, in accordance with their functions.

The sales of the hard coal produced by TAURON Mining were carried out in the following directions in 2022:

1. sales of the fine coal (coal dust) and coal sludge of the strategic importance to the power plants and the combined heat and power plants, mostly within TAURON Group, carried out under the multi year sales agreements,
2. sales of the other assortments, in particular the large and medium size lump coal, including the eco-pea as well as the possible coal dust surpluses carried out under the contracts with the authorized hard coal sellers that constitute the company's sales network,
3. sales to the final customers, mainly from the power and industrial sectors, of the coal dust and medium size lump coal, carried out through contracts concluded on the basis of the individually negotiated terms or as a result of the tender and bidding procedures conducted,
4. direct sales to the mass market customers through the Company's in-house online channel and the customer service centers at the Company's coal mines.

The hard coal sales to TAURON Group's generating units, almost throughout 2022, were made through TAURON. In the fourth quarter of 2022, in connection with the planned spin-off of the coal fired generation assets out of TAURON Group as part of the implementation of the Government NABE Concept under way, the process of transferring the thermal coal sales contracts from TAURON to TAURON Wytwarzanie was initiated, leaving with the Company the responsibility for the coal fuel purchases in order to meet the demand of TAURON Ciepło.

As part of its operations TAURON Group sold 1.59 million Mg of coal to external customers, which accounted for 32% of the sold volume produced by the Group's coal mines. Sales in 2022 on this account were 15% lower than the level of sales realized in 2021. On the other hand, TAURON Wydobycie delivered 3.31 million Mg of the thermal coal to the Group's subsidiaries, i.e. 8% less as compared to 2021. The lower total sales of the hard coal from its own resources is a consequence of the lower production of the commercial coal, which is a result of the significantly lower output at the Sobieski Coal Mine (ZG Sobieski) brought about by the geological and mining difficulties that prevented the normal operation of the longwall and made it necessary to introduce the mining preventive measures in the section where the disturbances occurred, while the production outputs of the Janina Coal Mine (ZG Janina) and the Brzeszcze Coal Mine (ZG Brzeszcze) went up, which was a consequence of resulted a more favorable configuration of the longwall fronts than was the case in 2021.

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

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

In connection with the divestment of ownership right to 100% of the shares in TAURON Wydobycie to the State Treasury, the Group is not conducting operations with respect to the commercial coal production in 2023, which is in line with its current Strategy .

### Sales of generated electricity and heat

TAURON Capital Group's electricity and heat generation is carried out by:

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

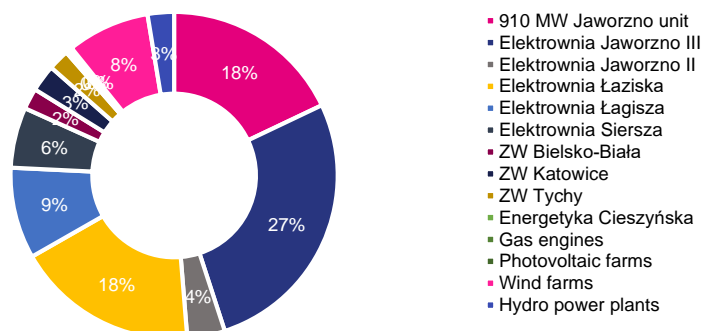
In addition, as part of TAURON Nowe Technologie S.A.'s (TAURON Nowe Technologie) operations, electricity is produced by the gas engines fueled by methane purchased from the Brzeszcze coal mine.

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

The total installed electric capacity of TAURON Group's generation units came in at 5.1 GWe of electric capacity and 2.4 GWt of thermal capacity as of the end of 2021.

The below figure presents the structure 2021 of the installed capacity of TAURON Group's generating units as of December 31, 2022.

Figure no. 13. Structure of the installed capacity of TAURON Group's generating units as of December 31, 2022



TAURON Capital Group's subsidiaries generated 15.55 TWh of electricity (including 1.57 TWh from RES) in 2022, i.e. a slightly lower output as compared to 2021 when the production of electricity came in at 15.59 TWh (including 1.71 TWh from RES). The lower production from RES is the result of the lower production output of the biomass fired units and the hydro power plants, while at the same time the production of the wind farms and the photovoltaic farms was higher, which was a consequence of a rise in the installed capacity and the better meteorological conditions.

In 2022 the electricity produced by TAURON Capital Group's subsidiaries was sold on the domestic market, first of all to TAURON Capital Group's Supply Segment subsidiaries (67%), as well as on the balancing market (RB) to PSE (33%).

The heat sales volume by TAURON Capital Group's subsidiaries came in at 13.80 PJ in 2022 and it was lower by 9%, as compared to 2021. The share of the heat generated from the in-house sources in the total heat sales volume clocked in at 77% in 2021.

TAURON Ciepło's heat supply market includes the following diverse consumers: the cooperative sector (40.2%), the private sector – multi-family buildings (housing communities) and single family houses (17.3%), the municipal sector (14.5%), the offices and institutions sector (14.4%) as well as the industrial sector and others (13.5%).

In 2022, TAURON Ciepło acquired the company Energetyka Cieszyńska, with a heat capacity of 70 MWt, of which 23 MW comes from the cogeneration. The heat distribution system includes more than 55 kilometers of the district heating network and 434 heat substations. Energetyka Cieszyńska provides the supply of heat to the residents of Cieszyn, the Pogwizdów estate and the Municipality of Hażlach.

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

### Sales of the electricity distribution services

Electricity distribution services at TAURON Capital Group are provided by TAURON Dystrybucja.

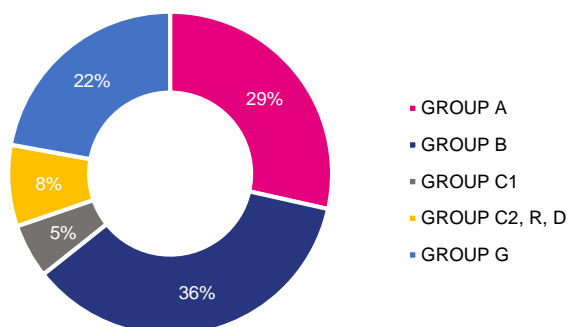
The regulated market on which TAURON Dystrybucja is operating includes the operations of 5 large electric utilities dealing with the electricity distribution and 183 other smaller enterprises of such type. The operations in the field of the electricity distribution is carried out under the conditions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

TAURON Dystrybucja is providing the electricity distribution services for approx. 5 836 000 final consumers. The Company covers with its operations the area of about 57 thousand km<sup>2</sup>, located mainly in the Lower Silesia, Małopolska, Opole and Silesia regions and, in addition, in the Łódź, Podkarpacie and Świętokrzyskie regions. The operational functions are performed by 11 branches located in: Bielsko-Biała, Będzin, Częstochowa, Gliwice, Jelenia Góra, Kraków, Legnica, Opole, Tarnów, Wałbrzych and Wrocław.

Sales to the tariff eligible consumers on the individual voltage levels: high voltage (A group), medium voltage (B group) and low voltage (C,G), represent 96.0% of the distribution services sales volume. The total electricity volume delivered to the tariff eligible consumers connected to TAURON Dystrybucja's grid in 2022, as part of the sales of the distribution services, came in at 53.68 TWh and it was lower, as compared to 2021, by 0.29 TWh, i.e. by 0.5%.

The below figure presents the structure of the electricity distribution by the tariff groups in 2022.

Figure no. 14. Structure of the electricity distribution by the tariff groups in 2022



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

### Wholesale and retail supply of electricity and gas

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

The **wholesale trading operations** conducted by TAURON comprise mainly the trading of electricity and natural gas. Such activities are performed, first and foremost, for the needs of securing (hedging) the buy and sell positions of TAURON Capital Group's entities. The Company is operating on the wholesale markets in Poland and abroad, and it is also trading in all of the segments of the domestic energy market, i.e. on the intraday market, the day-ahead market and the forward market. The Company is an active participant of TGE (PPX).

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

German transmission system operators: GASCADE Gastransport and ONTRAS Gastransport GmbH as well as Czech NET4GAS s.r.o.

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

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

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

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

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

**Table no. 10. Categories of TAURON Capital Group's final customers**

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

The supply subsidiaries were operating in 2022 in a market environment where the level of the competitiveness in the individual market segments did not change significantly as compared to the previous years. The household market (individual customers) continued in 2022 to be covered by the obligation to have the electricity sales prices approved by the President of ERO.

According to the ERO data, from mid-2007 until November 2022, i.e. since the beginning of the electricity market liberalization process, approx. 740 000 households and more than 230 000 institutional entities switched their electricity supplier.

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

The household segment, where the number of the supplier switch cases represents a small percentage, is considered to offer a strong potential. In 2022 more than 28 200 consumers of electricity switched their suppliers (including approximately 6 400 institutional customers and approximately 21 900 households). In 2022 the pace of the supplier changes went down, as compared to 2021, in the case of the households by 17.4%, and in the case of the institutional entities, by 7.2%.

The sales offering of TAURON Sprzedaż for the business segment in 2022 included electricity and gas fuel. The company continued its activities geared towards building customer loyalty, with a particular emphasis placed on developing an offering based on the *Green Turn of TAURON*. The customers were offered a number of products to choose from, taking into account their needs and the specifics of their electricity consumption, including the ecological, exchange based and the technical products. The activities related to the promotion and sales of the "EKO" products - TAURON EKO PREMIUM (TEP), TAURON EKO BIZNES and the Guarantees of Origin - were

continued. As part of these activities, the TEP product contracts for nearly 500 GWh were concluded in 2022. The TAURON EKO Biznes product was also very popular with the customers, the Company sold electricity, as part of this product, with a volume in the region of 1.3 TWh. The sales of the Guarantees of Origin also came in at the level of more than 0.6 TWh. In 2022, as many as 78% of the business customers, based on the sales volume, took advantage of the additional products from the TAURON Sprzedaż offering.

The process of the mass segment customers (individual customers as well as the small and medium sized enterprises) migrating from the tariff based pricing to the product based pricing, was also observed in 2022. As of the end of 2022, TAURON Capital Group was selling electricity under the agreements guaranteeing the commercial terms over the specified period to 49% of the segment's customers (loyalty building agreements), while 51% of the customers were buying electricity at the tariff based prices.

The key elements of the commercial offering for the mass customers in 2022 were the combined products: *Elektryk (Electrician)* and *Serwisant (Repair Man)*, based on the *assistance* functionality, that were used by more than 1.8 million customers. The *assistance* products will represent the core of the offering also in 2023.

In addition, in 2022 the sales of the specialized products were continued, in particular the photovoltaic installations, with its sales in 2022 reaching more than 1 200 units. In 2022, the retail supply of electricity by the Supply Segment subsidiaries, including also by TAURON Czech Energy, to approx. 5.7 million customers stood at 31.13 TWh, i.e. 93% of the 2021 level when the supply came in at 33.39 TWh. The decrease of the supply volume was reported both in the Business Customer Segment, as well as in the Mass Customer Segment, which was primarily due to the curtailed consumption of electricity by the customers in view of the very high prices of electricity on the market.

The below table presents the information on the volume of electricity supplied by TAURON Capital Group's subsidiaries conducting operations related to the retail electricity supply, as well as the number of customers, broken down into the individual customer segments, in 2022.

**Table no. 11. Volume of retail electricity supplied and the number of customers in 2022**

Customer type	Electricity volume supplied (TWh)	Number of customers ('000)
1. Strategic customers	3.6	1
2. Business customers	12.8	190
3. Mass customers, including:	11.5	5 507
Households	9.5	5 128
4. Supply to TAURON Dystrybucja to cover the balancing differences	2.9	0.001
5. Other (exports, in-house needs)	0.3	-
<b>Supply Segment</b>	<b>31.13</b>	<b>5 698</b>

In addition, in 2022, TAURON Sales completed sales of gas to 120 000 Business and Mass Market customers. The volume of the sales of this fuel came in at more than 2.3 TWh. At the end of 2022, the company, in view of rapid changes on the energy commodities market resulting in a several fold increase in the gas prices, took a decision to terminate the gas sale contracts with more than 40 thousand individual customers billed according to the tariff price list. This decision will also have an impact on 2023, in which the company is planning to take further steps to continue its withdrawal from the retail trading of this fuel.

In the financial years ended on December 31, 2022, and December 31, 2021, TAURON Capital Group generated revenue from the sales of fuel to the Commodity Exchange Clearing House, that accounted for 16% of the Group's total revenue in the Supply and Generation Segments and 11% of the Group's total revenue in the Supply Segment, respectively

## Supply sources – fuels

### Hard coal (domestic market)

In 2022 TAURON Capital Group purchased hard coal of both, domestic and foreign origin.

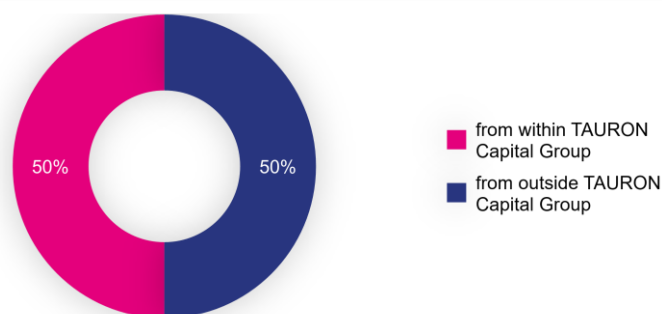
50% of the hard coal supplies used for electricity and heat generation in 2022 were met with the hard coal from TAURON Wydobycie's in-house coal mines, which accounted for 3.31 million Mg. The remainder of the demand was met based on the agreements concluded with the following suppliers from outside TAURON Capital Group:

- |  |   |
|--|---|
| 1. Polska Grupa Górnicza S.A. (20% <sup>1</sup> ),       | 3. Węglózbyt S.A. (2.0% <sup>1</sup> ), |
| 2. Jastrzębska Spółka Węglowa S.A. (7.0% <sup>1</sup> ), | 4. Other suppliers.                     |

<sup>1</sup>Suppliers' shares in the total hard coal supplies

The below figure presents the quantity of the hard coal and coal sludge purchased by TAURON Capital Group in 2022.

Figure no. 15. Coal and coal sludge purchased in 2021 (in %)



### Gas (domestic and foreign market)

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

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

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

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

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

In the financial years ended on December 31, 2022, and December 31, 2021, TAURON Capital Group did not identify single customers from outside TAURON Capital Group that would generate revenue from the sales of the coal and gas exceeding the level of 10% of the total sales revenue of TAURON Capital Group.

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

### Internal factors

The operations and earnings of the Company and TAURON Capital Group were impacted in 2022 by the factors presented in the below table:

Table no. 12. Internal factors impacting the operations and the earnings of the Company and TAURON Capital Group in 2022

#	Description of the factor
1.	actions with respect to optimizing the processes taken by TAURON Capital Group's subsidiaries,
2.	decisions with respect to the implementation of the key investment projects and the intense activities with respect to searching for new energy sources projects,
3.	loyalty building measures aimed at retaining the existing customers and the marketing activities with respect to acquiring new customers,
4.	TAURON Capital Group's centralized financial management area, supported by the use of such tools as: corporate model of financing, financial liquidity (cash flow) management policy using the <i>cash pool</i> mechanism, risk management policy in the financial area, insurance policy,
5.	TAURON's purchasing processes management, in particular, the management of fuel purchases for the needs of TAURON Capital Group's generation entities,
6.	expectations with regard to the increase of the compensation (wages) at TAURON Capital Group,
7.	geological and mining conditions for the hard coal extraction,
8.	decision on the development of the District Heating Line of Business as part of TAURON Capital Group,
9.	implementation of the activities related to the sale of 100% of the shares in TAURON Wydobyć in connection with the transformation of the hard coal mining sector,
10.	implementation of the activities stemming from the transition of the power sector in Poland, including the implementation of the agreement between TAURON, PGE, Enea S.A. (Enea), Energa S.A. (Energa) and the State Treasury on the cooperation with respect to the spinning off of the coal assets and the integration thereof within the National Energy Security Agency (NABE), including the incorporation of the New Jaworzno Grupa TAURON subsidiary into the structure of TAURON Wytwarzanie,
11.	works related to the fixing of the failure of the 910 MW power generating unit in Jaworzno and the need to carry out the additional works as well as the unit's resynchronization with the grid,
12.	implementation of the settlement agreement between EC Stalowa Wola and Abener Energia S.A. (Abener Energia), including the completion of the mutual settlements,
13.	acquisition of the wind farm and photovoltaic construction projects at the ready for development stage with a total capacity of 224 MW,
14.	adoption and implementation of TAURON Group's Strategy for the years 2022-2030 with an outlook until 2050,
15.	setting up of a provision for the onerous contracts in the Generation Segment.
16.	Adoption of TAURON Group's OT Management Policy.

The year 2022 was characterized by the above average volatility of the environment in which not only TAURON Group, but also the entire energy industry was operating. At the beginning of 2022, the aggression of the Russian



Federation on the territory of Ukraine took place, which was the main factor contributing to the significant disturbances in the macroeconomic environment not only in Poland, but also in Europe and worldwide. As a consequence, an energy crisis was triggered, bringing about the changes in the level of the energy and fuel prices of unprecedented, up to now, volatility and scope. For TAURON Group, it was a year of a very high exposure to the risks arising from the market, macroeconomic, as well as the regulatory and geopolitical situation.

The detailed information related to the impact of the above mentioned factors on the financial result achieved in 2022 is provided in sections 4 and 5 of this report. The effects of such an impact are visible both in the short term, as well as in the long term outlook.

As of December 31, 2022, the impairment tests related to the fixed assets and goodwill were performed, taking into account the following considerations:

1. Company's market capitalization remaining at a level below the net carrying value of the assets in the long term
2. material rise in the global prices of the energy commodities, electricity and the prices of the CO<sub>2</sub> emission allowances,
3. limited supply of fossil fuels resulting in their price increases,
4. high volatility of the electricity prices on the forward market (along with the low liquidity) and the persisting high prices on the spot market,
5. introduction of a mechanism to limit bids in the electricity balancing market,
6. publication of the RePowerEU package aimed at accelerating Europe's independence from the Russian fossil fuels before 2030, temporarily reducing energy consumption and diversifying the sources of raw material supply,
7. works on reforming the EU ETS market to bring the system in line with new, higher CO<sub>2</sub> reduction targets,
8. rapid growth of RES, in particular the prosumer sub-sector and micro photovoltaic installations,
9. effects of introducing the provisions of the Winter Package, including the emissions standard, adversely affecting the possibility of the participation in the capacity market by the coal fired units after July 1, 2025,
10. tightening of the emissions standards and the persisting adverse market conditions from the point of view of the profitability of the conventional energy,
11. an increase of the inflation rate,
12. a rise of the risk free rate.

As a consequence, the booking of the impairment charges related to the loss of the carrying value of the tangible and intangible fixed assets in the amount of PLN 75 million was recognized in TAURON Capital Group's FY 2022 results in the *Consolidated Financial Statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards approved by the European Union for the year ended on December 31, 2022* (Consolidated Financial Statements of TAURON Capital Group).

In addition, an impairment of goodwill in Energetyka Cieszyńska, a subsidiary belonging to the Generation Segment, in the amount of PLN 18 million was identified as part of the impairment test performed as of December 31, 2022.

## External factors

The operations and earnings of TAURON and TAURON Capital Group were impacted in 2022 by the following external factors:

1. macroeconomic environment,
2. market environment,
3. regulatory environment,
4. competitive environment.

### Macroeconomic environment

TAURON Capital Group's core business operations are conducted on the Polish market and the changes taking place in this market have an impact on the Group's operations. The macroeconomic situation, both in the individual sectors of the economy, as well as on the financial markets, is a significant factor impacting the earnings generated by TAURON Capital Group.

According to data published by Statistics Poland (GUS), Poland's GDP growth rate stood at 3.6% in the third quarter of 2022, year on year. In the subsequent years, the National Bank of Poland (NBP) is forecasting a decline of the GDP growth rate to 0.7% in 2023, 2.0% in 2024 and 3.1% in 2025 (year on year). The economic situation on the domestic market in the time frame covered by the projection will be affected by a strong negative supply shock as a result of the Russian Federation's aggression against Ukraine - mainly the rise in the global commodity prices and the NBP's interest rate hikes. On the other hand, the shielding measures for households and vulnerable entities providing protection against energy price increases and the compensation payments for businesses will have a positive impact. The negative effects of the supply shock are assumed to be gradually expiring in the 2024 - 2025 time frame.

The situation on the labor market remains good. According to the Statistics Poland's data, the unemployment rate, as of the end of 2022, came in at 5.2% (year on year). The NBP is forecasting a continued favorable situation on

the labor market - the maintaining of a high nominal rate of the wage growth along with a moderate increase in the unemployment rate.

According to the Statistics Poland's data, the average annual inflation rate clocked in at 14.4% in 2022. At the end of 2022, the inflation rate stood at 16.6%, year on year. Over the 2023 – 2025 time frame, the inflation rate is projected to gradually decline to 13.1% in 2023, 5.9% in 2024, and to 3.5% in 2025. The decrease in the level of the inflation rate over the next three years will be affected by the expiration of the factors that had driven the rise in the inflation rate in 2022, namely, the reduction in the prices of the energy raw materials and agricultural commodities on the global markets, the slowdown in the growth rate of the domestic demand, the recovery of the supply chains, the slowdown of the inflation rate abroad, and the decelerating growth rate of the labor costs.

## Market environment

### Electricity

The below table presents the volumes of the electricity consumption, production and imports in Poland, as well as the average electricity prices on the SPOT market, both in Poland, as well as in the neighboring countries in 2022 and 2021.

**Table no. 13. Volumes of the electricity consumption, production and imports in Poland, as well as the average electricity prices on the SPOT market in Poland and in the neighboring countries in 2022 and in 2021**

Volume	Unit	2022	2021	Increase / Decrease
1. Electricity consumption	GWh	173 479	174 402	-923 (-0.5 %)
2. Electricity production by domestic power plants	GWh	175 157	173 583	1 574 (+0.9 %)
3. Electricity production by power plants fired with:				
1) hard coal <sup>1</sup>	GWh	87 761	93 037	-5 276 (-5.7 %)
2) lignite	GWh	46 978	45 367	1 611 (+3.6 %)
3) gas	GWh	10 002	13 366	-3 364 (-25.2 %)
4. Electricity production by wind farms	GWh	18 305	14 234	4 071 (+28.6 %)
5. Cross-border exchange balance <sup>2</sup>	GWh	-1 679	820	-2 499 (-304.8 %)
6. Average electricity price on the SPOT market in:				
1) Poland	PLN/MWh	787.45	397.98	+389.47 (+97.9 %)
	EUR/MWh	167.72	86.93	+80.79 (+92.9 %)
2) Neighboring countries (on the example of Germany)	EUR/MWh	235.46	96.85	+138.61 (+143.1 %)

<sup>1</sup>Including the industrial power plants.

<sup>2</sup>A positive value of the balance denotes imports, while a negative value of the balance denotes exports.

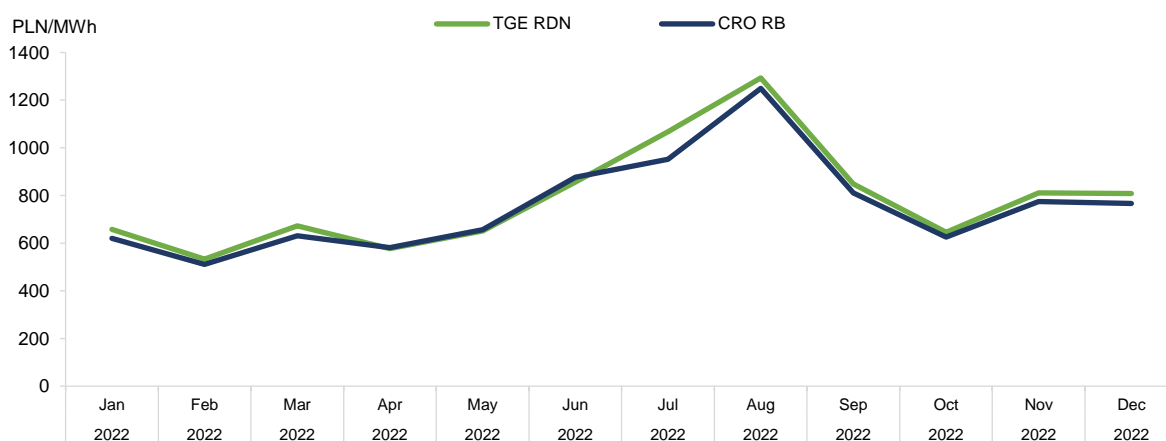
The wholesale electricity price on the Day Ahead Market (RDN) of the Polish Power Exchange (TGE) reached 787.45 PLN/MWh in 2022 and it was higher by 389.47 PLN/MWh (+97.9%) as compared to 2021. The average settlement price on the Balancing Market (RB) came in at 756.51 PLN/MWh in 2022 and it was higher by 381.95 PLN/MWh (+102.0%) as compared to 2021.

The factors behind the rising prices on the Day Ahead Market (RDN) and on the Balancing Market (RB) included: the high prices of the raw materials, in particular the prices of the thermal coal and gas, as well as the continued high prices of the CO<sub>2</sub> emission allowances. The higher, than in Poland, SPOT prices were reported in the countries in the Western and Southern Europe, which led to Poland being a net exporter of electricity to the neighboring countries in the first half of 2022. In the second half of the year, due to the large number of the overhauls and the shutdowns of the power generation units, Poland has significantly reduced the balance of its energy exports.

The continued rise in the demand for electricity and the positive exports' balance in the cross-border exchange of electricity led to the higher electricity production by the lignite fired power generation sources in Poland in the first half of 2022. In the second half of 2022, however, the demand for electricity was lower than in the same period of the previous year, which, combined with a near-zero balance of the cross-border electricity exchange, also led to the reduction of the production from the lignite fired sources. The hard coal fired power plants, as well as the gas fired power generation units logged production declines in 2022 due to the continued high prices of gas and the lower inventory levels of the steam coal, as well as a result of the high volumes of the electricity production by the wind sources, as well as the photovoltaic farms. There was also a slight year on year decline in the electricity consumption.

The below figure presents the average monthly electricity prices on the SPOT and RB markets in 2022.

Figure no. 16. Average monthly electricity prices on the SPOT and RB markets in 2022



The benchmark base load contract with the delivery in 2023 (BASE\_Y-23) had been in an upward trend on the futures market until August 2022, and then starting from September the price of the contract was plummeting and subsequently, until the end of 2022, the prices had been fluctuating in the range between 900 PLN/MWh and 1 300 PLN/MWh.

The price changes were in line with the trends with respect to the changes in the commodity prices, and in particular the prices of the thermal coal at the ARA ports, as well as the prices of gas in Europe and in Poland. The additional reasons behind the initial price rises included the problems with the balancing of Poland's power system due to the persistent low supply of the steam coal, as well as the very high prices in the neighboring countries, both on the futures markets, as well as on the SPOT market.

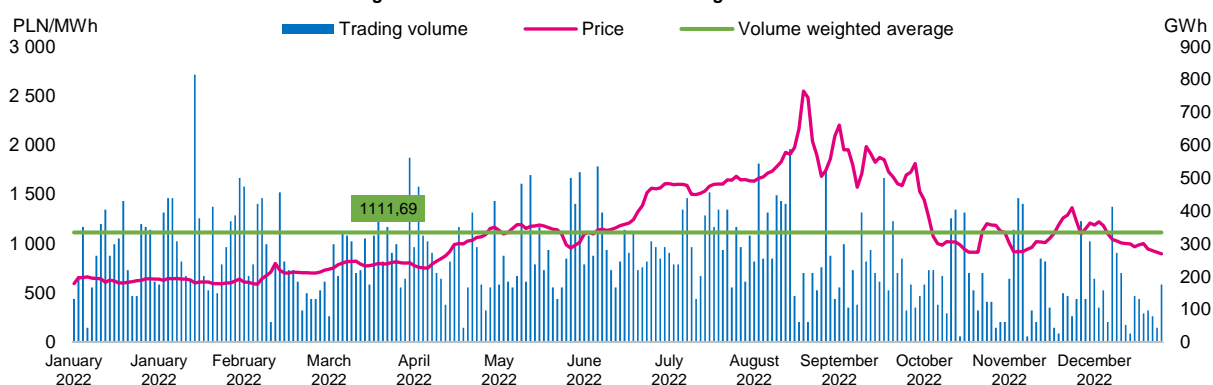
The declines of the electricity prices in September 2022 were brought about, apart from the decreases of the prices of the raw materials and of the CO<sub>2</sub> emission allowances, also by the announcements of the changes to the *Regulation on the Detailed Conditions for Operation of the Power System*, in which the introduction of the price caps for the balancing bids made by the electricity generators in the balancing market was proposed. The Regulation was published at the end of September 2022, and the first balancing bids submitted under the new rules were in effect as of October 1, 2022.

The volume weighted average price of the BASE\_Y-23 contract recorded in 2022 came in at 1 111.69 PLN/MWh, and it was higher by 721.71 PLN/MWh (an increase by 185.1%) as compared to the average price of such a contract logged in 2021.

The PEAK5\_Y-23 contract price was characterized by the elevated volatility, with its trading volume weighted average price reaching 1 451.71 PLN/MWh in 2022, and it was higher by 957.38 PLN/MWh (an increase by 193.7%) as compared to the average price of such a contract logged in 2021.

The below figure presents the trading volume and price performance of the BASE Y-23 contract in 2022.

Figure no. 17. BASE Y-23 contract trading volume in 2022



### Hard coal

The average price of the continued annual hard coal contract at the ARA ports stood at 8.94 USD/GJ in 2022 and it was higher by 5.15 USD/GJ as compared to the average price of such a contract 2021 (an increase by 136%). The price trends on the Polish market were similar, however the pace of the price increases was much slower. The average value of the PSCMI1 index came in at 19.77 PLN/GJ in 2022, and it was higher than the value of this index in 2021 by 8.35 PLN/GJ (an increase by 73.1%).

The year 2022 on the international hard coal market had begun with the continuation of the ban on the imports of the Australian coal introduced by China back in 2021 and the suspension of the exports by Indonesia for the full month of January. The growing tension between Russia and Ukraine since the beginning of 2022, and the subsequent aggression of the Russian Federation against Ukraine had brought about changes on the global markets, resulting in the sharp spikes of the prices of this raw material at all of the major transshipment ports around the world.

A number of countries had imposed the economic sanctions on Russia in the first half of 2022. The EU countries had decided to introduce a ban on the purchase of the Russian hard coal starting from August 10, 2022. The impending imposition of this embargo caused the coal buying member states to begin an intensive search for the coal, which led to a significant rise of the coal prices on the European market. The coal price indexes in other parts of the world also began to reach their historical highs, which was helped by the low inventory levels at the world's major coal terminals. This period also saw the changes in the coal flows by sea. The coal producers from Indonesia and Australia increased the share of their sales to Europe, while reducing the shipments to their traditional customers in Asia. The entire international coal market focused on the efforts aimed at diversifying the supply, while the individual producers were focused on rebuilding their own resource base.

In the second half of 2022 the world's major producers had tried to increase the supply of the raw material, which had been prompted by the growing demand and the persistently high prices. The inventory levels at the major hard coal trading hubs had gone up as compared to the levels observed in the first half of 2021, while the inventory level at the ARA ports had been rising successively and in August 2022 reached the value not recorded since November 2019 (7.2 million tons).

Throughout 2022, the prices on the global coal markets had, to a significant degree, been supported by the situation on the European gas markets. The discovery of the gas leaks in the Nord Stream pipelines in September 2022 brought about an increase in the price of this fuel, which translated into a rebound in the coal prices in Europe, and the coal price topped the level of USD 300 per ton in the last week of September. It was not until the end of 2022 that the prices of these commodities had begun to fall. Significantly higher temperatures, the full gas storage facilities in Europe and the sizable stocks of coal, both at the transshipment terminals, as well as the power plants, calmed the situation on the European coal and gas markets.

### Natural gas

In 2022, the European gas markets experienced unprecedented, never seen before, high prices of this commodity. The main factor behind the sharp increases in the prices was the tense situation between Russia and Ukraine, followed by the invasion of the Russian Federation and the consequences resulting from this event.

In the first quarter of 2022, the EU member states imposed sanctions on the fuel imported from Russia and halted the certification of the Nord Stream II pipeline. Concerns arose in the European gas markets about a complete lack of blue fuel flows from Russia to the Old Continent, which led to an increase of the risk of price increases.

During the conflict in Ukraine, Russia announced that payments for the gas flowing from that country would be accepted only in rubles. A number of European countries did not agree to this condition, which, as a consequence, led to the suspension of the gas flows to these countries. In particular, there was a complete stoppage of the supplies to Poland via the Yamal pipeline. In spite of Russia's actions, the European gas markets saw a downward trend in the second quarter of 2022 (this resulted in a temporary return of the prices to the pre-Ukraine levels), driven mainly by the filling of the demand gap in Europe through the increased volumes of the liquid natural gas (LNG) supplies from the US and Qatar and the rapid filling up of the gas storage facilities. However, due to a significant reduction in the gas supplies through Nord Stream I and concerns about the commodity transit during the winter, as well as the forecasts of an impending drought in Europe, prices in the European gas markets began to rise again in late June 2022, reaching the same levels as at the beginning of the Ukraine versus Russia conflict.

As early as mid-June 2022, the deliveries via Nord Stream I had already reached just 40% of the total capacity. In July 2022, first the flow on this pipeline had been completely halted due to the annual maintenance shutdown, and then, after the pipeline had resumed the operation, the deliveries on it were reduced to just 20% of the total capacity. At the end of September 2022, the physical damage occurred on both Nord Stream I and II pipelines, as a result of which the gas supplies were completely halted. The Russian gas was reaching Europe only through the Turk Stream pipeline and via Ukraine.

Russia has been gradually reducing gas supplies to Europe. This has led many countries to implement the contingency plans for the gas stocks, and the EU member states had agreed, in July 2022, on an initiative to voluntarily reduce the demand for gas by 15%. In spite of Russia's actions, the European gas markets saw a downward trend in September 2022, driven by the filling of the demand gap in Europe through increased volumes of liquid gas supplies, temperatures well above the seasonal norm in the fall, and the rapid rebuilding of the inventory levels.

The volume weighted average price of gas on the Day Ahead Market (RDN) on the Polish Power Exchange (TGE) stood at 557.25 PLN/MWh in 2022 and it was higher by 331.88 PLN/MWh than in 2021. The lowest price of the contract on the SPOT market was recorded in November of 2022, while the highest price was logged in August of

2022, with the volume weighted average monthly prices coming in at 478.61 PLN/MWh and 1 110.29 PLN/MWh, respectively.

The highest price on the Intraday Market (IDM - RDB), i.e. 1 480.81 PLN/MWh, was reported on August 26, 2022, while the weighted average gas price on the Intraday Market (IDM - RDB) for August of 2022 clocked in at 1 085.44 PLN/MWh and it was higher by 874.56 PLN/MWh than such a price in the same period of 2021. The lowest contract price on the Intraday Market (IDM), i.e. 130.65 PLN/MWh, was recorded on November 1, 2022, while the volume weighted average price for that month came in at 496.14 PLN/MWh and it was higher by 106.37 PLN/MWh than such a price in the same period of 2021.

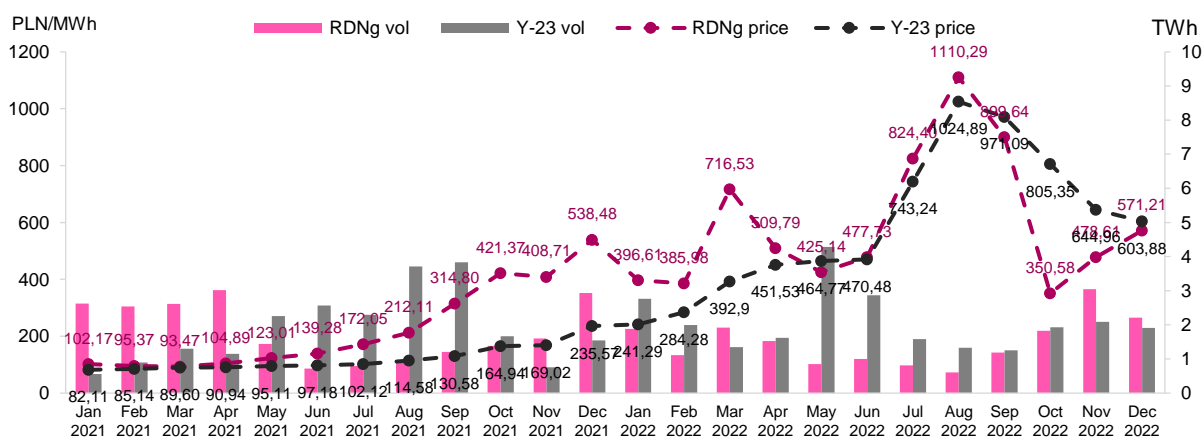
The lowest aggregate trading volume on the futures market was recorded in July of 2022, clocking in at approx. 6 TWh, while the highest trading volume was reported in January of 2022, coming in at approx. 15.6 TWh. The volume weighted average price of the benchmark one year GAS\_BASE\_Y-23 contract stood at 546.55 PLN/MWh in 2022. The lowest price of that contract was recorded in January of 2022, while the highest price was observed in August of 2022, coming in at 216.17 PLN/MWh and 1 468.17 PLN/MWh, respectively.

The aggregate trading volume on the Polish Power Exchange (TGE) clocked in at approx. 140 TWh in 2022 as compared to approx. 177.7 TWh in 2021 (a decrease by 26.9% year on year). The futures market had the largest share in the overall gas trading in 2022, with a volume generated of approx. 117.3 TWh. On the SPOT market, the total trading volume in the day ahead contracts came in at approx. 18 TWh (a drop by 21.1%). The decline was also reported on the Intraday Market (IDM) for gas, where the trading volume clocked in at approx. 4.7 TWh, as compared to 6.8 TWh in 2021 (a decline by 44.7% year on year).

According to the Gas Infrastructure Europe association's data, as of December 31, 2022, the Polish storage facilities with the total capacity of approx. 3.2 billion m<sup>3</sup> were 96.55% filled, while a year earlier they had been 84.41% filled (an increase by 12.14 pp). In Europe, this level, as of the end of 2022, stood at 83.35%, while a year earlier it had clocked in at 55.93% (an increase by 27.42 pp).

The below figure presents the average monthly SPOT market and BASE\_Y-23 contract gas prices on TGE (PPX) a year prior to the physical delivery.

Figure no. 18. Average monthly SPOT market and BASE\_Y-23 contract gas prices on TGE (PPX)



## CO<sub>2</sub> emission allowances

The settlement prices for the CO<sub>2</sub> emission allowances under the benchmark contract with the delivery in December 2022 (EUA DEC-22) on the ICE Endex exchange were fluctuating within the range between 58.30 EUR/Mg and 98.01 EUR/Mg in 2022. The average clearing price in 2022 stood at 81.24 EUR/Mg and it was higher by 27.59 EUR/Mg (+54.1%) as compared to the average price logged in 2021.

In spite of the higher average price, the upward trend that has been ongoing since 2017 has been halted. The lowest closing price in 2022 clicked in at the above mentioned level of 58.30 EUR/Mg on March 7, 2022. On that day, also due to a sharp sell-off, the CO<sub>2</sub> price temporarily fell to 55 EUR/Mg. Apart from a period of high volatility in August/September of 2022, the CO<sub>2</sub> allowance prices were relatively stable in 2022 - but remained high despite the ongoing war in Europe, due to the impact of the high gas prices favoring contracting of the generation from more carbon intensive sources and the further discounting of the EU's ambitious climate and energy policy called *Fit for 55*.

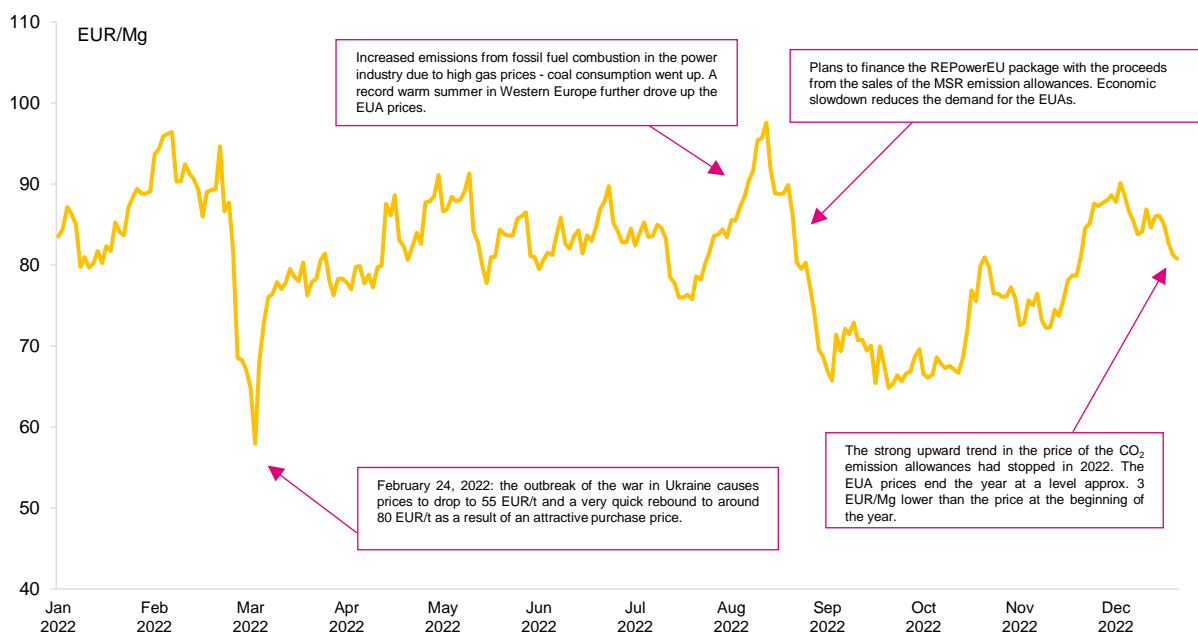
According to the communication issued by the European Commission, the war will have an impact on the acceleration of the transition towards climate neutrality. The publication of the "RePowerEU" package in May 2022, designed to make Europe as independent as possible from the raw materials from Russia, brought about a short-term correction in the CO<sub>2</sub> prices due to the proposal to release approx. 200-250 million EUAs from the MSR reserve to finance Europe's accelerated energy transition.

The highest prices of the CO<sub>2</sub> allowances in 2022 were recorded in August 2022. A prolonged heat wave in Europe, along with the low generation output by the French nuclear power plants, as well as the seasonally reduced supply on the primary market (emission allowance auctions) brought about a strong upward pressure. The closing prices had been coming in at the record breaking levels for most of the month of August, clocking in at the level of nearly 100 EUR/Mg during the trading session on August 19, 2022. The end of the summer brought a worsening of the market sentiment and a drop in the prices.

The prolonged war and the high commodity prices translated into lower energy consumption and at the same time lower demand for the EUA units. A potential signal of increased supply on the CO<sub>2</sub> allowance market, coupled with the escalation of the energy crisis in Europe (the Nord Stream I and II pipeline explosions) and the increasing risk of a recession led to a marked drop in the EUA unit prices to around 66 EUR/Mg as of the end of the third quarter of 2022. In the fourth quarter of 2022, the works were under way on the individual elements of the *Fit for 55* package (among other things, the idea of blocking the participation by the financial institutions in the market was abandoned, and a higher than expected reduction target in the EU ETS scheme of 62% by 2030 was negotiated).

The below figure presents the impact of the political actions and the environment (stakeholders) on the EUA SPOT product price performance in 2022.

**Figure no. 19. Impact of the political actions and the environment (stakeholders) on the EUA SPOT product price performance in 2022**



## Property rights

The year 2022 for the renewable energy sources market was characterized by a high volatility of the green certificate prices, in particular in the first half of 2022, when the legislative process related to the Regulation of the Minister of Climate and Environment on changing the volume share of the total electricity stemming from the redeemed guarantees of origin, confirming the generation of the electricity by the renewable energy sources in 2023, was under way.

The prices on the green certificates market had continued their downward trend in the first three quarters of 2022, and the index did not change the direction of its movement until the fourth quarter of 2022. The TGEozea index had reached its maximum price, which stood at 266.85 PLN/MWh, at the beginning of January of 2022, while the minimum price for the above mentioned index was recorded in the middle of September of 2022, at the level of 89.19 PLN/MWh. The weighted average price of PMOZE\_A in 2022 came in at 191.80 PLN/MWh and it was slightly lower, i.e. by 0.05%, than the weighted average price in 2021 (a decrease by 0.09 PLN/MWh).

The volume of the trading was much lower than the level observed in 2021, falling by almost 21%, from the level of 8 277.4 GWh to 6 540.6 GWh. The balance of the PMOZE\_A register as of the end of September 2022 reached a surplus of 18.32 TWh. Taking into account the certificates that are blocked for the redemption, this balance drops by 5.82 TWh, to the level of 12.50 TWh (a decrease by 17.6% year on year). The substitution fee set for 2022 comes in at the level of 239.86 PLN/MWh, while the obligation to present the green certificates for the redemption in 2022 stands at 18.5% in accordance with the *Regulation of the Minister of Climate and Environment of August 4, 2021, on changing the quantitative share of the total of electricity resulting from the redeemed guarantees of origin of energy (energy certificates) confirming the production of electricity from renewable energy sources in 2022*. For 2023, the above mentioned obligation, according to the similar regulation of July 13, 2022, fell by 6.5 pp, to the level of 12%.

The prices of the certificates confirming the generation of electricity from the agricultural biogas PMOZE-BIO (blue certificates), for which the level of the obligation in 2022 stood at 0.5% (for 2023 the obligation has been kept at the same level) were invariably stable. The TGEozebio index traded close to the substitution fee, which for 2022 stood at 300.03 PLN/MWh. In 2022, the prices fluctuated between a price minimum of 299.26 PLN/MWh and the maximum level of 306.05 PLN/MWh. The weighted average price of the TGEozebio index for 2022 came in at 301.55 PLN/MWh, while the trading volume clocked in at 329.9 GWh, and it was lower by 12.6% than the volume reported in 2021. The balance of the PMOZE-BIO register, as of the end of December 2022, stood at 348.8 GWh. Taking into account the certificates blocked for the redemption, this balance drops by almost 47.6 GWh to the level of 301.27 GWh (a 3.2% increase as compared to 2021).

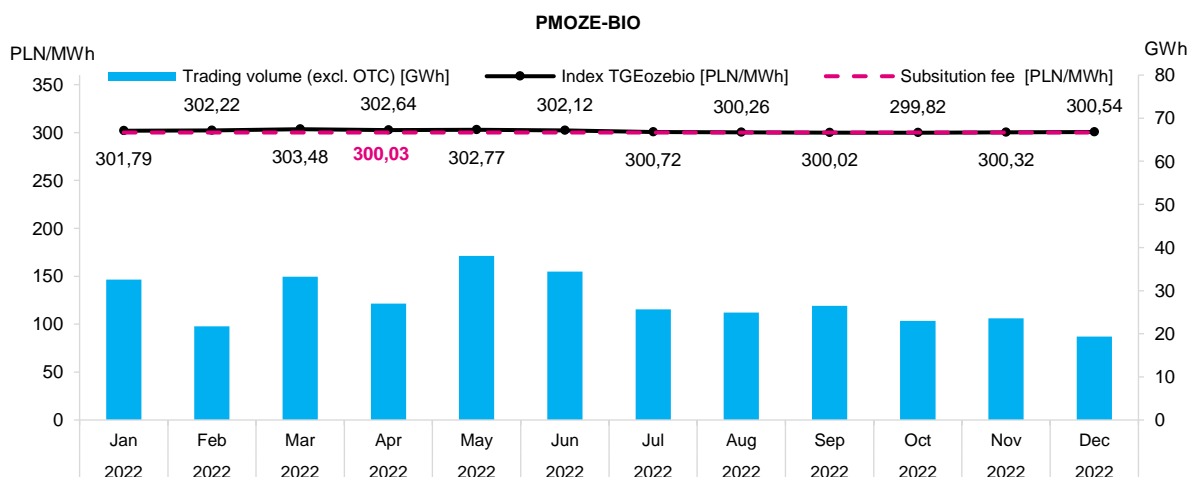
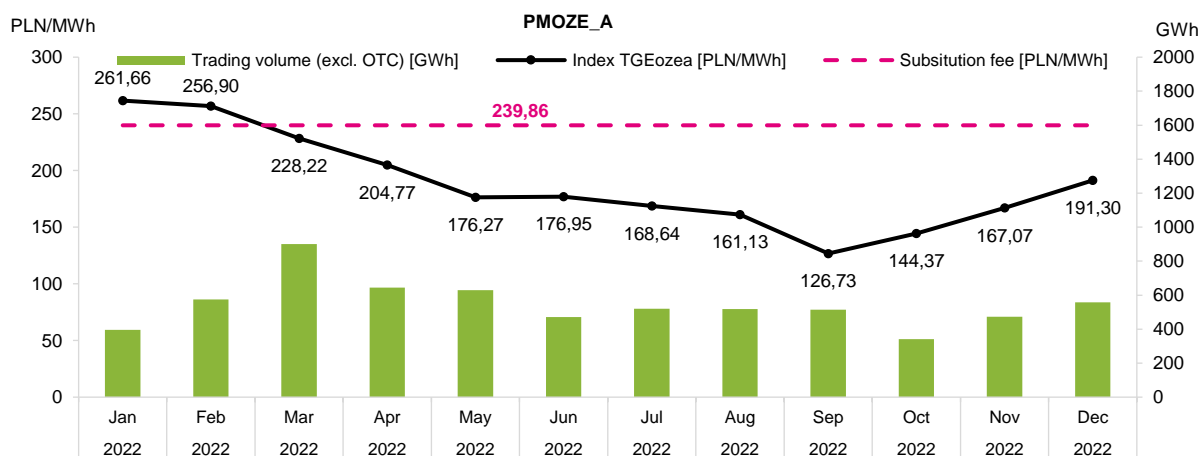
The prices of the PMEF\_F white certificates were fluctuating in 2022 between the minimum level of 2 000.44 PLN/toe reached in the middle of September of 2022 and the maximum price, obtained at the middle of January of 2022, standing at the level of 2 774.26 PLN/toe. The weighted average price in 2022 came in at 2 284.23 PLN/toe and it was lower by 3.8% as compared to 2021. On average the prices were clocking in at 19.3% above the substitution fee set at the level of 1 914.42 PLN/toe for 2022. The trading volume went up by 17.2% as compared to the same period of 2021, and it came in at 95 494 toe (81 514 toe in 2021).

In the case of the PMEF-2022 register the prices were moving within the price range between the minimum of 2 110.93 PLN/toe, reached in July of 2022, and the maximum price at the level of 2 600.00 PLN/toe, obtained at the beginning of October of 2022, while the weighted average price of the PMEF-2022 contract in 2022 came in at the level of 2 287.43 PLN/toe.

During the first half of 2022, the TGEef21 index (PMEF-2021 register) was also traded. The prices ranged between the low of 1 914.43 PLN/toe, obtained in June 2022, and the maximum price of 2 799.00 PLN/toe, obtained in January 2022. The weighted average price of the PMEF-2021 contract during the period under review was 2 400.47 PLN/toe.

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

Figure no. 20. Property rights indices



## Regulatory environment





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







The below table below presents the most important changes in the regulatory environment of TAURON Capital Group in 2022 with respect to the adopted and published legislative acts that have a direct or indirect impact on TAURON Capital Group.






**Table no. 14. Most important changes in the regulatory environment of TAURON Capital Group in 2022 with respect to the adopted and published legislative acts**

Name of the regulation	Description of the regulation	Status as of December 31, 2022	Impact on TAURON Capital Group	Impact on the Segment
<i>Act of December 17, 2021, on the shielding allowance (Journal of Laws of 2022, item 1)</i>	The main elements of the act are: <ol style="list-style-type: none"> <li>introduction of a shielding allowance related to the increase in energy prices for the household consumers,</li> <li>new obligations of the electricity supplier related to the introduction of the shielding allowances (compensation to offset energy price increases),</li> <li>program of support for the vulnerable consumers of the electricity and gas fuels,</li> <li>definition of energy poverty.</li> </ol>	January 4, 2022 – entry into force	The act imposes additional obligations on TAURON Sprzedaż related to: <ol style="list-style-type: none"> <li>the need to send out the information on the right to submit an application for the payment of the shielding allowance,</li> <li>development and implementation of the support programs for the vulnerable consumers,</li> <li>a change with respect to the options available for suspending the supply of electricity.</li> </ol>	
<i>Act of January 26, 2022, on special solutions to protect gas fuel consumers in connection with the situation on the gas market (Journal of Laws of 2022, item 202)</i>	The act introduces a gas price increase compensation mechanism by: <ol style="list-style-type: none"> <li>extending the catalog of entities covered by the tariff protection until December 31, 2023,</li> <li>introducing a compensation mechanism for the natural gas suppliers,</li> <li>confirming and emphasizing in the content of the legal regulations the necessity of the tariff protection for the natural gas consumers in the multi-tenant buildings.</li> </ol>	January 29, 2022 – entry into force	The act in question: <ol style="list-style-type: none"> <li>generates the risk as to the ability to cover the justified costs of the gas purchases in relation to the mechanism for setting the tariff prices and the compensation payment system,</li> <li>generates a number of additional obligations for TAURON Sprzedaż.</li> </ol>	
<i>Act of December 17, 2021, amending the act on the functioning of the hard coal mining sector (Journal of Laws of 2022, item 241)</i>	The act provides for the creation of a support system, which is a public support (aid) mechanism for the hard coal mining sector, adopted in order to gradually phase out hard coal mining operations, including in particular the subsidies from the state budget to reduce the production capacity and cover the costs stemming from the discontinuing of the hard coal mining and the liquidation of the production units, which are not linked to the ongoing production, for the mining enterprises covered thereby.	February 3, 2022 – entry into force	The act creates the possibility of obtaining subsidies to reduce the production capacity of TAURON Wydobycie estimated on the basis of the forecast revenues and eligible costs.  TAURON Wydobycie as of December 31, 2022 is no longer a part of TAURON Capital Group.	
<i>Act of April 13, 2022, on the special solutions with respect to counteracting the support for the aggression against Ukraine and serving the protection of national security (Journal of Laws of 2022, item 835)</i>	The act introduces the exclusion of the contractors related to the aggression against Ukraine (i.e. Russian Federation and Belarus) from the public procurement procedures as well as the initiated and incomplete competitions (tender proceedings) related to the supply of coal. The act also introduced a ban on the coal imports from Russia and Belarus.	April 16, 2022 – entry into force	The act brought about the curtailment of the availability of the hard coal on the Polish market for various categories of consumers (first of all the local heat plants), and an increase of the prices of this raw material.	
<i>Act of June 8, 2022, on amending the act on the assistance for the Ukrainian citizens in connection with an armed conflict in the territory of that country and certain other acts (Journal of Laws of 2022, item 830)</i>	The act adds to the <i>Act of February 20, 2015 on the renewable energy sources</i> (Journal of Laws of 2022, item 1378), art. 184j, excluding the obligation referred to in art. 60a, clauses 2 and 2a related to the minimum weight share of the biomass of the agricultural origin in the total weight share of the biomass for the electricity from the renewable energy sources produced in the period from August 1, 2022 to December 31, 2022.	June 9, 2022 – entry into force	The act reduces the risk of a failure to meet the obligation with respect to the minimum weight share of the biomass of the agricultural origin, the availability of which has been limited due to the interruption of the supply chains from Ukraine and Belarus.	
<i>Act of August 5, 2022, on the amendments to certain acts in order to strengthen the state's gas security in connection with the situation on the gas market (Journal of Laws. 2022, item 1723)</i>	The main elements of the act: <ol style="list-style-type: none"> <li>allowing the Minister competent for the energy issues to specify a lower volume of the high methane content natural gas to be injected into the transmission network in 2022 and 2023 than the volume specified in <i>Article 49b, Section 1 of the Act - Energy Law</i> (55%) (i.e. enabling the reduction of the so-called gas exchange trading obligation),</li> <li>identification of the entities for which the tariff will be determined until the end of 2027,</li> </ol>	September 1, 2022 – entry into force	The act generates the risk of significantly reducing the liquidity of the exchange market due to the possibility of reducing the level of the so-called gas exchange trading obligation.	



Name of the regulation	Description of the regulation	Status as of December 31, 2022	Impact on TAURON Capital Group	Impact on the Segment
	<ol style="list-style-type: none"> <li>obligation to develop the preventive action plans for the distribution and transmission of the gas fuels by the energy enterprises.</li> </ol>			
<i>Act of September 15, 2022, on the special solutions for certain heat sources in connection with the situation on the fuel market (Journal of Laws. 2022, item 1967)</i>	<ol style="list-style-type: none"> <li>The main assumptions of the act:</li> <li>support mechanism for the heat consumers without the coal stoves,</li> <li>household consumers heating themselves individually and using the heat sources other than the hard coal and gas will receive a one time allowance - PLN 3 thousand in the case of the pellets, PLN 2 thousand for the heating oil, PLN 1 thousand - wood, PLN 500 - LPG gas,</li> <li>The President of ERO, when approving the heat tariffs, is to limit their increase to 40 percent as compared to the previous year,</li> <li>approximately 400 heat power plants subject to the tariffs will get a compensation payment from the budget.</li> </ol>	September 20, 2022 – entry into force	The entry into force of this Act results in the need to adjust the settlement system with the consumers and the external sources accordingly, (impact on TAURON Ciepło).	
<i>Act of September 29, 2022, on amending the Act - Energy Law and the Act on Renewable Energy Sources (Journal of Laws. 2022, item 2370)</i>	<p>The Act:</p> <ol style="list-style-type: none"> <li>abolishes the so-called power exchange obligation, i.e. the obligation to sell the electricity generated on the Polish Power Exchange (TGE),</li> <li>provides for the changes with respect to the sanctioning of the violations of the REMIT regulation, including the strengthening of both the administrative as well as the criminal liability for the electricity market manipulation and the use of insider information (insider trading).</li> </ol>	December 6, 2022 – entry into force	<p>The abolition of the obligation to sell the electricity on the power exchanges will reduce the supply of the electricity on the power exchange, decrease the liquidity of the futures contracts and may have an impact on the level of the market electricity prices.</p> <p>It is not possible to directly estimate the impact of the electricity exchange trading obligation abolition on TAURON Group's earnings.</p>	
<i>Act of October 7, 2022, on the special solutions aimed at protecting the electricity consumers in 2023 (Journal of Laws 2022, item 2127)</i>	<p>The Act assumes:</p> <ol style="list-style-type: none"> <li>freezing, in 2023, of the price of the electricity at the 2022 level for the households up to the level of the consumption of 2 MWh per year. The exceptions will be the people with the disabilities (about 2.56 million), for whom the limit will be 2.6 MWh, and the people who hold a Large Family Card (approx. 1.2 million) as well as the farmers (about 500 000), for whom the limit will be 3 MWh,</li> <li>the introduction of a surcharge on the electricity used for the heating purposes and an incentive to conserve it.</li> </ol>	October 18, 2022 – entry into force	<p>In connection with the freezing in 2023 of the electricity prices at the 2022 level for eligible consumers, the legislator provided for the payment of the compensation to the trading companies from the COVID-19 Fund. The compensation payments due to the TAURON Sprzedaż and TAURON Sprzedaż GZE subsidiaries should compensate for the difference between the costs of purchasing the electricity to secure the supplies to the tariff customers and the revenues resulting from the prices applied in the settlements with the eligible customers.</p> <p>According to the Company's assessment, the impact of the provisions of this act on the financial results of the Company and TAURON Group should be neutral.</p>	
<i>Act of October 27, 2022, on the Emergency Measures to Cap the Electricity Prices and Provide Support for Certain Consumers in 2023 (Journal of Laws 2022, item 2243)</i>	<p>The Act introduces:</p> <ol style="list-style-type: none"> <li>a maximum price for the electricity (785 PLN/MWh) for the eligible consumers (or 693 PLN/MWh for the household consumers) applicable until December 31, 2023,</li> <li>a system of the compensation payments for the trading companies applying the maximum price in the settlements with the eligible consumers (calculated depending on the type of the consumer and the time when the electricity sale agreement is concluded and the time when the electricity is to be delivered),</li> <li>the obligation of the electricity generators and the energy enterprises conducting business operations with respect to the electricity trading to transfer the so-called "charge" (write-off) to the Price Difference Payout Fund in a situation where the above mentioned entities obtain, from the sales of electricity, prices that exceed the price caps calculated in accordance with the provisions of the Regulation of the Council of Ministers on how to calculate the price cap.</li> </ol>	November 4, 2022 – entry into force	<p>TAURON Group's subsidiaries that are electricity generators or trading companies will be required to transfer a charge to the Price Difference Payout Fund.</p> <p>The Company estimated the total amount of the charges to be transferred to the Price Difference Payout Fund in 2023 to fall in the range between PLN 1.0 billion and PLN 1.3 billion (current report no. 9/2023 of February 14, 2023).</p>	

Name of the regulation	Description of the regulation	Status as of December 31, 2022	Impact on TAURON Capital Group	Impact on the Segment
<i>Regulation of the Minister of Climate and Environment of January 5, 2022, amending the regulation on the detailed rules of shaping and calculating the tariffs as well as billing in the electricity trading (Journal of Laws of 2022, item 27)</i>	The regulation imposes on the trading companies and the ex officio suppliers the obligation to present, in the settlement document attached to the invoice, the information on the percentage structure of the justified costs of purchasing the electricity, with the following costs constituting the final price of the electricity itemized: <ol style="list-style-type: none"> <li>costs of purchasing the electricity, including the average costs of purchasing the emission allowances,</li> <li>costs of the substitution fee incurred, of the purchase of the electricity from the RES, as well as of obtaining and redeeming the guarantees of origin of energy (energy certificates) for RES and the energy efficiency.</li> </ol>	January 8, 2022 – entry into force	The regulation in question: <ol style="list-style-type: none"> <li>imposes on TAURON Sprzedaż the obligation to attach to the invoice the information on the percentage structure of the justified costs of purchasing the electricity,</li> <li>generates the additional costs for TAURON Sprzedaż stemming from the new obligation.</li> </ol>	
<i>Regulation of the Minister of Climate and Environment of December 23, 2021, amending the regulation on the detailed rules of shaping and calculating the tariffs as well as billing (settlements) for the heat supply (Journal of Laws of 2022, item 37)</i>	The regulation introduces the following amendments: <ol style="list-style-type: none"> <li>raising of the possible increase of the planned revenues under the simplified tariffs for the heat generated in the cogeneration units,</li> <li>guaranteeing of a minimum increase (change) of the planned revenues in the tariffs of the district heating companies,</li> <li>taking into account the increased rate of return by 1 percentage point for each reduction of the emissions by 25% in the calculation of the return on capital employed in the operations related to the heat supply,</li> <li>linking the possibility of applying the provisions guaranteeing the limit of the planned revenues in the tariffs for heat and their increasing under the simplified tariffs after December 31, 2025, solely for the energy companies operating in the district heating system.</li> </ol>	January 25, 2022 – entry into force	The regulation in question: <ol style="list-style-type: none"> <li>introduces changes to the tariff setting process for the district heating enterprises,</li> <li>introduces the need to adapt the district heating systems, by the required deadline, to the definition of an efficient district heating system (TAURON Ciepło).</li> </ol>	
<i>Regulation of the Minister of the State Assets of February 3, 2022, on subsidies to reduce the production capacity of the mining enterprises (Journal of Laws of 2022 item 264)</i>	The regulation defines: <ol style="list-style-type: none"> <li>detailed conditions of the support system with respect to the subsidies, including the method to be used to determine the amount of the subsidies, the eligible costs and revenues, the method to be used to determine the benchmark price, the rules to be applied to monitor, control and verify the support system,</li> <li>detailed conditions and procedure for granting the subsidy, including its form,</li> <li>procedure applied to settle the subsidies,</li> <li>conditions leading to the temporary suspension of the payment of the subsidy granted.</li> </ol>	February 4, 2022 – entry into force	The regulation creates the possibility of obtaining subsidies for the reduction of TAURON Wydobycie's production capacity.  Pursuant to this Regulation, TAURON Wydobycie entered into the agreements under which TAURON Wydobycie's capital was increased in exchange for 203 603 bonds with an estimated value of PLN 177.6 million (current report no. 47/2022, of December 20, 2023).  Due to the disposal of the shares of TAURON Wydobycie shares to the State Treasury, TAURON Wydobycie is no longer a part of TAURON Group as of January 1, 2023.	
<i>Regulation of the Minister of Climate and Environment of January 10, 2022, on energy market processes (Journal of Laws of 2022 item 234)</i>	The regulation defines: <ol style="list-style-type: none"> <li>list of the electricity market processes implemented through the central energy market information system,</li> <li>method of implementing the energy market processes,</li> <li>range of the commands sent to the remote readout meter via the central energy market information system and the conditions for sending them,</li> <li>requirements for ensuring the correctness and completeness of the energy market information and the verification thereof,</li> <li>indicators of the quality of the energy market information provided by the individual system users and the manner of the publication thereof.</li> </ol>	February 16, 2022 – entry into force	The regulation in question generates the additional costs and obligations for TAURON Capital Group's subsidiaries related to the adaptation of the IT systems to the Central Energy Market Information System.	 
<i>Regulation of the Minister of Climate and Environment of March 14, 2022, amending the regulation on the detailed rules of shaping and calculating the tariffs as well as billing for the heat supply (Journal of Laws of 2022, item 597)</i>	The regulation introduces a standardization of the method to be used to calculate the justified annual costs of purchasing the carbon dioxide emission allowances so that the projected increase of the cost of these allowances can be taken into account instead of referring to the historical data.	March 30, 2022 – entry into force	The regulation introduces favorable changes in the tariff setting process for the district heating enterprises.	

Name of the regulation	Description of the regulation	Status as of December 31, 2022	Impact on TAURON Capital Group	Impact on the Segment
<i>Regulation of the Minister of Climate and Environment of 23 March 2022, on the registration, balancing and sharing of metering data and billing of the energy cooperatives (Journal of Laws of 2022, item 703)</i>	The regulation defines the methods to be used to register, balance and share the metering data and billing of the energy cooperatives.	April 1, 2022 – entry into force	The regulation in question: 1. introduces the necessity to adapt the IT systems / meters to the requirements defined in the regulations, 2. imposes the obligation to apply a standardized method to be used to share the metering data for all of the distribution system operators.	
<i>Regulation of the Minister of Climate and Environment of July 13, 2022, on changing the volume share of the total electricity originating from the redeemed Guarantees of Origin (GOs) of energy that confirm the generation of electricity from the renewable energy sources in 2023 (Journal of Laws 2022, item 1566).</i>	The regulation sets the volume share of the total electricity originating from the redeemed Guarantees of Origin (GOs) of energy that confirm the generation of electricity from the renewable energy sources in 2023 at 12% (reducing the share from 18.5% in 2022).	July 27, 2022 – entry into force	The regulation: 1. may cause a decline in the price of the Guarantees of Origin (GOs) of energy, 2. will have a positive impact on the entities dealing with the electricity trading.	
<i>Regulation of the Minister of Climate and Environment of August 10, 2022, on the parameters of the main auction for the year of delivery 2027 and the parameters of additional auctions for the year of delivery 2024 (Journal of Laws 2022, item 1690)</i>	The regulation specifies the following parameters for the main auction for 2027 and for the additional auctions for 2024: 1. demand for the capacity, 2. price of a market entry by a new generating unit, 3. maximum price for the price taker, 4. number of rounds, level of the expenditures, minimum mandatory values, correction factors for the individual groups of technologies, 5. parameters that determine the volume of the capacity below and above the demand.	August 12, 2022 – entry into force	The regulation introduces the possibility of receiving the support as part of the capacity market.	
<i>Regulation of the Minister of Climate and Environment of September 27, 2022, amending the regulation on the detailed conditions for the functioning of the power system (Journal of Laws 2022, item 2007)</i>	The regulation assumes: 1. introduction of a monthly update cycle for the cost of the base fuel, taken into account when determining the prices of the forced (mandated) delivery of the electricity (CWD) and the prices of the forced (mandated) off-take of the electricity (CWO) with respect to the generating units that use a base fuel other than the natural gas or lignite, 2. introduction of the changes with respect to the submission of the balancing bids (for the delivery of the electricity), the introduction of the maximum MaxCO price caps for the selected production technologies, and the limiting of the bidding prices to the maximum MaxCO price cap, 3. strengthening of the transmission of the pricing signals between the balancing market and the wholesale electricity market.	October 21, 2022 – entry into force	1. The regulation may have an adverse impact on TAURON Wytwarzanie's results, as in some cases it forces the bid prices (balancing bids) to be reported below the level of the actual costs incurred for free generation.  2. The regulation will have a favorable impact on the model of updating the variable costs incurred in the production of the electricity when forced (mandated) by the system needs (based on the monthly cycles) along with the retroactive compensation payment settlement, stemming from the difference between the initially adopted and the actually incurred costs of the production.	
<i>Regulation of the Council of Ministers of November 8, 2022, on the method of calculating the price cap (Journal of Laws 2022, item 2284) and Regulation of the Council of Ministers of December 9, 2022, amending the Regulation on the method of calculating the price cap (Journal of Laws 2022, item 2631)</i>	The regulation specifies in particular: 1. method to be used to calculate the limit for the electricity generated using the individual technologies, 2. method to be used to calculate the limit for the trading enterprises.	November 10 and December 16, 2022 – entry into force	The regulation sets the limits that will be used to calculate the amount of the charge for the Price Difference Payout Fund, which TAURON Group's subsidiaries that are the electricity generators or the trading companies are obligated to transfer.  The Company estimated the total amount of the charges to be transferred to the Price Difference Payout Fund in 2023 to fall in the range between PLN 1.0 billion and PLN 1.3 billion (current report no. 9/2023 of February 14, 2023).	



Supply Segment



Mining Segment



Generation Segment



Distribution Segment



TAURON Group

The legislative works at the EU level were under way in 2022 – the below table presents the most important changes and initiatives in the regulatory environment of TAURON Capital Group with respect to the EU legislation in 2022.

**Table no. 15. The most important changes and initiatives in the regulatory environment of TAURON Capital Group with respect to the EU legislation in 2022**


Name of the regulation	Description of the regulation	Status as of December 31, 2022	Impact on TAURON Capital Group
<i>Fit for 55</i>	<p>In 2022, the works were continued on the <i>Fit for 55</i> regulatory package that the European Commission published in July of 2021, including, among others, a revision of the directive on the promotion of energy from renewable sources (REDII), the directive on energy efficiency (EED), the directive on the EU ETS system or the introduction of a price adjustment mechanism at borders accounting for CO<sub>2</sub> (Carbon Border Adjustment Mechanism). The <i>Fit for 55</i> package aims to introduce the legislative mechanisms that will allow for achieving the target of reducing the greenhouse gas emissions by at least 55% by 2030. The indicated regulations include, among others, the proposals for the tightening of the EU ETS system, changing the definition of efficient district heating and cooling systems, increasing the RES target and improving energy efficiency by 2030. In December of 2021 the EC published the next elements of the <i>Fit for 55</i> package, including a draft revision of the Energy Performance of Buildings Directive (EPBD). In 2022, the intensive works were carried out in the European Parliament (EP) and the Council of the European Union (EU Council) on the above mentioned legislative proposals. The result of these works is, among others, the adoption of the EP's negotiating positions on the revision of the RED, EED and EPBD directives. The next step involves the negotiations between the EP and the EU Council on the final wording of the above mentioned legislative proposals. The next step is the official adoption of the above mentioned drafts by the EP and the EU Council.</p> <p>In addition, the works were continued in 2022 on the "gas package" published by the EC on December 15, 2021, which includes a revision of the Directive on the common rules for the internal market in the natural gas and a revision of the Regulation on the conditions for access to the natural gas transmission networks. The package aims to increase the share of the renewable and low carbon gases in the energy system, which will enable a shift away from the natural gas and the meeting of the EU's goal of achieving climate neutrality by 2050. The package also includes a new regulation on reducing the methane emissions in the energy sector.</p>	The process of developing the positions of the European Union institutions with respect to the legislative drafts as part of <i>Fit for 55</i>	The <i>Fit for 55</i> package can contribute to the development of the low emission technologies, with a particular emphasis on the market of the renewable energy sources. The regulations that are a part of the package will introduce a number of the new requirements and changes in the market and regulatory environment for TAURON Capital Group's subsidiaries.
RePowerEU	<p>In May 2022, the European Commission published the REPowerEU communication along with a package of the additional documents. The communication is a response to the situation prevailing on the electricity and gas markets in connection with the war in Ukraine. The most important actions indicated in the communication include: energy conservation, diversification of the energy carrier supplies to the EU, substitution of the fossil fuels and the acceleration of Europe's transition to the clean energy, the smart investments and strengthening of the readiness to reduce the supply of the energy raw materials.</p> <p>Along with the communication, a legislative proposal amending the directives: REDII, EED and EPBD was published. As part of the above mentioned proposal, the European Commission proposes:</p> <ol style="list-style-type: none"> <li>1. increasing the target with respect to the use of the energy from the renewable energy sources (RES) from 40 to 45% (as compared to the proposal included in the <i>Fit for 55</i> package),</li> <li>2. introducing the measures aimed at making it easier to invest in the renewable energy sources,</li> <li>3. raising the 2030 energy consumption reduction target from 9% to 13% as compared to the projections in the 2020 benchmark scenario,</li> <li>4. increasing the use of the solar energy in the buildings.</li> </ol> <p>In December 2022, the negotiating positions of the EP and the Council towards the above mentioned draft directive were adopted. They are focused, in</p>	Works on implementing the short term and long term measures provided for under REPowerEU	The implementation of the REPowerEU plan may have an impact on an increase of the EU's energy independence and an acceleration of the energy transition, and it will introduce a number of changes in the market and regulatory environment for TAURON Capital Group's subsidiaries.






Name of the regulation	Description of the regulation	Status as of December 31, 2022	Impact on TAURON Capital Group
	<p>particular, on the issues related to accelerating the issuance of the permits for the investments in the renewable energy sources. The next steps are the tripartite negotiations on the text of the directive with the participation of the EC, the EP and the Council.</p> <p>In addition, along with the REPowerEU communication, among others, the <i>EU strategy for the solar energy</i>, the recommendations and the guidelines related to accelerating the issuance of the permits for the investment projects related to the renewable energy sources (RES) as well as a draft regulation amending, inter alia, the Regulation (EU) 2021/241 establishing the Recovery and Resilience Facility (in order to provide the funding for the actions identified in REPowerEU) were published.</p>		
Emergency intervention regulations of the Council - regarding the electricity market, the natural gas market and the permits for investments in the renewable energy sources	<p>Due to the situation on the electricity and gas markets arisen because of the war in Ukraine, in the second half of 2022, the EC prepared 4 drafts of the emergency intervention regulations aimed at mitigating the effects of the high prices of the electricity and gas by way of the exceptional, targeted and time limited measures. Among other things, the draft regulation provides for: the introduction of a target (non-mandatory) for the Member States to reduce their monthly electricity consumption by 10%, the introduction of a revenue cap covering the generators producing the electricity from the RES, nuclear, lignite, shale, oil and petroleum sources, the introduction of a solidarity fee, and the introduction of a target for the reduction of the electricity consumption during the peak hours. The legal basis for all of the above proposals is Article 122, clause 1 of the Treaty on the Functioning of the European Union (the Council shall adopt the regulation on a proposal from the EC, without the participation of the European Parliament as a co-legislator).</p>	The drafts have been adopted or an official adoption by the EU Council is pending	The proposed solutions may have an impact, among other things, on the demand for the electricity, the reduction of the revenues from the generation and supply of the electricity from certain sources, the possibility of receiving the compensation payments by the trading companies that will be supplying electricity below the cost of the purchase thereof, the price of the natural gas or the shortening of the process of issuing the permits for the investments in RES.
Sustainable financing	<p><i>Regulation of the European Parliament and of the Council 2020/852 of June 18, 2020, on the establishment of a framework to facilitate the sustainable investment</i> aims to introduce a classification system for the sustainable economic activities, the so-called European Union's Taxonomy. In 2021, a delegated act to the above mentioned regulation was adopted, specifying the detailed technical criteria for combating the climate change or adapting to the climate change. The act does not include the criteria for generating the electricity from the natural gas and nuclear energy. In February 2022, the European Commission adopted a complementary Delegated Act to the Taxonomy. It amends the first delegated act to the taxonomy regulation (2021/2139) by adding the new types of activities and the technical eligibility criteria for the investment projects in the area of the nuclear energy and natural gas. In July this year, during the plenary session of the European Parliament, the rejection of the objection to the delegated act of the European Commission was voted through. The Council of the European Union has not filed an objection against the draft regulation.</p>	The regulation was published in the Official Journal of the EU on July 15, 2022, it came into effect as of August 4, 2022. The regulation will be applied as of January 1, 2023.	The principles of the sustainable financing specified in the Taxonomy may have an impact on the possibilities (options) as well as the terms and conditions of acquiring the capital for the implementation of the investment projects planned by TAURON Capital Group.
Recovery and Resilience Facility	<p>In February of 2021, the Council of the European Union and the European Parliament adopted the regulation establishing the Recovery and Resilience Facility (RRF), with the funding of EUR 672.5 billion. The Member States have developed the National Recovery Plans (NRP) that include the reforms and investment projects aligned with the EU's policy goals until 2026, i.e. a minimum of 37% of the expenditures allocated to the energy transition and a minimum of 20% to be spent on the digital transformation. In June this year, Poland's National Recovery and Resilience Plan (NRP) had been approved by the European Commission and the EU Council. The EC has proposed, in the context of the RePowerEU plan, to amend the RRF regulation to adapt it to the new conditions related to the war in Ukraine - the NRP would, according to these assumptions, be subjected to the updates in order to implement as soon as possible the investment projects that would make the EU independent of the fossil fuels, including through the development of the RES. In December 2022, the Council and the EP</p>	The plan approved by the European Commission and the Council	The implementation of the plan may translate into the financial support for the investment projects considered or planned by TAURON Group's subsidiaries.

Name of the regulation	Description of the regulation	Status as of December 31, 2022	Impact on TAURON Capital Group
	reached an agreement with respect to a draft amending the RRF regulation, under which the EU countries seeking the additional funds under the revised RRF will be required to include measures for energy conservation, clean energy production and diversification of the energy supplies. The agreement requires a final formal approval by the European Parliament and the Council. On June 1, 2022, the NRP was approved by the EC. On June 17, 2022, the NRP was accepted by the Council of the EU		
Climate, Energy and Environmental Aid Guidelines (CEEAG)	Climate Energy and Environmental Aid Guidelines (CEEAG) are replacing the Environmental and Energy Aid Guidelines (EEAG) applicable in 2014-2021. The new CEEAG guidelines define the changed rules for the assessment by the European Commission of the individual public aid programs or the measures for counteracting the climate change and the environment protection. The above mentioned principles are also related to the energy industry in the context of the EU's ambitious climate goals and the need to maintain the competitiveness of the economic entities conducting business operations in the European Union. The revised guidelines include the adjustments aimed at aligning the evaluation principles with the strategic priorities of the European Commission, in particular those set out in the European Green Deal and in the <i>Fit for 55</i> package.	The CEEAG guidelines are applicable from January 2022	The new guidelines on the public aid for the climate, environmental and energy related to goals will have an impact on the terms and conditions for acquiring the public aid for the implementation of the investment projects planned by TAURON Capital Group. In addition, the CEEAG guidelines envisage that the Member States will modify the existing aid programs for the environment protection and the energy related goals in order to bring them into line with the new guidelines by December 31, 2023, at the latest, which may translate into the terms and conditions for obtaining the public aid also on the basis of the existing aid programs in place, if such aid were to be granted after December 31, 2023.
Draft amendments to the Commission Regulation (EU) No 651/2014 of June 17, 2014, declaring certain types of aid compatible with the internal market pursuant to Art. 107 and 108 of the Treaty (GBER)	The 2014 General Block Exemption Regulation contains ex ante compliance conditions under which the Member States can implement the public aid measures without a prior notification thereof to the European Commission. The review of the General Block Exemption Regulation aims to ensure that the objectives of the European Green Deal can be met, to further clarify the rules of the aid for the investment projects in the areas related to the energy performance of the buildings as well as the vehicle charging and refueling infrastructure for the purpose of clean mobility.	Planned adoption of GBER in 2022	The introduced changes will be particularly important from the perspective of granting the public aid as part of the aid funds implemented in the 2021 - 2027 financial plan.
Partnership Agreement	The Partnership Agreement is a comprehensive strategy for the use of the European Union funds agreed upon with the European Commission under the current Multiannual Financial Framework (MFF) for 2021 - 2027. It constitutes the implementation of the national documents such as the Responsible Development Strategy and the sector based strategies stemming from it. It assumes the continuation of the implementation of the existing national and regional programs.	Completion of the official negotiations of the Partnership Agreement between the European Commission and Poland	On June 30, 2022, Poland and the European Commission agreed on the content of the document that will regulate the implementation of the cohesion policy in our country under the EU's Multiannual Financial Framework (MFF) for 2021 - 2027. In the third quarter of 2022 the EC approved the following programs: the European Funds for Modern Economy 2021-2027 (FENG), the European Funds for Infrastructure, Climate, Environment for the years 2021-2027 (FEnIKS), the European Funds for Eastern Poland 2021-2027 (FEPW), the European Funds for Digital Development (FERC), European Funds for Social Development for the years 2021-2027 (FERS). The EC also approved 16 regional programs for Poland. Within the framework of the regional programs that will be implemented as part of the financial plan for the years 2021-2027, five provinces (Silesia, Małopolska, Wielkopolska, Lower Silesia and Łódź) will also have funds in their budgets that come from the Just Transition Fund with a total amount of EUR 3.85 billion.

The below table presents the most important changes in the regulatory environment of TAURON Capital Group on which work is in progress or which have been adopted after the balance sheet date.

**Table no. 16. Most important changes in the regulatory environment of TAURON Capital Group on which work is in progress or which have been adopted after the balance sheet date**

Name of the regulation	Description of the regulation	Status as of drawing up this information	Impact on TAURON Capital Group	Impact on the Segment
<i>Draft Act on amending the act on investments in wind power plants and certain other acts</i>	The draft act introduces: <ol style="list-style-type: none"> <li>a change of the rules of the functioning of the so-called 10H rule (distance of the wind turbines),</li> <li>solutions that provide more flexibility for the municipalities to specify the areas for</li> </ol>	On March 14, 2023, the President signed the amendment (an event that took place after the	The adoption of the act: <ol style="list-style-type: none"> <li>will allow the wind power plants to be located at a distance of less than 10h, if the local government provides for such a possibility in the zoning plan,</li> </ol>	

Name of the regulation	Description of the regulation	Status as of drawing up this information	Impact on TAURON Capital Group	Impact on the Segment
	<p>the construction of the wind farms in the local spatial development (zoning) plans,</p> <ol style="list-style-type: none"> <li>a change of the rules for the consultation of the local zoning plans specifying the areas for the wind farms,</li> <li>the possibility for the investor to allocate at least 10% of the installed capacity of the wind power plant to be taken over by the residents of the municipality.</li> </ol>	balance sheet date)	2. will introduce changes to the amend the investment consultation process.	
<i>Draft Act on amending the act on planning and spatial development (zoning) and certain other acts</i>	The draft act assumes that the location (siting) of such objects as the facilities generating electricity from the renewable energy sources with an installed capacity of more than 500 kW, excluding the free standing photovoltaic devices, with an installed electrical capacity of not more than 1 000 kW and other than the free standing ones, may take place only on the basis of a local plan. However, the areas where such facilities may be located should be specified in a study of the conditions and directions of the spatial development (zoning) of the municipality.	Work in the Economic Committee of the Council of Ministers	The act may constitute a hindrance and a barrier for the entities wishing to proceed with the implementation of the projects with respect to the construction of the RES installations.	
<i>Regulation of the Minister of Climate and Environment of January 30, 2023, amending the regulation on the detailed rules of shaping and calculating the tariffs as well as billing in the electricity trading (Journal of Laws 2023, item 226).</i>	The regulation introduces a temporary departure from the obligation to attach the information on the percentage structure of the electricity purchase costs to the invoices - until December 31, 2023.	February 3, 2023 – entry into force (an event that took place after the balance sheet date)	The regulation allows for avoiding, in 2023, the costs stemming from the obligation to attach the information on the percentage structure of the electricity purchase costs to the invoices issued.	
<i>The draft Act on amending the act - Energy Law and the Act on Renewable Energy Sources</i>	The draft act assumes: <ol style="list-style-type: none"> <li>changes in the rules of concluding and terminating of the agreements for the sale of electricity,</li> <li>introduction of the citizen energy communities, the active consumers and the aggregators of the electricity market,</li> <li>possibility of concluding of the agreements with the dynamic pricing mechanisms,</li> <li>introduction of the provisions on the system services, the flexibility services,</li> <li>changes in the balancing regulations,</li> <li>mechanism for a non-market curtailment of the generation by the RES installations,</li> <li>changes with respect to the direct power lines.</li> </ol>	Work in the Committee for European Affairs	The adoption of the act: <ol style="list-style-type: none"> <li>will increase the possibility of using the direct power lines,</li> <li>will limit the ability of the DSOs to own energy storage facilities.</li> </ol>	
<i>Draft Act on amending the Act on Renewable Energy Sources and certain other acts</i>	The draft includes regulations related to the following areas: <ol style="list-style-type: none"> <li>biomethane,</li> <li>energy clusters,</li> <li>transposition of RED II (district heating and cooling, guarantees of origin, RES National Contact Point, energy trading based on partnership),</li> <li>modernization of the RES installations,</li> <li>continuation support for the RES installations whose 15 year support system is due to expire,</li> <li>hybrid RES installations,</li> <li>offshore wind energy,</li> <li>substitution fee</li> </ol>	Work in the Committee for European Affairs	The Act in question: <ol style="list-style-type: none"> <li>generates the risk of losing customers due to the disconnecting of the consumers from a district heating network that does not meet the efficient district heating system requirements,</li> <li>introduces the favorable changes in the manner of making the payment of the RES substitution fee,</li> <li>introduces the significant changes for the DSOs related to the energy clusters,</li> <li>provides for the possibility of obtaining support for the RES installations whose 15 year support system is due to expire.</li> </ol>	
<i>The draft act on amending the act on the preparation and implementation of the strategic investments in the transmission networks and certain other acts</i>	The draft envisages extending of the functioning Transmission Special Act covering the strategic investments in the transmission network to include the new key transmission projects and expanding the annex to also include the distribution grid projects above 100 kV.	Public consultations on the project completed	The entry into force of the act will result in a shorter process of obtaining the public law permits and the possibility of applying a simplified model for obtaining the land for the investments listed in the annex to the act.	



RES Segment



Supply Segment



Distribution Segment



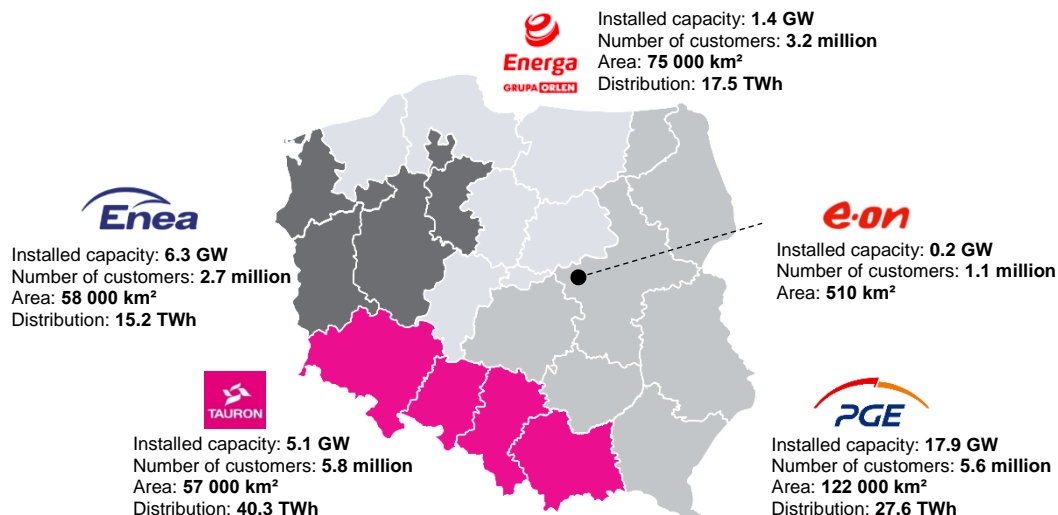
TAURON Group

## Competitive environment

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

The below figure presents TAURON Capital Group's competitive environment based on the available data for the first three quarters of 2022.

Figure no. 21. TAURON Capital Group's competitive environment based on the available data for the first three quarters of 2022

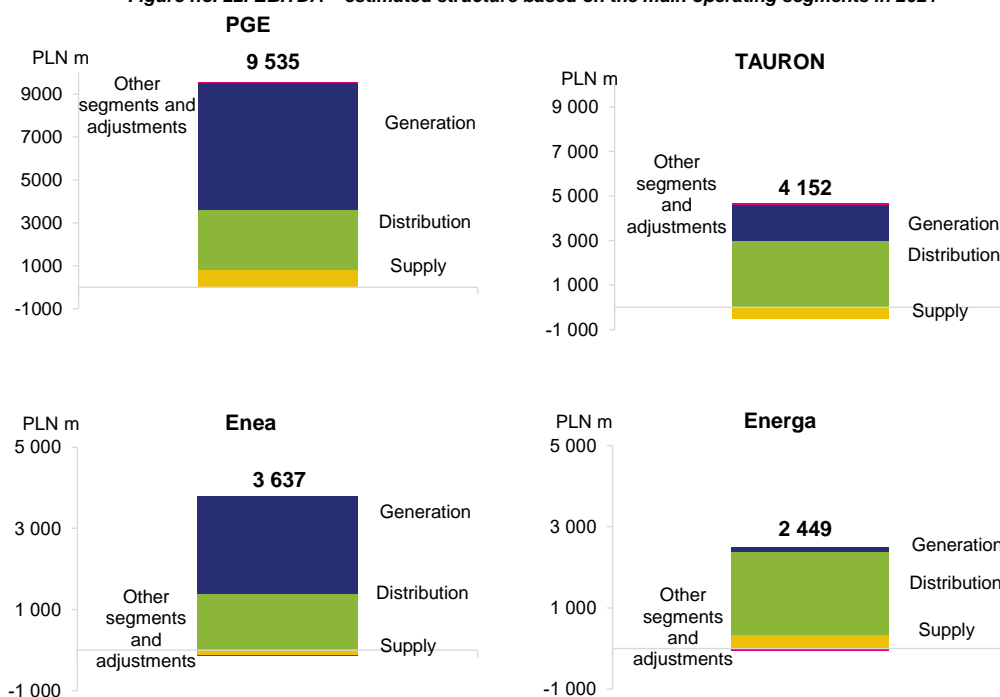


According to the data for the first three quarters of 2022, the consolidated energy groups (PGE, TAURON, Enea, Energa) held an approximately 68% market share in the electricity generation sub-sector.

TAURON Capital Group is a fully vertically integrated electric utility that takes advantage of the synergies stemming from the size and scope of the operations conducted thereby. In 2022, TAURON Capital Group controlled the value chain, from the hard coal mining up to the delivery of electricity to the final consumers. In 2022, TAURON Capital Group was conducting its operations in all of the key segments of the energy market (excluding the transmission of electricity), i.e. in the hard coal mining, as well as the electricity and heat generation, distribution, supply and trading. In December 2022, the hard coal mining segment was spun off out of TAURON Group's structure.

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

Figure no. 22. EBITDA – estimated structure based on the main operating segments in 2021<sup>1</sup>



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



## Generation

### **TAURON Capital Group is a key producer of electricity in Poland**

TAURON Capital Group's share in the domestic electricity generation market, measured based on the gross electricity production output, stood at approx. 8% in the first three quarters of 2022. TAURON Capital Group is the third largest electricity producer on the Polish market. TAURON Capital Group's generation assets are concentrated in the south of Poland. The deposits of the hard coal used to fire TAURON Capital Group's power plants and combined heat, and power plants are also located in that region. The location of the generating assets in the vicinity of the hard coal deposits allows for the optimization of the costs related to the transportation of that raw material.

87% of TAURON Capital Group's generation assets were, as of the end of 2022, the hard coal fired units, 21% of which were the modern high efficiency generating units. TAURON Capital Group's total installed capacity stood at almost 5.1 GW as of December 31, 2022, with the renewable energy sources accounting for 0.66 GW of that figure. The wind farms' installed capacity represents 8%, while the hydroelectric power plants' installed capacity accounts for 3% and the biomass fired generating units' installed capacity constitutes 2% of TAURON Capital Group's total installed capacity.

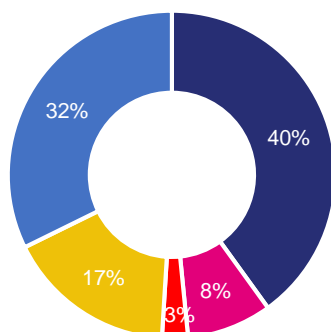
TAURON Capital Group produced 15.6 TWh of electricity in 2022, with 1.7 TWh coming from the RES.

Nationwide, in the first three quarters of 2022, TAURON Capital Group's hard coal fired units' installed capacity accounted for approx. 14% of the total installed capacity of all of the hard coal and lignite fired generating units in Poland. With respect to the installed capacity of the wind farms, biomass and biogas fired power plants, as well as the hydro power plants, the share of TAURON Capital Group came in at approx. 5%, 7% and 14%, respectively.

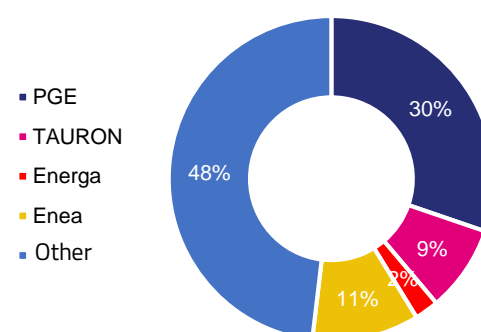
According to the data for the first three quarters of 2022, PGE is the largest electricity generator in Poland, with its share in the domestic electricity production market standing at approx. 40% in the first three quarters of 2022, and the installed capacity of 17.9 GW. Enea is the second largest electricity producer in Poland, with a market share coming in at approx. 17% and the installed capacity of 6.3 GW. Energa, on the other hand, has the largest share of electricity produced from the renewable energy sources (RES) on the Polish market and Energa's total installed capacity stands at approx. 1.4 GW. Energa produced 3.4 TWh of electricity in the first three quarters of 2022, with approx. 1.01 TWh (i.e. 30.5%) coming from the RES.

The below figures present the information on the installed capacity and the electricity generated in the first three quarters of 2022.

**Figure no. 23. Gross electricity production - estimated market shares in the first three quarters of 2022**



**Figure no. 24. Installed capacity - estimated market shares in the first three quarters of 2022**



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

## Distribution

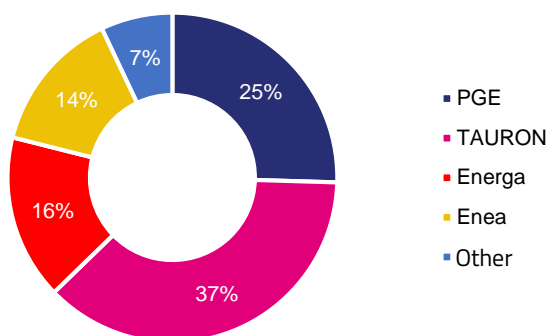
### **TAURON Capital Group is the Polish market leader in terms of the number of the distribution customers and the volume of electricity distributed.**

TAURON Capital Group is the largest electricity distributor in Poland. TAURON Dystrybucja's share in the electricity distribution to the final consumers reached approx. 37% in the first three quarters of 2022. TAURON Capital Group's distribution grids cover more than 18% of Poland's territory. The volume of the electricity delivered to the final consumers came in at approx. 53.68 TWh in 2022. TAURON Capital Group is the largest electricity distributor in Poland, also in terms of the revenue from the distribution operations.

TAURON Capital Group's distribution operations, due to the natural monopoly in the designated area, are a source of a stable and predictable revenue, accounting for a material part of the consolidated revenue of the entire TAURON Capital Group. The electricity distribution's geographical area on which the Distribution Segment's and the Supply Segment's subsidiaries are historically operating is a heavily industrialized and densely populated area and therefore the distribution grid is very well utilized. The number of the Distribution Segment's customers reached approx. 5.84 million in 2022.

The below figure presents the estimated market shares of the individual energy groups in terms of the electricity distribution based on the data for the first three quarters of 2022.

Figure no. 25. Electricity distribution - estimated market shares in the first three quarters of 2022



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

## Supply

### TAURON Capital Group is the second largest electricity supplier in Poland

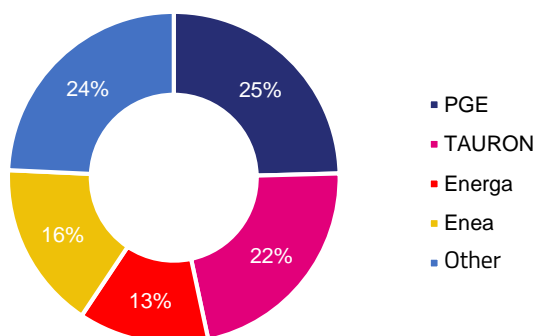
TAURON Capital Group holds a 22% share in the market of the electricity supply to the final consumers in Poland. The volume of the retail electricity supply of TAURON Capital Group came in at 31.1 TWh in 2022. The number of the customers served by TAURON Capital Group's Supply Segment stands at 5.7 million.

PGE is the largest retail electricity supplier with a 25% market share. The other two groups, Enea and Energa, hold a 16% and a 13% market share, respectively.

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

The below figure presents the estimated market shares of the individual energy groups in terms of the electricity supply to the final consumers based on the data for the first three quarters of 2022.

Figure no. 26. Electricity supply to the final consumers - estimated market shares in the first three quarters of 2022.



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

The below table presents the information on the installed capacity and the volume of the electricity generation, distribution and supply in the first three quarters of 2022, as well as the domestic market shares.

Table no. 17. Installed capacity, generation, distribution and supply of electricity by energy groups in the first three quarters of 2022

Group	Installed capacity		Generation <sup>1</sup>		Distribution		Supply	
	GW	%	TWh	%	TWh	%	TWh	%
1. PGE	17.9	30	53.1	40	27.6	26	25.7	25
2. TAURON	5.1	9	11.1	8	40.3	37	23.1	22
3. Energa	1.4	2	3.4	3	17.5	16	13.3	13
4. Enea	6.3	11	22.2	17	15.2	14	17.1	16
5. Other	28.4	48	42.8	32	7.6	7	25.4	24
<b>Total</b>	<b>59.1</b>	<b>100</b>	<b>132.6</b>	<b>100</b>	<b>108.2</b>	<b>100</b>	<b>104.6</b>	<b>100</b>

<sup>1</sup>Volume of the gross electricity generated in the first three quarters of 2022.

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

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

The below table presents the main sources of the competitiveness of TAURON Capital Group in the selected Lines of Business (Segments of Operations) in 2022.

**Table no. 18. Sources of competitiveness of TAURON Capital Group in the selected Lines of Business (Segments of Operations) in 2022**

Line of Business	Area of initiatives	Sources of competitiveness
Mining Generation	<ol style="list-style-type: none"> <li>1. Reducing the fuel price and supply risk.</li> <li>2. Investments in the generating units.</li> <li>3. Operating expenses.</li> </ol>	<ol style="list-style-type: none"> <li>1. Concluded capacity market contracts.</li> <li>2. High efficiency generating units with a competitive unit production cost.</li> <li>3. Improvement of the operational efficiency.</li> </ol>
RES Heat	<ol style="list-style-type: none"> <li>1. Investments in the renewable energy sources and the low emission thermal energy sources.</li> <li>2. Operating expenses.</li> <li>3. Investments in the district heating networks.</li> </ol>	<ol style="list-style-type: none"> <li>1. Improvement of the operational efficiency.</li> <li>2. Development of the low and zero emission generation sources.</li> <li>3. Expanding the regulated operations.</li> </ol>
Distribution	<ol style="list-style-type: none"> <li>1. Operating expenses.</li> <li>2. Investment project efficiency.</li> <li>3. Improvement of the grid reliability indicators</li> </ol>	<ol style="list-style-type: none"> <li>1. Implementing the ultimate business model.</li> <li>2. Implemented IT systems, separate processes, clear split of the responsibilities.</li> </ol>
Supply	<ol style="list-style-type: none"> <li>1. Operating expenses.</li> <li>2. Maintaining high customer satisfaction indices.</li> </ol>	<ol style="list-style-type: none"> <li>1. Development of the product and services offering for the customers.</li> <li>2. Integrated customer service channels</li> </ol>

## 2.4. Factors important for growth

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

**Table no. 19. Factors that will have the most material impact upon the results of TAURON Capital Group's operations over at least the next quarter**

#	Description of the factor
1.	aggression of the Russian Federation against Ukraine and its impact on the Polish economy and the European Union policy, as well as the impact of the sanctions imposed against Russia and those imposed by Russia, including in particular the availability of the raw materials (geopolitical risk),
2.	physical and cyber security risks (possible attacks on the critical infrastructure and the IT/OT infrastructure and, as a consequence, the disruptions of the operation of the critical infrastructure and the disruption of the business continuity)
3.	macroeconomic situation in Poland, at the EU level and at the global economy level, including the GDP growth rate, the changes of the interest rates, the FX rates, etc., having an impact on the valuation of the assets and the liabilities listed by the Company in the statement of financial position,
4.	market situation in Poland and in the EU, as well as in the global economy, including the changes of the electricity prices, the prices of the CO <sub>2</sub> emission allowances, the prices of the raw materials (in particular hard coal and gas), etc., having an impact on the revenues and the level of the costs generated (including the maintaining of the IRGiT margins),
5.	market situation with regard to the supply of the hard coal in Poland and the need to import it,
6.	regulatory intervention (at the EU level and in Poland) aimed at reducing the demand for the electricity, introducing of the mechanisms to curb the increases in the electricity prices for the final consumers and introducing of the revenue limits for the electricity generators,
7.	abolition of the power exchange trading obligation,
8.	increase of the mandatory fuel inventory levels for the generating units,
9.	change in the model of accounting for the generating units' operation under the forced operation regime,
10.	level of the tariffs related to the supply of the electricity and heat for the households (tariff group G) approved by the President of the ERO and the system of the compensation payments (their level) due to the freezing of the prices,
11.	level of the tariffs for the electricity distribution and the heat distribution and generation approved by the President of the ERO and the system of the compensation payments (their level) due to the freezing of the prices,
12.	potential increase of the overdue accounts receivable brought about by the deterioration of the financial condition of the counterparties,
13.	demand for the electricity in the National Power System and the level of the production by the generating units, taking into account the changes due to the seasonality, the weather conditions and the availability of the fuels,
14.	level of the electricity imports/exports and of the available capacity reserve in the power system in Poland and in Europe,
15.	changes to the energy mix and, as a consequence, the adaptation of the demand for the hard coal,
16.	operation of the 910 MW power generation unit in Jaworzno, the outcome of the mediation process between TAURON and RAFAKO with respect to the 910 unit in Jaworzno
17.	political environment in Poland and in the European Union, including the positions and the decisions of the government administration institutions and authorities, for example: Office of Competition and Consumer Protection (UOKiK), Energy Regulatory Office (ERO) and the European Commission (EC),
18.	results of the court proceedings,
19.	changes to the regulations related to the power sector, and also the changes in the legal environment, including: the tax law, the commercial law, the environment protection law,
20.	act on the emergency measures aimed at curbing the electricity prices and providing the support for the certain consumers in 2023,
21.	act on the special solutions aimed at protecting the electricity consumers in 2023 in connection with the situation on the electricity market,
22.	further changes with respect to the policies of the financial institutions,
23.	activities related to the obtaining of the debt financing,
24.	possibility of using the external assistance funds, including the European Union funds, to support the transition of the energy sector and mitigate the effects of the social changes, taking into account, in particular, the following limitations:

- 1) entity related (with respect to the support for the large enterprises),
- 2) with regard to the forms of the support (much more emphasis on the returnable support than before),
- 3) permissible scope of the public aid granted (for example, the tightening of the rules of the support with regard to the gas fired capacity, indicated in the draft guidelines on the public aid to be used for the climate and environment protection and the objectives related to energy (CEEAG),
- 4) amount of the public aid granted (changes with respect to the maximum aid intensity),
25. further functioning of the generation capabilities compensation mechanism (capacity market), as part of which the deliveries of the electric capacity will be carried out by TAURON Capital Group subsidiaries' generating units and the demand side reduction units at the transmission system operator's request,
26. support system for the electricity generation from the dedicated sources (*color certificates*), resulting, on the one hand, in the costs of redeeming the certificates for the suppliers of the electricity to the final consumers, and on the other hand, in the revenue from the sales of the certificates for the generators of electricity system, the RES support system, the so-called RES auctions,
27. competitive environment, including the activities and steps taken by the competition on the energy market,
28. further tightening of the EU climate policy, in particular, resulting in the energy transition focused on the RES, as well as in an increase of the volatility of the prices of the CO<sub>2</sub> emission allowances,
29. further growth of the prosumer market and its impact on the Supply, Distribution, as well as the Generation Lines of Business,
30. environment protection requirements as a consequence of the changes to the *Act of April 27, 2001, the Environment Protection Law*, the so-called anti-smog resolutions,
31. consequences of the adopted *Act of March 30, 2021, on amending the act on disclosing the information on the environment and the protection thereof, the participation of the public in the protection of the environment and on the environmental impact assessments, and certain other acts* (a potential impact on the investment projects currently under way as well as on the future investment projects),
32. consequences of the adopted *Regulation of April 24, 2021, amending the regulation on the detailed rules of shaping and calculating the tariffs as well as billing for the heat supply*, introducing a provision enabling changing of the tariff for the heat due to the change of the costs of purchasing the CO<sub>2</sub> emission allowances,
33. planned changes to the regulations related to the quality requirements for the solid fuels, among others, the *Act of August 25, 2006, on the system for monitoring and inspecting the fuel quality*,
34. shaping of the human resources policy, including the results of the negotiations with the Social Council of TAURON Group,
35. changes to the schedules, budgets and the scopes of the investment projects carried out by TAURON Capital Group,
36. availability of the assets of TAURON Capital Group,
37. impact of the weather conditions, including those of the extreme nature, resulting in the impact on the failure rate of the assets of TAURON Capital Group and the seasonality of the revenue generated, and the costs incurred,
38. continuation of the activities related to the implementation at TAURON Capital Group of the assumptions of the Government NABE (Narodowa Agencja Bezpieczeństwa Energetycznego – National Energy Security Agency) Concept, including the preparation of the process of the sale of the shares in TAURON Wytwarzanie to the State Treasury.

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

Not insignificant for TAURON Group's operations in 2023 may turn out to be the continuation of the Russian Federation's aggression against Ukraine, which may continue to have a negative impact on the raw materials market and, as a consequence, the operations of the coal and gas fueled energy groups. In addition, the steadily tightening climate regulations at the European, as well as at the national level constitute an important premise for analyzing TAURON Group's current and future situation.

## 2.5. Timeline

The timeline of the selected highlights associated with the operations of TAURON and TAURON Capital Group that took place in 2022 is presented below.

**Table no. 20. 2022 highlights**

<b>JANUARY</b>	1. Changes to the composition of the Management Board and the Supervisory Board of TAURON.
<b>FEBRUARY</b>	2. Signing of an Annex to the settlement agreement concluded by EC Stalowa Wola with Abener Energia
<b>MARCH</b>	1. Fulfillment of the conditions of the settlement agreement concluded by EC Stalowa Wola with Abener Energia
<b>APRIL</b>	2. Publishing of the financial results of TAURON and TAURON Capital Group for the full year 2021. 3. Appointment of the President of the Management Board of TAURON. 4. Re-synchronization with the grid of the 910 MW unit in Jaworzno and the restart of the unit's operation in the Polish power system. 5. Signing of the letter of intent between TAURON and KGHM Polska Miedź with respect to the cooperation in the field of the power generation sources based on the nuclear reactors power generation technology.
<b>MAY</b>	1. Changes to the composition of the Supervisory Board of TAURON.
<b>JUNE</b>	2. Ordinary General Meeting of the Shareholders of TAURON. 3. Publishing of the financial results of TAURON and TAURON Capital Group for the first quarter of 2022. 4. Transferring by TAURON of the shares in the TAURON Serwis and Bioeko Grupa TAURON subsidiaries to TAURON Wytwarzanie. 5. Acquiring by TAURON Zielona Energia of the shares in the company „MEGAWATT S.C”, the holder of the rights to develop the project involving the construction of the Mierzyn wind farm with a capacity of 58.5 MW. 6. Adoption of TAURON Group's Strategy for the years 2022-2030 with an outlook until 2050.
<b>JULY</b>	1. Extraordinary General Meeting of the Company and passing of the amendment to the <i>Articles of Association of TAURON Polska Energia S.A.</i>
<b>AUGUST</b>	

	<ol style="list-style-type: none"> <li>2. Commencement of the construction of the photovoltaic farm in Mysłowice (stage I – 37 MW) as part of the TAURON PV Program with a total capacity of approx. 100 MW.</li> <li>3. Commencement of the construction of the Mierzyn wind farm with a capacity of 58.5 MW.</li> <li>4. Signing of the syndicated loan agreement for the amount of PLN 4 billion.</li> <li>5. Transferring of TAURON's shares in the Nowe Jaworzno Grupa TAURON subsidiary to TAURON Wytwarzanie.</li> <li>6. Commissioning of the Choszczno II photovoltaic farm with a capacity of 8 MW.</li> <li>7. Signing of an agreement on the conducting of the mediation process with respect to the 910 MW power generating unit in Jaworzno involving Nowe Jaworzno Grupa TAURON (currently TAURON Wytwarzanie), RAFAKO, Mostostal Warszawa and E003B7 sp. z o.o.</li> <li>8. Changes to the composition of the Management Board of TAURON.</li> <li>9. Publishing of the Integrated Annual Report for 2021.</li> </ol>
<b>SEPTEMBER</b>	<ol style="list-style-type: none"> <li>1. Changes to the composition of the Management Board of TAURON.</li> </ol>
<b>OCTOBER</b>	<ol style="list-style-type: none"> <li>2. Publishing of the financial results of TAURON and TAURON Capital Group for the first half of 2022.</li> <li>3. Receipt by TAURON of the State Treasury's offer to acquire the shares of TAURON Wydobycie.</li> <li>4. Acquiring by TAURON of the shares in the company PGE Baltica 4.</li> <li>5. Commissioning of the Majewo wind farm with a capacity of 6 MW.</li> <li>6. Commissioning of the Piotrków wind farm with a capacity of 30 MW.</li> <li>7. Merger of TAURON Wytwarzanie and Nowe Jaworzno Grupa TAURON.</li> <li>8. Acquiring by TAURON Zielona Energia of the shares in the company WIND T4, the holder of the rights to develop the project involving the construction of the Nowa Brzeźnica wind farm with a capacity of 19.6 MW.</li> <li>9. Acquiring by TAURON Dystrybucja from TAURON of the shares in the company Marselwind (currently Usługi Grupa TAURON).</li> <li>10. Reaffirming by the Fitch Ratings agency of TAURON's long term foreign and local currency ratings at "BBB-" with a stable outlook.</li> <li>11. Acquiring by TAURON Zielona Energia of the shares in the company FF PARK PV1, the holder of the rights to develop the project involving the construction of the Proszówek photovoltaic farm with a capacity of 45.6 MW.</li> <li>12. TAURON awarded the special prize <i>The Best of The Best</i> for the annual report in the competition <i>The Best Annual Report 2021</i>.</li> <li>13. Signing by TAURON and the State Treasury of the contingent agreement for the sale of the shares in TAURON Wydobycie.</li> </ol>
<b>NOVEMBER</b>	<ol style="list-style-type: none"> <li>1. Publishing of the financial results of TAURON and TAURON Capital Group for the third quarter of 2022.</li> </ol>
<b>DECEMBER</b>	<ol style="list-style-type: none"> <li>2. Acquiring by TAURON Zielona Energia of the shares in the company WINDPOPER Gamów, the holder of the rights to develop the project involving the construction of the Gamów wind farm with a capacity of 33 MW.</li> <li>3. Changes to the composition of the Supervisory Board of TAURON.</li> <li>4. Acquiring by TAURON Zielona Energia of 100% of the shares in the company WIND T30MW, the holder of the rights to develop the project involving the construction of the Warblewo wind farm with a capacity of 30 MW.</li> <li>5. Taking up by TAURON Ciepło of 100% of the shares in the company Energetyka Cieszyńska.</li> <li>6. Commencement of the construction of the Nowa Brzeźnica wind farm with a capacity of 46 MW.</li> <li>7. Signing by TAURON Wydobycie of the agreements in connection with being covered by the support system with respect to the subsidies for the production capacity reduction.</li> <li>8. Commencement of the construction of the Gamów wind farm with a capacity of 33 MW and the Warblewo wind farm with a capacity of 30 MW.</li> <li>9. Signing of an agreement with the National Fund for the Environmental Protection and Water Management (Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej) with respect to providing of the support for a project aimed at expanding the power grid for the needs of the development of the electric vehicle charging infrastructure.</li> <li>10. Contribution of 100% of the shares in the Wsparcie Grupa TAURON to the company Polski Holding Obronny.</li> <li>11. Completion of the <i>Digital Poland Operational Program (Program Operacyjny Polska Cyfrowa)</i> project.</li> <li>12. Transferring of 100% of the shares in TAURON Wydobycie to the State Treasury.</li> </ol>

## 2.6. Major events having a significant impact on the operations in 2022 and after the balance sheet date, i.e. December 31, 2022

The more important events and accomplishments that had a significant impact on TAURON Capital Group's operations that had occurred in 2022, as well as by the date of drawing up this report are listed below.

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

### Major business events in 2022

#### Update of the information on the project to build a combined cycle (CCGT) power generating unit at the Łagisza Power Plant (Elektrownia Łagisza)

On March 22, 2022, the Management Board of TAURON disclosed approved the conducting of the contract award procedure by TAURON Wytwarzanie, the planned effect of which would be obtaining the final price bids from the potential contractors wishing to build the combined cycle (CCGT) power generating unit with the high efficiency co-generation unit, with the expected capacity of 413 Mwe, as well as the heat generation unit with the capacity of approx. 250 MWt at the Łagisza Power Plant.

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

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

As of the date of drawing up this report the analytical works on further scenarios for the implementation of this project are underway - the lack of the bids for the construction of the unit made it impossible to participate in the capacity market auction in 2022, therefore further corporate decisions regarding the continuation of the project, a change of the scope thereof or a resignation from the implementation thereof are required.

#### **Resynchronization of the 910 MW power generating unit in Jaworzno with the grid**

On April 14, 2022, the synchronization of the 910 MW power generating unit in Jaworzno with the grid and the resumption of the unit's operation in the Polish power system.

TAURON disclosed the information on the above event, in reference to current report no. 43/2021 of November 4, 2021, in current report no. 12/2022 of April 14, 2022.

#### **Taking of the decision to purchase a special purpose vehicle with the rights to the wind farm construction project**

On June 7, 2022, the Management Board of TAURON granted its approval of the purchase by the TAURON Zielona Energia subsidiary of 100 percent of the shares in the special purpose vehicle holding the rights to the project for the construction of a wind farm in Mierzyn with a capacity of 58.5 MW. TAURON informed that the wind farm construction project was in a ready-to-build stage and the special purpose vehicle (SPV), in accordance with the adopted assumptions, would complete the construction of the wind farm by the end of 2024. The total capital spending related to the purchase and the implementation of the investment project will reach PLN 500 million.

TAURON disclosed the information on the above event in current report no. 24/2022 of June 7, 2022.

#### **Adoption of TAURON Group's Strategy for the years 2022-2030 with an outlook until 2050**

On June 22, 2022, the Management Board of TAURON disclosed the information on the adoption of *TAURON Group's Strategy for 2022-2030 with an outlook until 2050*. The new Strategy is a response to the challenges arising from the current and forecast situation on the power market and in the energy sector, related in particular to the transition of the energy industry and the new solutions supporting such a transition. As part of the process of developing the Strategy a thorough analysis of the macroeconomic, market and regulatory environment as well as the review of the forecasts and directions of the sector's development was completed, including the translation thereof into the opportunities and risks for TAURON Capital Group in the time frame extending until 2030, with an outlook to achieve climate neutrality by 2050.

*The detailed information related to the above topic is provided in section 1.6. of this report.*

TAURON disclosed the information on the above event in current report no. 27/2022 of June 22, 2022.

#### **Information on the 910 MW generation unit in Jaworzno**

On August 13, 2022, TAURON had received the information from the company Nowe Jaworzno Grupa TAURON (currently TAURON Wytwarzanie) indicating that during the works conducted in order to clean the boiler and the slag trap of the 910 MW unit in Jaworzno it had turned out that the additional works were required with respect to the slag hopper (boiler funnel) repair, which would lead to the unit's shutdown until August 29, 2022. In connection with the above the Company had estimated that as a result of the unit's shutdown from August 6, 2022, until August 29, 2022, the first degree contribution margin generated by the unit would be lower by approx. PLN 130 million.

Subsequently, on August 27, 2022, TAURON disclosed the information that, to the best of the Company's knowledge, the expected shutdown of the unit would be longer by 5 days, and the Company's estimate of the first degree contribution margin generated by the unit, as a result of its shutdown from August 6 to September 2, 2022, would be lower by approximately PLN 285 million. The difference, as compared to the previous estimate, is mainly due to a significant increase in the wholesale electricity prices at which the electricity repurchases for the unit's needs are made.

TAURON disclosed the information on the above event in current report: no. 35/2022 of August 13, 2022, and no. 37/2022 of August 27, 2022.

The shutdown of the unit had ended in accordance with the above mentioned date. The ongoing operation of the unit is currently underway. The occurring emergency shutdowns of the unit are caused, among other things, by the failures occurring in the ash removal system and the mill systems. On the other hand, the temporary power losses during the operation of the unit are caused by the works related to the unit's tune-up and the optimization of equipment operation. Due to the fact that the work scheduled to be performed during the transition period had not been completed by the deadline provided for in the contract (i.e. October 30, 2022,), the tune-up, testing and optimization phase has not, up to now, been carried out after the restart of the unit,

## Major corporate events in 2021

### Changes to the composition of the Management Board of TAURON

There had been changes to the composition of the Company's Management Board in 2022 and by the date of drawing up this report, which are presented in section 9.11. of this report.

TAURON disclosed the information on the above events in current reports: no. 1/2022 of January 20, 2022, no. 10/2022 of April 8, 2022, no. 34/2022 of August 12, 2022 (supplemented on August 24, 2022), and no. 38/2022 of September 5, 2022.

### Changes to the composition of the Supervisory Board of TAURON

There had been changes to the composition of the Company's Supervisory Board in 2022 and by the date of drawing up this report, which are presented in section 9.11. of this report.

TAURON disclosed the information on the above events in current reports: no. 2/2022 of January 27, 2022, no. 19/2022 of May 23, 2022, no. 20/2022 of May 24, 2022, and no. 45/2022 of November 30, 2022.

### Recommendation of the Management Board of TAURON related to not paying out a dividend from the 2021 profit

On March 29, 2022, the Management Board of the Company made the decision that it would recommend no to pay out the dividend from the 2021 profit to the shareholders of the Company and to allocate in full the net profit of PLN 260 million to the Company's reserve capital.

The decision is in line with the Company's dividend policy in force, and in making it, the Management Board of the Company took into account, first and foremost, the current market situation and TAURON Capital Group's investment program, which assumes incurring significant capital expenditures in the coming years, in particular in the Distribution Line of Business and in the RES Line of Business.

TAURON disclosed the information on the above event in current report no. 9/2022 of March 29, 2022.

### Ordinary General Meeting of TAURON

The Ordinary General Meeting of the Company was held on May 24, 2022, and it adopted the resolutions related to, inter alia: the approval of the *Financial Statements of TAURON Polska Energia S.A. for the year ended on December 31, 2021, in accordance with the International Financial Reporting Standards approved by the European Union*, the approval of the *Consolidated Financial Statements of TAURON Polska Energia S.A. Capital Group for the year ended on December 31, 2021, in accordance with the International Financial Reporting Standards approved by the European Union*, the approval of the *Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2021*, the distribution of the net profit for the financial year 2021, the providing of the opinion on the *Report on the compensation of the Members of the Management Board and of the Supervisory Board of TAURON Polska Energia S.A. for 2021*, the change of *Policy for the Compensation of the Members of the Management Board and of the Supervisory Board of TAURON Polska Energia S.A.* the acknowledgement of the fulfillment of duties by the Members of the Company's Management Board and of the Company's Supervisory Board, the establishing of the number of the Members of the Company's Supervisory Board and the appointment of a Member of the Company's Supervisory Board of the 6<sup>th</sup> common term of office.

TAURON disclosed the information on the convening of the Ordinary General Meeting (GM) of the Company, on the content of the draft resolutions and on the changes to the agenda in current reports no. 14/2022 of April 25, 2022, no. 15/2022 and no. 16/2022 of April 27, 2022, as well as no. 17/2022 of April 29, 2022.

TAURON disclosed the information on the content of the resolutions subjected to the vote at the Ordinary General Meeting (GM) of the Company in current report: no. 21/2022 of May 24, 2022.

### Extraordinary General Meeting of TAURON

The Extraordinary General Meeting of the Company was held on July 13, 2022, and it adopted the resolutions related to, inter alia: the amendment of the Company's Articles of Association and the acknowledgement of the fulfillment of duties by the specific Members of the Company's Management Board for the years 2019 and 2020.

TAURON disclosed the information on the convening of the Extraordinary General Meeting (GM) of the Company and on the content of the draft resolutions in current reports no. 25/2022 and no. 26/2022 of June 17, 2022.

TAURON disclosed the information on the content of the resolutions subjected to the vote at the Extraordinary General Meeting (GM) of the Company in current report: no. 28/2022 of July 13, 2022.

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

On July 18, 2022, the Katowice-Wschód District Court in Katowice, the 8th Commercial Division of the National Court Register entered into the Register of Entrepreneurs of the National Court Register the amendments to § 16, clause 2 and § 22, clause 2 of the Company's Articles of Association, passed by the Extraordinary General Meeting of the Company on July 13, 2022.

The amendments to the Company's Articles of Association were related to the issue of the term of office of the members of the Company's bodies - in accordance with the new wording of the Company's Articles of Association, the Members of the Management Board and, respectively, the Members of the Supervisory Board of the Company shall be appointed for a common term of office lasting three full financial years, while a term of office of a Member of the Management Board and, respectively, of a Member of the Supervisory Board shall expire no later than as of the date of the General Meeting which approves the financial statements for the last full financial year of, respectively, the Member of the Management Board's terms of office or the Member of the Supervisory Board's term of office.

On July 29, 2022, the Supervisory Board of the Company adopted the consolidated text of the Company's Articles of Association, incorporating the amendments passed by the Company's Extraordinary General Meeting on July 13, 2022.

TAURON disclosed the information on the above events in current reports: no. 31/2022 of July 19, 2022, and no. 32/2022 of July 29, 2022.

## Other major events in 2022

### Affirmation of the ratings granted by Fitch Ratings agency

On October 12, 2022, Fitch Ratings agency affirmed the Company's long term foreign and local currency ratings at "BBB-" with a stable outlook.

The full list of rating actions includes:

1. long term local and foreign currency IDRs (Issuer Default Ratings) affirmed at "BBB-", stable outlook,
2. short term local and foreign currency IDRs affirmed at "F3",
3. national long term rating affirmed at "A(pol)", a stable outlook,
4. EUR 500 million Eurobonds foreign currency senior unsecured unsubordinated rating affirmed at "BBB-",
5. EUR 190 million hybrid bonds (European Investment Bank – "EIB") rating affirmed at "BB",
6. PLN 750 million hybrid bonds (EIB) rating affirmed at "BB",
7. PLN 400 million hybrid bond program and hybrid bond issue (Bank Gospodarstwa Krajowego S.A.) rating affirmed at "BB", the national rating of the same program and bonds affirmed at "BBB(pol)".

TAURON disclosed the information on the above event in current report: no. 41/2022 of October 12, 2022.

## Major events after December 31, 2021

### Estimation of the size of the charges for the Price Difference Payout Fund

On February 14, 2023, TAURON disclosed the information that on the basis of its analysis of the regulatory environment in the energy market, and in particular with respect to the impact on the financial performance of TAURON Capital Group of the *Act of October 27, 2022, on the Emergency Measures to Cap the Electricity Prices and Provide Support for Certain Consumers in 2023* and the *Regulation of the Council of Ministers of November 8, 2022, on the calculation of the price cap*, the Company estimated the value of the charges to be transferred in 2023 to the Price Difference Payout Fund introduced under these regulations.

The obligation of the electricity generators and the enterprises conducting business operations with respect to the electricity trading to transfer the so-called "charge" (write-off) to the Fund shall be applicable in a situation where the above mentioned entities obtain, from the sales of electricity, prices that exceed the price caps calculated in accordance with the provisions of the above mentioned regulation. Within TAURON Group, the subsidiaries belonging to the Generation, RES and Supply segments will be subject to the potential obligation to pay the charge to the Fund.

TAURON disclosed the information that to the best of the Company's knowledge, as of the date of the disclosure of the information, having taken into account the scenario analysis with respect to the market conditions, as well as the operational and technical conditions, the total charges transferred to the Fund should be within the range between PLN 1.0 billion and PLN 1.3 billion in 2023.

At the same time, in view of the cumulative impact of other factors, the Company does not anticipate that the impact of the charges transferred to the Fund will lead to the negative deviations of the estimated EBITDA earnings in 2023 as compared to the average level of the EBITDA results obtained by TAURON Group in the previous few years.



The above disclosures do not constitute a forecast of the earnings for 2023, and the results of the assessments are burdened with a high degree of uncertainty and risk resulting in particular from the potential future changes in the legal situation in this regard, interpretative doubts and the adopted practice with respect to the calculation of the charge due to the Fund, the instability of the economic environment and the hard to predict market conditions, as well as the operational and technical conditions of the generating units, which will affect, among other things: the demand for electricity, the electricity production costs, the production and supply volumes and the market electricity prices.

The real figures required to calculate the charge for the Fund will depend on the final effects of the commercial operations at TAURON Group's subsidiaries subject to the obligation to pay the charge for the Fund, as well as the actions of the Power (Transmission) System Operator with regard to the forcing and reducing of the operation of the generating units, and to a large extent will be known only at the time the given sales will be realized, based on the then market conditions (primarily the sales price and the volume of the electricity sold) and the unit generation costs incurred during such time, which will be precisely recognized following the accounting settlement of the given period.

TAURON disclosed the information on the above event in current report: no. 9/2023 of February 14, 2023.

As of the date of this report, the above estimates have not materially changed.

## 2.7. Prizes and accolades (honorable mentions)

TAURON and TAURON Capital Group's subsidiaries received the following awards and accolades (honorable mentions) in 2022:

TAURON awarded special *The Best of The Best* prize for the continuous high quality of the financial and non-financial reporting in The Best Annual Report 2021 competition organized by the Institute of Accounting and Taxes.



TAURON awarded the prize in the *Whistleblowing Project of the Year* category in the Polish *Compliance Awards 2021* competition organized by the Compliance Institute.



TAURON awarded the *DNA* – because helping is in our genes prize for the assistance in the rebuilding of the energy infrastructure of Ukraine in the competition organized by the Positive Ideas Foundation (Fundacja Pozytywnych Idei).



TAURON awarded a prize in the *Innovation of the Year* category for the micro grid built in Bytom in the *Energy World Leaders Competition*, which recognizes the best practices contributing to the increasing climate neutrality and greening of the Polish economy.



TAURON awarded the *Top Quality HR Certificate* by the Polish Human Resources Management Association (Polskie Stowarzyszenie Zarządzania Kadrami) for the highest quality human capital management practices.



TAURON Wydobycie awarded an honorable mention for testing new ways of recultivating and greening heaps as part of the international, pro-ecological project *RECOVERY*, whose goal is to develop a way to recultivate the so-called facilities used to neutralize mining waste and other degraded areas.



TAURON awarded the *Orzeł Wprost* 2022 award in the Silesia province for the implementation of the installations utilizing methane from a coal mine to produce electricity.



TAURON awarded a trophy for an innovative approach to the distributed power generation in the competition *Kryształy Polskiej Gospodarki 2021*, organized by the magazine *Forum Polskiej Gospodarki* (Polish Economy Forum).

TAURON awarded a special prize and Friendly Workplace 2022 trophy for the activities aimed at developing friendly organizational culture based on the open relations with the employees in the competition organized by *Markapracodawcy.pl*

The Friendly Workplace 2022 prize was also awarded to the TAURON Obsługa Klienta subsidiary for a modern approach in the personnel policy and development area.

TAURON Wydobycie awarded honorable mentions for the innovative technical solutions applied in the new shaft at the Janina Coal Mine and the pro-ecological activities related to the recultivation of the post-mining dumps in the *Mining Success of the Year* competition, organized by the Mining Chamber of Industry and Commerce (Górnictwa Izba Przemysłowo-Handlowa).



TAURON awarded a trophy by the Technical Supervision Office (Urząd Dozoru Technicznego) for the high standard of technical safety in recognition of the cooperation in the field of minimizing the risk of operating technical devices and a contribution to the development of the Polish economy.



TAURON Dystrybucja awarded the prize *Pracodawca wspierający szkolnictwo zawodowe 2022* (Employer Supporting Vocational Education 2022) for the involvement in the education of young electricians



TAURON Group awarded an honorable mention and the *Amber Heart* trophy in the Nationwide Energy Summit in recognition of a commitment to the social activities and organizing the Children's Haven at TAURON Arena Kraków.



TAURON awarded the 3rd place in the competition *Best investor relations according to the individual investors in 2021* among the WIG30 companies organized by *Gazeta Giełdy i Inwestorów Parkiet* (Stock Market and Investors Newspaper) and the Brokerage Houses Chamber (Izba Domów Maklerskich).



TAURON Obsługa Klienta awarded the IFS Business Transformation Awards 2022 prize by the Industrial and Financial Systems for 30 years of the partnership cooperation.

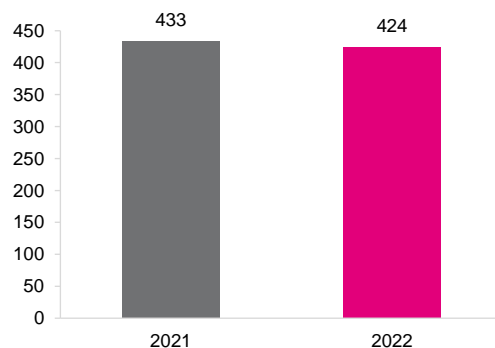
## 2.8. Employment information

### Key headcount data

TAURON's average headcount came in at 424 FTEs in 2022, which meant a decrease by 2.3% versus the headcount in 2021, when the average employment stood at 433 FTEs.

The below figure presents TAURON's average headcount in FTEs (rounded up to the full FTE) in 2021 - 2022.

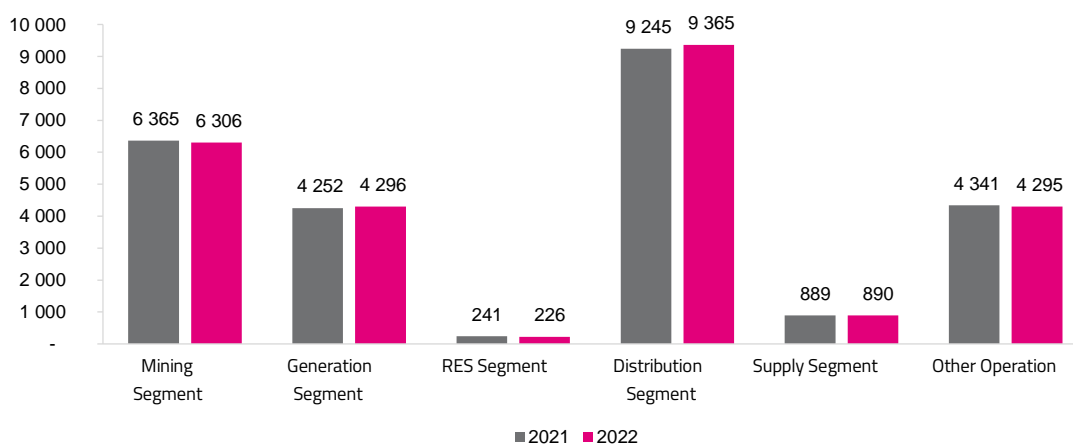
Figure no. 27. TAURON's average headcount in FTEs in 2021 - 2022



TAURON Capital Group's average headcount clocked in at 25 378 FTEs in 2022, which meant an increase by 0.2% versus the headcount in 2021, when the average employment level stood at 25 333 FTEs.

The below figure presents TAURON Capital Group's average headcount in FTEs (rounded up to the full FTE) per operating Segment in 2021-2022.

Figure no. 28. TAURON Capital Group's average headcount in FTEs per operating Segment in 2021-2022<sup>1</sup>



<sup>1</sup>Starting from 2022, TAURON Wytwarzanie's headcount is fully included in the Generation Segment, while in 2021 it was partially included in the Generation Segment and in the RES Segment. TAURON Inwestycje's headcount is split between the Generation Segment and the RES Segment.

The below table below presents the key data on the headcount at TAURON and TAURON Capital Group as of December 31, 2021 and December 31, 2022.

Table no. 21. Key data on the headcount at TAURON and TAURON Capital Group as of December 31, 2021 and December 31, 2022

Key employment data	Unit	TAURON		TAURON Capital Group	
		December 31, 2021	December 31, 2022	December 31, 2021	December 31, 2022
Headcount by Segment of Operations, including:	persons (FTEs)	413	435	25 324	25 740 <sup>1</sup>
1. Mining Segment	persons (FTEs)	-	-	6 285	6 297
2. Generation Segment	persons (FTEs)	-	-	4 218	4 445
3. RES Segment	persons (FTEs)	-	-	212	260
4. Distribution Segment	persons (FTEs)	-	-	9 373	9 510
5. Supply Segment	persons (FTEs)	413	435	873 <sup>2</sup>	916 <sup>2</sup>

Key employment data	Unit	TAURON		TAURON Capital Group	
		December 31, 2021	December 31, 2022	December 31, 2021	December 31, 2022
6. Other Operations	persons (FTEs)	-	-	4 363	4 312
Headcount by education level, including:					
1. College graduates	%	98	97	36	37
2. High school graduates	%	1	3	43	43
3. Vocational school graduates	%	0	0	19	18
4. Elementary school graduates	%	0	0	2	2
Headcount by age, including:					
1. Up to 30 years	%	7	9	9	9
2. 30 - 40 years	%	34	33	22	22
3. 40 - 50 years	%	43	41	29	29
4. 50 - 60 years	%	14	15	32	32
5. Above 60 years	%	2	2	8	8
Headcount by gender, including:					
1. Women	%	46	47	22	22
2. Men	%	54	53	78	78

<sup>1</sup> including 85 persons hired under a definite term labor contract to replace an absent employee.

<sup>2</sup> the figure includes TAURON's headcount.

There had been significant personnel changes within TAURON Group in 2022, first and foremost related to:

1. implementation of the Government NABE Concept,
2. process of the spin-off of the Wspacie Grupa TAURON subsidiary, including with the employees of the security area outside the structure of TAURON Group.

In connection with the planned establishment of NABE, in July 2022, the parts dealing with the activities not related to the hard coal based generation assets (investments and the research, technology and development area) were spun off out of the TAURON Wytwarzanie subsidiary, and thus the TAURON Inwestycje subsidiary was set up. In October 2022, the TAURON Wytwarzanie and Nowe Jaworzno Grupa TAURON subsidiaries were merged. Throughout 2022, the gradual transfers of the employees dealing with the support activities, such as the human resources, payroll, finance and accounting, were taking place from the TAURON Obsluga Klienta subsidiary to the TAURON Wytwarzanie subsidiary, with the aim of securing an autonomous implementation of the support processes.

In addition, a part of the trading area was spun off out of TAURON in order to organize an independent trading structure within the TAURON Wytwarzanie subsidiary, responsible for, among other things, managing of the electricity portfolio, conducting of the electricity trading, purchasing of the CO<sub>2</sub> emission allowances and the production fuels.

The above personnel movements had an impact on the changes to the levels of headcount in the Generation Segment, the Supply Segment and the Other Operations Segment.

In the Other Operations Segment, the changes were related to the transfer of the employees in the real estate and fleet management area from the Wsparcie Grupa TAURON subsidiary to the Uslugi Grupa TAURON subsidiary, as well as the spin-off of the Wsparcie Grupa TAURON subsidiary, including the employees in the security area, out of TAURON Group's structure.

The change in the level of headcount in the Distribution Segment is related to the growing number of tasks in the business processes with respect to the conducting of the segment's core business, as well as the new responsibilities stemming from the changes to the law governing the business operations of the Distribution System Operators.

The changes to the structure of TAURON Group introduced as of the end of December 2022, i.e. the spin-off of the TAURON Mining and Wsparcie Grupa TAURON subsidiaries out of the Group's structure, had not affected the headcount levels in 2022, but they will have a significant impact on the levels of employment in 2023.

## Information on the key non-financial performance indicators related to the entity's operations, the information on the labor and environmental issues

Pursuant to Article 49b, Section 10 of the *Act of September 29, 1994, on accounting*, the Company presents the information on the key non-financial performance indicators related to the entity's operations and the information on the labor and environmental issues in the Non-Financial Report of TAURON Capital Group published on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/raporty-okresowe>.

### 2.9. Expenditures to provide support for culture, sports, charity institutions, media, social organizations, trade unions

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

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

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

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

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

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

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

The below table presents TAURON Capital Group's expenditures to provide support for culture, sports, charity institutions, media and social organizations in 2022.

**Table no. 22. TAURON Capital Group's expenditures on the support for culture, sports, charity institutions, media and social organizations in 2022**

Category	TAURON Capital Group's expenditures in 2022 (PLN m) <sup>1</sup>
1. Culture and art	5.60
2. Sports	8.94
3. Education	1.37
4. TAURON Foundation	3.61
5. Social organizations/charitable institutions	2.53

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

In the culture and art category, the greatest support is provided to TAURON Arena Kraków, which is a nationwide project. Both sports as well as the cultural events are taking place at the venue. Many years of the cooperation have allowed for the strengthening of the association of the venue with its titular sponsor. The recognition of the project is confirmed by the research conducted by Sponsoring Insight in 2022 - TAURON Arena Kraków is the most spontaneously recognizable project, achieving a result of 24.2% among the individual customers. TAURON Group is also a sponsor of the Wrocław Opera House.

An important project, from the point of view of TAURON Capital Group's expenditures to provide support for the athletic activities, is the cooperation with the Polish Volleyball League in place since 2020.

As part of the educational projects, TAURON has been supporting the Wawel Royal Castle continuously since 2010. In 2022, the cooperation with Wawel included two main events, i.e. the patronage of the Wawel summer outdoor music festival *Wawel o zmierzchu* (Wawel at Dusk), as well as the co-organization of the unique multi disciplinary project *Tydzień Patriotyczny* (The Patriotic Week). Over the years, the cooperation with Wawel also included the exhibition projects, as well as the educational campaigns for the children and youth. The relations with the Wawel Royal Castle ensure the spreading and strengthening of the positive image of the TAURON brand, as well as an opportunity to reach significant companies and communities with the TAURON brand message (and the sales pitch message).

The SIEMACHA Association is one of the social organizations and charity institutions that receive the largest support. As part of the cooperation, among other things, TAURON Junior Cup, as well as the smaller, proprietary projects: *Mega Moc Możliwości* (Mega Power of Opportunities), *Łączymy siły dla klimatu* (We are Joining Forces for the Climate), *Chronimy Mega Zwierza* (We are Protecting Mega Animals), *Piłkarski Dzień Dziecka z TAURONEM* (Football Children's Day with TAURON), *Zdrowa Energia w Odporyszowie* (Healthy Energy in Odporyszów), or also *Dzień Czystej Energii* (Clean Energy Day), were organized. In 2022, TAURON was also cooperating with the ISKIERKA (SPARK) Foundation helping the children with cancer and the Red Noses Foundation (Fundacja Czerwone Noski), whose medical clowns bring joy to the young patients by visiting the children's rehabilitation, oncology and cardiology wards. As part of the cooperation with the Foundations, among others, carnival balls for the hospitalized children and an inclusive family picnic were organized. The joint activities also included the creation of a special education and integration project called *Supersprawni* (Superskillful), targeted at the hospitalized children with varying degrees of the neurological disabilities, who, despite their limitations, were able to participate in the theater and circus workshops.

TAURON Capital Group, being a leader in the energy industry, takes advantage of its specialized competencies to promote education and knowledge related to science, as well as the safe use of electricity. The most important project in this area is *Bezpieczniki TAURONA* (TAURON Fuses). As part of the project, TAURON Capital Group is offering ready made lesson plans for the teachers, a guide for parents, as well as interesting games and educational materials related to electricity for the pupils. In 2022, TAURON Group launched its proprietary project *Zielone Laboratoria TAURONA* (TAURON Green Laboratories), under which the financial support for the renovation and equipping of the science laboratories was granted to 4 schools located in TAURON Group's area of operations.

## 3. TAURON CAPITAL GROUP'S RISK MANAGEMENT

### 3.1. Risk management strategy

At TAURON Capital Group risk is understood as an uncertain occurrence or a group of occurrences that, in case of materializing, will have an impact on achieving by TAURON Capital Group of its defined strategic goals, both in a negative manner (a threat), as well as in a positive way (an opportunity).

In line with its Strategy the Company is implementing the process of managing the risk related to the operations of TAURON Capital Group. The primary goals of risk management include ensuring the broadly understood security and safety of TAURON Capital Group's operations. In particular, TAURON Capital Group's risk management is to ensure increased predictability of achieving its strategic goals, sustainable (stable) generation of its financial results, the protection of TAURON Capital Group's current economic value, as well as provide support for the decision making processes.

TAURON Capital Group's risk management:

1. is based on the risk management process that provides comprehensive and consistent rules – it is a continuous process that includes risk identification, risk assessment, the implementation of the adopted response to risk as well as the communications among the participants of the process,
2. covers all of the elements of the value chain,
3. provides the centralized risk measurement, monitoring and control function, and also the ability to evaluate the full risk profile in the organization and the consistent risk management principles,
4. ensures the independence of the risk taking function from its control and monitoring,
5. ensures a clear split of competences and responsibilities, in particular by introducing the risk ownership function,
6. oversees the Risk Committee as an expert team that initiates, analyzes, monitors, controls and supports the functioning of the risk management system at TAURON Capital Group on a permanent and continuous basis,
7. is a pro-active process, focused on an adequately early identification of threats, allowing for taking of the preventive measures,
8. Is a systematic and continuously improved process which allows for aligning it on an ongoing basis to TAURON Capital Group's specifics and its organizational structure, as well as to the changing environment,
9. places an emphasis on developing awareness, training and encouraging personnel to use the knowledge of risks in the daily activities,
10. co-forms TAURON Capital Group's internal audit (control) system, constituting, along with the compliance and security management functions, an element of the Three Line Defense Model,
11. uses the tools that allow for an effective implementation of the process, i.e. risk card, risk register, risk response plan, volatility models, scoring models and risk limits,
12. is based on a risk model that defines a consistent classification of risk, enabling its uniform and comprehensive recognition at TAURON Capital Group's level.

The Enterprise Risk Management System (ERM System) is governed by *TAURON Group's Enterprise Risk Management Strategy* that defines the organization's risk management framework and rules, and its goal is to ensure the consistency of managing the individual risk categories that were detailed in separate regulations, aligned to the specifics of the individual threat groups.

As part of the ERM System, the following Specific Risks are identified within TAURON Group, for which separate Policies tailored to the nature and specifics of the given group of threats are defined:

The below figure presents the basic classification of the corporate risk.

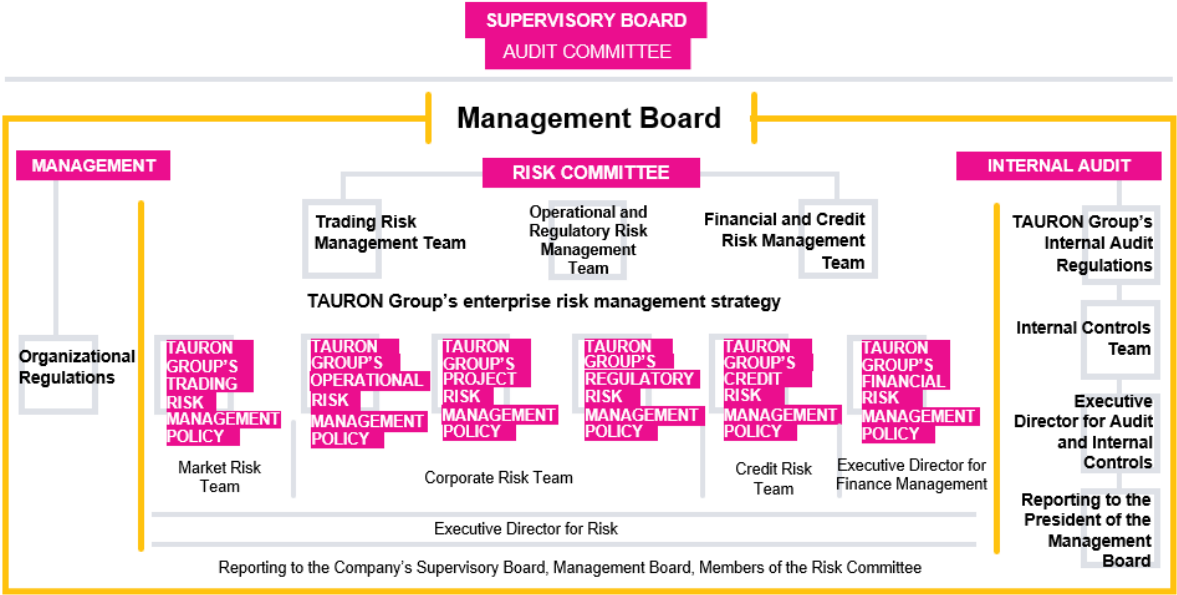
Figure no. 29. Basic classification of the enterprise risk

The key assumption of the ERM System is a clear and precise split of tasks and responsibilities, ensuring no conflict of interest would arise. In particular, the system guarantees the independence of the risk taking function from the risk control and monitoring. This is achieved through the centralization of the control function at the Parent Company's level, while maintaining the organizational and functional separation of the risk taking function.

As part of the ERM System the roles and responsibilities of all of the participants of TAURON Capital Group's risk management system are defined in detail.

The below figure presents in detail the links between the various roles and documents regulating TAURON Capital Group's ERM System.

Figure no. 30. The links between the various roles in the context of the ERM Strategy and the documents regulating the ERM System





The basic risk control tool is the Risk Appetite, approved by the Company's Management Board and the Risk Tolerance that specifies TAURON Capital Group's maximum permitted risk exposure value. The Risk Tolerance level is expressed in the form of a set of metrics and boundary conditions limiting the risk exposure. The Risk Tolerance represents a practical translation of the Risk Appetite, in particular taking into account the division into the key categories of the Specific Risks and the Global Limits related thereto. Based on the adopted Risk Tolerance value as well as the approved Global Limits, the Risk Committee approves the sets of the Operational Limits dedicated to the individual risks or the groups thereof.

### 3.2. Risks in the individual operating Segments

The below table presents the risks in the individual operating Segments.

**Table no. 23. Risks in the individual operating Segments**

Segment	Description of the risk	
Generation	<p>The Generation Segment is exposed, in particular, to the market risk, regulatory risk as well as the technical and organizational risks that will have a significant impact on the Segment's results in the coming years.</p> <p>As part of the market risk, the high volatility of the Clean Dark Spread (CDS) margin (in the short term mainly due to the disruptions taking place on the commodity markets, which is the consequence of the conflict in Ukraine) is observed and in the longer term the expected further curtailing of the CDS margin as a result of the climate policy adopted by the European Union as well as the planned integration of the European electricity market. The observed uncertainty with respect to the supplies of the hard coal and the significant volatility of the prices thereof have an impact on the margins realized in this segment. In addition, the development of the renewable energy technologies and the ever growing share of RES in meeting the demand for electricity have a material impact on the Generation Line of Business, leading to the pushing of the conventional generating units out of the market and the need to adapt. Also, the progressing integration of the European electricity markets and the introduction of the new capacity into the system, with the efficiency much higher than the efficiency of the 200 MW units, means that the use of such generating units in the Generation Segment will be declining. The observed uncertainty with respect to the supply of the hard coal and the significant volatility of its prices affect the margins achieved in this line of business. In addition, the development of the renewable energy technologies and the ever growing share of RES in meeting the demand for electricity have a material impact on the Generation Line of Business, leading to the pushing of the conventional generating units out of the market. and the need to adapt the operation of the conventional generation sources to the unstable (intermittent) production of the RES units.</p> <p>In 2022 (Q1, Q2, Q3) the high demand for the electricity was still observed, and what followed, the demand for the electricity generation based on the hard coal continued to be strong, the supply of which, due to the situation of the Polish mining industry and the aggression of the Russian Federation against Ukraine, was very much curtailed. This situation resulted in a sharp increase of the coal prices and the difficulties in the sourcing thereof, which in turn led to an increase of the risk of maintaining the statutorily required strategic hard coal stocks inventory levels in landfills, and in the future, in the extreme scenarios, it may lead to the curbs in the energy production. The risk of maintaining the statutorily required strategic hard coal stocks inventory levels in landfills is also affected by the implemented regulatory change related to the raising of the requirements in this regard.</p> <p>The factors that are important from the point of view of the operations of the Generation Segment include: the implementation of the regulations aimed at reducing the demand for the electricity, the introduction of the mechanisms aimed at curtailing the increases in the electricity prices for the final consumers, the introduction of the margin caps in 2023 for the electricity generators, as well as the changes in the rules of the functioning of the wholesale electricity market (the abolition of the power exchange obligation, the changes in the rules for the price setting in the balancing market), which is a consequence of the ongoing conflict in Ukraine and its impact on the economic environment (the embargo on the hydrocarbons imported from Russia, an increase in the gas, electricity, coal prices).</p> <p>With respect to the operational factors, the most material threat is the risk of not achieving the planned availability rate (dispatchability) of the generating units, which is closely related to the individual units' failure rate, the high variability of the units' loads and the increased frequency of the generation units' start-ups. A material risk is also the progress of the tune-up (adjustment) process of the 910 MW generating unit in Jaworzno in connection with the transition process (period) under way, and, as a consequence, a limited production volume and the need to balance the trading position. Another material risk factor is the availability of the adequate quantity and quality of the production fuel, as well as the offshore and onshore logistics capabilities.</p> <p>A failure to meet the planned availability rate (dispatchability) of the units may also result in the inability to meet the capacity obligation, which, if it is not possible to reserve the capacity using the internal sources or on the secondary market, may result in the assessing of the penalties on the Generation Segment's subsidiaries for this reason.</p>	
	RES	<p>The RES segment is exposed, in particular, to the market risks, the risks related to the weather factors affecting the volume of the electricity generation, in particular the hydro, wind and solar based, as well as the regulatory risks (including the regulations introducing the margin caps for the electricity generators in 2023), the impact of which significantly affects the earnings of the RES Segment and its expansion opportunities.</p> <p>The volume of the electricity produced by the hydro power plants is dependent on the hydrological conditions, including the quantity and frequency of the rainfall both in the winter as well as during the summer period. In the case of the wind and photovoltaic energy, the greater predictability of the volume produced, and thus the stability of achieving the planned production volumes is observed. The market risk related to the high volatility of the prices of the electricity and the related products has an equally material impact on the results of the RES Segment, which translates into the amount of the margin obtained on the operations conducted.</p> <p>The results of the RES Segment are also materially impacted by the availability (dispatchability) rates of the assets and the risk of their failure related thereto (among other things, in the event of the extreme weather events), and as a consequence the potential temporary outages of some of the assets from use.</p> <p>The existing RES Segment's expansion opportunities and its development (growth) strategy, including those stemming from the climate policy, are grappling with the regulatory restrictions related, in particular, to the construction of the new RES sources. The opportunities for development are provided by the announcement of and the ongoing works on the liberalization of the so-called distance law, allowing for the development of the onshore wind energy.</p>

Segment	Description of the risk
<b>Distribution</b>	<p>The economic disturbances observed in 2022, including a rise of the inflation rate and the restrictions imposed on the global trade exchange, will affect the future costs of the development (expansion) oriented investment projects and the costs of maintaining the existing assets, which, as a consequence, may impact the profitability of the RES Segment.</p>
	<p>One of the most important threats to the Distribution Segment is the distribution services sales risk related to the electricity supply volume (decline observed in the fourth quarter of 2022), and, as a consequence, the fluctuations of the revenue from the provision of the distribution services to the individual groups of consumers. The material reasons behind this risk include both the macroeconomic factors, i.e. a decline of the demand for the electricity due to the economic slowdown, the epidemiological situation, the weather condition, as well as the factors stemming from the climate issues, i.e. an increase in the consumer awareness with respect to reducing the energy consumption intensity and the rapid growth of the prosumer energy observed over the recent years.</p> <p>An equally material risk is associated with the occurrence of an unfavorable deviation of the operating expenses related to the inability to cover the costs of the operations during the period covered by the tariff, and in particular the operating expenses and the costs of purchasing the electricity to cover the balancing difference.</p>
	<p>With respect to the operational factors, a material risk for the Distribution Segment is the risk of an asset failure, i.e. the risk related to maintaining the availability of the transmission networks (systems) and the costs related to the fixing of the failures resulting from, among others, the climate changes leading to an increase in the frequency and intensity of the extreme weather occurrences, such as hurricanes, hoar frost, strong winds incidentally accompanied by the tornadoes and lightnings causing failures of the distribution grids. One should also take into account the rapid increase in the renewable energy sources, which has an impact on the stability of the distribution grid.</p> <p>In the medium and long term, the material risks for the Distribution Segment include the regulatory risks, including the ones related to an adverse change in the structure and parameters determining the tariff amount (the factors behind this risk include, among others, the WACC rate, the amount of the capital expenditures, the balancing difference indicators and the amount of the transmission fees), the issues related to the compliance with the electricity distribution quality indicators that have an impact on the regulated revenue and the change to the distribution tariff model.</p>
	<p>A threat to the Distribution Segment is also the credit risk, understood as a failure of the contractors (counterparties) to meet their obligations arising from the distribution services sales. The uncertainty and the fluctuations on the market may lead to an increase of the insolvency rate of TAURON Capital Group's customers.</p> <p>The economic disturbances observed in 2022, including an increase in the inflation rate and the restrictions imposed on the global trade exchange, have an impact on the costs of the development (expansion) oriented investment projects and the costs of maintaining the existing assets, which, as a consequence, may affect the profitability of the Segment.</p>
<b>Supply</b>	<p>A material threat to the accomplishment of the Supply Segment's goals is the volume risk related to the non-achievement of the assumed electricity supply volume. The reasons behind this risk stem from such factors as: the competitive environment, the evolution of the pandemic, as well as the macroeconomic factors, i.e. a drop of the demand for the electricity caused by the economic slowdown and the volatility of the electricity prices. In addition, this risk is fueled by the increased customer awareness, the trend to strengthen the consumer rights protection and the regulatory pressure to curb the increases of the electricity and gas prices for the final consumers and the level of consumption of the electricity and gas by the final consumers.</p> <p>At the same time, in parallel, the market risk due to the high volatility and the increase of the electricity, gas and the related products prices is a threat for the Supply Segment, in particular from the moment the Russian Federation began its aggression against Ukraine. Such risk, as a consequence of such material price fluctuations, as well as the observed drop of the liquidity of the electricity market, has a material impact on the margin obtained due to the steps required to secure (hedge) the cost of the electricity and gas supply for the purpose of ensuring the sales thereof to the final consumer. In addition, due to the changes in the generation mix structure stemming mainly from the rapid growth of the photovoltaic sources in Poland, the material changes in the electricity price profiles are observed. This situation leads to the increased costs of the profiling and balancing of the demand from the final consumers.</p>
	<p>A material threat (risk) to the Supply Line of Business (Segment) is also posed by the credit risk understood as a failure of the customers to meet their obligations arising from the electricity and gas sales. The uncertainty and the fluctuations on the market may lead to a significant increase in the insolvency rate of the counterparties (contractors) of TAURON Capital Group.</p> <p>One of the most important regulatory risks in the Supply Segment is the regulated tariff risk, related to the level of the costs allowed by the President of the ERO to be passed on in the sales price for the given year. The consequence of the materialization of such a risk is the curtailment of the planned revenue, profitability and funds for the development of the Company's potential. Of particular note, in the context of 2023, is the implementation of the electricity and gas price freeze regulation in Poland and the creation of a fund to cover the price differences between the cost of purchasing the electricity and the level resulting from the freeze. The risk related to the regulated tariffs is also very material in the years to come, due to the observed high level of the prices in the electricity and gas markets. The material regulatory risks are also the introduced and announced changes in the functioning of the balancing market, which may have an impact on the cost of balancing the demand of the customers of the Supply Segment.</p> <p>In the long run, the climate factors, and in particular the further expansion of the prosumer and industrial energy, pose a threat to the stability of achieving the Supply Segment's goals, resulting in a loss of the supply volume and the margin on the electricity sales.</p>
<b>Other risks</b>	<p>The other organizational units that are a part of TAURON Capital Group are primarily providing the support services for the above mentioned Segments. The main risks that are present in the Other Operations Segment are related to ensuring the availability and security of the IT services, the broadly understood compliance management, the personal data protection, as well as the security and protection of property.</p> <p>At TAURON Capital Group's level, some of the material threats affecting the entire value chain of TAURON Capital Group include the risk of financing resulting from the gradual withdrawal of the financial institutions from financing of the activities based on the fossil fuels, the regulatory and political issues related in particular to the environment and climate protection issues, the risks associated with the human resources management and the workforce expectations with respect to the growth of the wages, as well as the pending court litigations against TAURON.</p> <p>With respect to the regulatory risk, the continued trend towards the tightening of the EU climate policy is observed, related to a greater reduction of the CO<sub>2</sub> emissions and the support for the RES investments, which leads to an increase in the volatility in terms of the national sector regulations, and this in turn translates into an increase in the number of the regulatory risks of the strategic importance for TAURON Capital Group.</p>

### 3.3. Description of the most material risk categories and their mitigation examples

The below table presents the most material risk categories identified for TAURON Capital Group.

Table no. 24. Most material risk categories identified for TAURON Capital Group

Risk name	Risk description	Risk trend and materiality	Reaction to risk
<b>Trading risk</b>			
1. Trading risk	<p>The risk related to:</p> <ol style="list-style-type: none"> <li>an unfavorable change in the prices on the wholesale electricity market and the energy related product markets, including hard coal, gas, crude oil, CO<sub>2</sub> emission allowances, property rights, which have a negative impact on the financial results,</li> <li>lack of the supply of the above mentioned products on the market and the liquidity of the commodity markets.</li> </ol>	<p>↗</p> <p>■</p>	<ol style="list-style-type: none"> <li>Independent monitoring of the trading positions and of the use (consumption) of the risk limits.</li> <li>Daily control (checking) of the compliance with the limits - Value at Risk.</li> <li>Daily control (checking) of the volume of the open positions, broken down into all of the assets and the aggregate.</li> <li>Applying of the Stop Loss limits allowing for protecting (locking in) the generated result.</li> <li>The use of the futures (forward) products allowing for the hedging of the future exposure to the trading risk.</li> <li>Applying of the tolerances allowing for the flexible reaction to the changing market conditions with a limited level of the risk incurred.</li> <li>Taking advantage of the effects of the diversification between the products and the trading portfolios as well as the use of the internal netting.</li> <li>Centralization of the trading activities at TAURON Capital Group allowing for taking advantage of the synergy effects.</li> <li>Product changes adjusted to the current market situation.</li> </ol>
<b>Financial and credit risk</b>			
2. Interest rate risk	Risk related to an unfavorable impact of the interest rates on TAURON Capital Group's financial results.	<p>→</p> <p>■</p>	<ol style="list-style-type: none"> <li>Ongoing monitoring of the risk exposure in order to minimize the negative impacts of the changes to the interest rates.</li> <li>Transfer of the risk through the use of the derivative instruments.</li> </ol>
3. FX rate risk	Risk related to an unfavorable impact of the FX rates on TAURON Capital Group's financial results.	<p>→</p> <p>■</p>	<ol style="list-style-type: none"> <li>Ongoing monitoring of the risk exposure vulnerable to the FX rate risk.</li> <li>Use of the risk limits for TAURON Capital Group's operational FX position (Value at Risk).</li> <li>Transfer of the FX rate risk through the use of the hedging transactions in accordance with the adopted <i>TAURON Group's Financial Risk Management Policy</i>.</li> </ol>
4. Liquidity risk	Risk related to the lack of TAURON Capital Group's ability to meet its obligations on an ongoing basis and the difficulties in accessing capital, a change in the conditions for obtaining and servicing the financing already contracted and planned (incl. due to the tightening of the EU climate policy).	<p>→</p> <p>■</p>	<ol style="list-style-type: none"> <li>Diversification of the sources of financing including the arranging of the guaranteed financing programs as well as the securing of the alternative sources of financing.</li> <li>Analyzing the market and the availability of the sources of financing.</li> <li>Ongoing communications with the financial institutions.</li> <li>Arranging of the financing agreements in advance of the time the funding is needed.</li> <li>Monitoring the financial liquidity and planning the use of the available sources of financing.</li> <li>Introduction of a liquidity control system (the spending limits).</li> <li>Taking actions and recommendations with respect to the operations of the Financial Management Area, indicated by the Risk Committee or the Management Board of the Company.</li> </ol>
5. Financing risk	Risk related to the difficulties in accessing the capital, a change in the conditions for obtaining and servicing the financing already contracted and planned (incl. due to the tightening of the EU climate policy).	<p>→</p> <p>■</p>	<ol style="list-style-type: none"> <li>Diversification of the use of the available sources of financing by using the financing instruments that reduce the risk of breaching the covenant in the form of the net debt to EBITDA ratio (for example the hybrid bonds, factoring).</li> <li>The use of the instruments without financial covenants and limiting the number of the conditions that breach such covenants.</li> <li>Ongoing communications with the financial institutions.</li> <li>Pre-emptive activities with respect to obtaining the approvals from the financial institutions to carry out the transactions or activities specified in the financing agreements.</li> <li>Identification of the events that may potentially affect the breach of the financial contracts and taking pre-</li> </ol>

Risk name	Risk description	Risk trend and materiality	Reaction to risk
			<p>emptive actions to mitigate the negative impact of the emergence of such an event.</p> <p>6. Taking actions and recommendations regarding the operations of the Financial Management Area, indicated by the Risk Committee or the Management Board of the Company.</p> <p>7. Taking actions aimed at reducing the net debt and/or increasing the EBITDA based on the decisions of the Risk Committee or the Management Board of the Company.</p>
6. Tax risk	Risk related to the incorrect or untimely payment of the tax obligations and associated with the implementation of the regulatory changes.	→ ■	<p>1. Activities in accordance with the legal regulations (Corporate Income Tax Act).</p> <p>2. Issuing opinions (providing feedback) on the economic events by TAURON Capital Group's tax advisors.</p> <p>3. Jointly agreed upon positions at TAURON level.</p> <p>4. Applying of the uniform accounting principles for the companies (subsidiaries) within the PGK (Tax Capital Group).</p> <p>5. Preparation of the tax documentation for the transactions between the PGK companies and the related entities outside PGK, requiring such documentation in accordance with the CIT Act, and auditing other transactions in order to confirm that they are concluded at arm's length.</p>
7. Credit risk	Risk related to a potential occurrence of the overdue accounts payable or a conclusion of a contract with a counterparty (business partner, contractor) that may turn out to be insolvent.	↗ ■	<p>1. Applying of the assessment of the contractors (assigning of the ratings and the credit limits) at the individual TAURON Group's subsidiaries.</p> <p>2. The use of the credit collaterals for the customers with an unacceptable risk exposure.</p> <p>3. Monitoring of the status (level, balance) of the Company's overdue accounts receivable.</p> <p>4. Investigative (fact finding) and preventive actions in case of exceeding the indicators (ratios, metrics).</p> <p>5. The use of the continuous monitoring of the financial standing of the counterparties (business partners, contractors).</p> <p>6. Conducting of the debt collection processes.</p> <p>7. Identification of the customers particularly exposed to the impact of the trade exchange restrictions and the impact of the conflict in Ukraine, the review of the assessment of the financial condition, and, if necessary, the application of the collaterals for the sales contracts in progress.</p> <p>8. Avoiding the overly excessive concentration of the exposures in the selected industries particularly exposed to the impact of the deteriorating macroeconomic environment.</p>
<b>Risks related to the environment (stakeholders)</b>			
8. Reputational risk	Risk related to the current and future impact on the company's revenue and capital (equity) due to the negative public opinion backlash, including the risk related to not following the market trends related to the climate protection.	→ ■	<p>1. Continuous monitoring of the Company's external and internal threats (risks).</p> <p>2. Media monitoring, developing the contacts and relationships with the media within TAURON Capital Group.</p> <p>3. Preparing the procedures for the Company's communications with the external and internal environment (stakeholders).</p> <p>4. Striving to change the business profile to zero and low emission (low carbon).</p> <p>5. Application of: <i>TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination</i>, <i>TAURON Group's Anti-corruption Policy</i>, <i>TAURON Group's Corporate Social Responsibility Code of Conduct</i>, <i>TAURON Group's Diversity Policy</i>, <i>TAURON Group's Respect for Human Rights Policy</i></p>
9. License risk	Risk related to the lack of the possibility of conducting the operations as a result of a prolonged process of obtaining a license or amending of the licenses held, as well as the unfavorable legal changes with respect to the licensed operations.	→ ■	<p>1. Ongoing control (checking) of the correct fulfillment of (compliance with) the licensing obligations.</p> <p>2. Monitoring of the changes to the legal acts with respect to the licensing obligations.</p> <p>3. Legal support for the license extension process and the process of obtaining it.</p>
10. Macro economic risk	Risk related to a change in the economic situation of the country, the instability of the financial markets resulting in a decrease of the demand for the electricity.	↗ ■	<p>1. Diversification of the revenue sources.</p> <p>2. Market analysis and the application of the preemptive actions for the anticipated crisis (downturn) or a slowdown of the GDP growth rate.</p> <p>3. Actions taken as part of the response plans with respect to the individual risks at TAURON Group</p>

Risk name	Risk description	Risk trend and materiality	Reaction to risk
11. Climate change risk	Risk related to the tightening of the EU climate policy, as well as of the environmental requirements resulting from the climate change, activities supporting energy efficiency (expansion of the prosumer development, support for the thermal insulation projects, construction of the in-house energy and heat sources, departure from the coal as fuel), a change in the conditions of TAURON Capital Group's operations (the need to adapt the company to the challenges of the changes resulting from the climate change). The implications of the risk include: the difficulties or an increase in the cost of raising the capital to finance the operations based on the fossil fuels, the need to incur the additional capital expenditures for adapting the assets to the environmental requirements, an increase of the price of the CO <sub>2</sub> emission allowances, the declined of the demand for the products offered by TAURON Capital Group's subsidiaries up to now.	↗ ■	<ol style="list-style-type: none"> <li>1. Application of <i>TAURON Group's Climate Policy</i>.</li> <li>2. Gradual adaptation of the production assets and the energy mix of TAURON Capital Group to the production of the renewable energy as well as the zero and low emission electricity generation technologies.</li> <li>3. Update of <i>TAURON Group's Strategic Research Agenda</i>.</li> <li>4. Adaptation of TAURON Group's Investment Strategy to the guidelines stemming from <i>TAURON Group's Climate Policy</i>.</li> <li>5. Active participation in the works of the teams issuing opinions (providing feedback) on the projects and proposing optimal solutions.</li> <li>6. Active searching for the technical and organizational solutions that would minimize the impact of TAURON Capital Group's operations on the climate change.</li> <li>7. Promoting of the eco-mobility or the climate-neutral mobility.</li> <li>8. Cooperation with the business and social (workforce) partners with respect to the adaptation to the climate change.</li> </ol>
<b>Risks related to the technology, infrastructure and security (safety)</b>			
12. Environmental risk	Risk related to the impact of the business operations conducted on the natural environment and the use of its resources, including, in particular, the loss of control over the process that would enable the prevention of the overly excessive pollution, damage, disruption or failures of the installations or equipment that would have a negative impact on the environment.	→ ■	<ol style="list-style-type: none"> <li>1. Application of <i>TAURON Group's Environmental Policy</i>.</li> <li>2. Conducting of the business operations that affect the environment in accordance with the principles of the sustainable development.</li> <li>3. Ongoing supervision over the compliance with the conditions of the environmental decisions.</li> <li>4. Maintaining of the required efficiency of the devices reducing the emissions of the pollutants.</li> <li>5. Frequent evaluation of the compliance of the activities with the legal requirements with respect to the environment protection.</li> <li>6. Implementing of the investment projects in the environment protection area in order to minimize the adverse impact of the conducted mining and processing operations on the environment and climate.</li> <li>7. Active searching for the technical and organizational solutions that would minimize the impact of TAURON Capital Group's operations on the climate change.</li> </ol>
13. Weather risk	Risk related to the volatile weather conditions, including the more frequent occurrence of the weather anomalies, leading, among others, to a decrease of the volume of the electricity and heat supply and distribution, a decline of the production volume.	→ ■	<ol style="list-style-type: none"> <li>1. Gradual adaptation of the production assets to the consequences of the extreme weather phenomena and the volatility of the weather conditions, in particular in the Lines of Business sensitive to these factors.</li> <li>2. Monitoring and analysis of the new technological solutions curtailing the impact of the unfavorable weather conditions on the volume of the electricity produced.</li> <li>3. Preparing of the plans of the overhauls, inspections and maintenance activities with the flexible provisions related to the deadlines for the completion of the works.</li> <li>4. Continuous monitoring of the wind conditions and the icing on the wind farms' blades.</li> <li>5. Continuous technical oversight over the operation of the individual wind farms carried out by the subsidiaries operating the wind farms.</li> <li>6. Upgrading (refurbishing) of the hydro electric structures aimed at optimizing the utilization of the hydro resources.</li> </ol>
14. Company asset failure risk	Risk related to the failures of the machinery and equipment, the distribution (electricity, heat) grid failures caused, among others, by the operation thereof, but also by the random (fortuitous) events including those related to the extreme weather conditions (storms, floods, hurricane winds, heat waves, fires) as a consequence of, among others, the climate change. The materialization of the risk affects the availability of the assets and results in the downtime related to the asset failures, increased costs of the rectification thereof, the deterioration of the quality indicators and the impact on the regulated revenue. In addition, it may also be a failure to meet the capacity obligation, as a consequence resulting in the	→ ■	<ol style="list-style-type: none"> <li>1. Optimizing of the capital expenditures on the asset replacements, the ongoing monitoring of the condition of the machines, devices and installations.</li> <li>2. Insuring the assets against the fortuitous events (excluding the underground assets).</li> <li>3. Raising of the professional qualifications and the work culture of the personnel by organizing the courses and training.</li> <li>4. Responding to an emergency situation by the technical personnel and the automatic process safety interlocks (safeguards).</li> <li>5. Introducing of the IT tools with respect to improving of the monitoring and managing the failure indicators (rates, ratios).</li> <li>6. Continuous monitoring of the availability (dispatchability) rate of the generation units and the</li> </ol>

Risk name	Risk description	Risk trend and materiality	Reaction to risk
	need to conclude the transactions on the secondary market or the payment of the financial penalties to the TSO (PSE). One of the effects is also the need to balance the trading position.		<p>demand reduction facilities, as well as the shifting of the capacity obligations that require reserving to the dedicated intra-group reserve units or to the external entities.</p> <ol style="list-style-type: none"> <li>Updating of TAURON Capital Group's maintenance (overhaul) shutdowns schedules.</li> <li>Gradual adaptation of the production assets to the consequences of the extreme weather phenomena and the variability of the weather conditions, in particular in the Distribution Line of Business.</li> <li>Optimizing of the trading position.</li> </ol>
15. IT / OT risk	Risks related to the IT / OT infrastructure security and safety, the failures of the IT / OT infrastructure.	↗ ■	<ol style="list-style-type: none"> <li>Developing and maintaining of the plans aimed at ensuring the continuity of the IT / OT infrastructure's operation.</li> <li>Periodic identifying and categorizing of the IT/OT resources based on the service restoration targets.</li> <li>Use of the IT / OT solutions with the adequate technical parameters, providing an acceptable level of the reliability and performance of the operation (including also the UPS devices, GSM modem, mobile phones).</li> <li>Planning and conducting of the training courses on the IT / OT infrastructure's continuity of the operation and security.</li> <li>Storing and protecting the back up data.</li> </ol>
16. Asset (property) security and protection risk	Risk related to the compromising of the integrity of the machines / devices and to the security of the information, including the improper processing and the unauthorized disclosure thereof.	→ ■	<ol style="list-style-type: none"> <li>Monitoring of the implementation of the developed plans to protect the facilities that are subject to the mandatory protection.</li> <li>Maintaining and updating of the contingency procedures / plans.</li> <li>Oversight over the compliance with the information security rules in force.</li> <li>Regular personnel training with respect to the security procedures in force.</li> </ol>
17. Risk related to the purchasing of the energy related fuels	The risk is related to the possible necessity to purchase the hard coal at a higher price than assumed in the budget plan (which may be due to an increase in the production of the electricity and heat by TAURON Group's generating units, as well as due to a failure to fulfill the concluded hard coal contracts in the minimum quantities). An additional risk factor is the limited supply of the hard coal on the market, in particular the hard coal with the right quality parameters, which, as a consequence, may involve a failure to meet the level of the statutory strategic reserves or, in an extreme scenario, the need to reduce the production.	→ ■	<ol style="list-style-type: none"> <li>Maintaining of the statutorily required hard coal stocks in the stockpiles,</li> <li>securing of the additional hard coal volume under the SPOT contracts and, as a volume option, purchasing of the imported hard coal.</li> <li>Use of the DAP / CPT formulas, allowing for the flexible response to the changing market conditions (increasing of the hard coal deliveries using the supplier's transportation).</li> <li>Ongoing monitoring of the performance of the volumes specified in the contracts.</li> <li>Long term hedging of TAURON Group's fuel position taking into account the current economic conditions.</li> <li>negotiations with the hard coal suppliers.</li> <li>Searching for the new direction of the supply.</li> </ol>
<b>Risks related to the workforce and the organizational culture</b>			
18. Risk of the social disputes (disputes with the workforce)	Risk related to the collective disputes, strikes, social conflicts (conflicts with the workforce) being a consequence of a lack of the personnel's satisfaction with the economic and social situation.	↗ ■	<ol style="list-style-type: none"> <li>Conducting of the public consultations regarding the planned changes.</li> <li>Conducting a policy of the dialogue with the social partners (workforce).</li> <li>Preparing and implementing of the motivational solutions for the personnel.</li> <li>Standardizing of the tasks and the requirements towards the personnel.</li> <li>Developing of the organizational culture based on the PRO values.</li> <li>Conducting of the active internal communications on the personnel matters</li> </ol>
19. Human resources risk	Risk related to the employee issues, including also with respect to ensuring the qualified personnel, taking into account the diversity issue, the employment and the labor conditions, the relations with the trade union organizations and the respect for the right to the freedom of association, human capital management, career path and recruitment management, training systems, health and safety at work as well as, in the long run, the need to ensure the adequate competences stemming from the energy transition process. The materialization of the risk may result in the interruptions or the disruptions in the operational work, labor grievances, collective industrial disputes, strikes, loss of the specialized personnel and the difficulties in the replacement thereof.	→ ■	<ol style="list-style-type: none"> <li>Implementation of <i>TAURON Group's Human Capital Management Policy</i> based on the Competence Model and the applicable regulations in force with respect to the compensation and labor law (Compensation Regulations, Company Collective Bargaining Agreement (ZUZP), Labor Regulations).</li> <li>Implementation of <i>TAURON Group's Principles of Recruitment</i>.</li> <li>Implementation of <i>TAURON Group's Human Capital Management Policy</i>,</li> <li>Implementation of <i>TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination</i>.</li> <li>Taking care of developing the competences of the personnel, including through the participation in the development training courses.</li> <li>Holding of the consultations with the social (workforce) organizations operating at TAURON Group's subsidiaries.</li> </ol>

Risk name	Risk description	Risk trend and materiality	Reaction to risk
			<ul style="list-style-type: none"> <li>7. Application of the provisions of the <i>Diversity Policy</i></li> <li>8. Application of the provisions of the <i>Respect for Human Rights Policy</i>.</li> </ul>
20. Risk of the lack of the employees' due diligence	Risk related to the non-compliance with the procedures and the lack of the due diligence by the employees in the performance of their official duties.	→ ■	<ul style="list-style-type: none"> <li>1. Application of <i>TAURON Group's Subsidiaries Employee Recruitment, Selection and Adaptation Policy</i>,</li> <li>2. Systematic periodic employee training,</li> <li>3. Analysis of the recurring cases of the errors and mistakes of the employees, taking of the systemic remedial actions.</li> <li>4. Implementation of the Internal Control (Audit) System and the control (audit) mechanisms for the processes conducted at TAURON Capital Group.</li> </ul>
21. Pandemic risk	Risk related to the persistence of the state of the pandemic, leading to the disruptions of Poland's economic and administration system and causing significant changes in the market environment, impacting the operating conditions of TAURON Capital Group's subsidiaries. A potential arrival of further waves of infections may have an impact on the operations of the individual Lines of Business of TAURON Capital Group due to the increased absenteeism of the employees. An increase in the number of infection cases leads to the curtailment of the economic activity, affecting the level of demand for the products offered by TAURON Capital Group's subsidiaries, including the electricity distribution and supply volumes.	→ ■	<ul style="list-style-type: none"> <li>1. Monitoring of the state of the epidemiological threat (risk) at TAURON Capital Group.</li> <li>2. Collecting of the information on the threats and identification of the potential threats to the security and safety of the workforce of TAURON Capital Group's subsidiaries.</li> <li>3. Developing and recommending of the solutions aimed at reducing the level of the threat to the resources of TAURON Capital Group.</li> <li>4. Ongoing monitoring of the risk related to the availability of the employees and services provided by TAURON Capital Group's subsidiaries.</li> <li>5. Recommending of the solutions aimed at curbing the effects of the materialization of the threat to the resources of TAURON Capital Group.</li> <li>6. Preparing and providing of the feedback on the content of the messages to be disseminated at the level of the Company and TAURON Capital Group.</li> <li>7. Use of the screening tests.</li> <li>8. Preparing of the contingency plans in the event of the loss of the key employees of TAURON Capital Group.</li> <li>9. Developing the backup (contingency) business continuity plans.</li> </ul>
22. Work Health and Safety (WHS) Risk	Risk related to ensuring the health and safety at work. The materialization of the risk results in an employee injury, a loss of health or the overly excessive exposure of an employee to the factors harmful to health, the compensations paid out for a personal injury.	→ ■	<ul style="list-style-type: none"> <li>1. Prioritizing of the safety and security of the employees, customers, contractors and stakeholders in the business activities undertaken</li> <li>2. Application of <i>TAURON Group's WHS Policy</i>,</li> <li>3. Conducting of the active monitoring of the labor conditions and the correctness of the organization of the work,</li> <li>4. Raising of the employees' qualifications with respect to improving the labor safety,</li> <li>5. Conducting of the training courses, implementing and improving of the WHS management system</li> </ul>
23. Communications risk	Risk related to the providing of the inaccurate, untrue information or a lack of the information disclosure at a specific time.	→ ■	<ul style="list-style-type: none"> <li>1. Developing of the <i>Communications Strategy for TAURON Capital Group</i>,</li> <li>2. Building of the relationships with the social partners (workforce) at TAURON Capital Group and the close cooperation with the Commissioner for Social Dialogue (Ombudsman).</li> <li>3. Use and development of the available communications tools to provide the relevant information to the employees of TAURON Capital Group.</li> <li>4. When providing the relevant information – organizing of the direct meetings between the management team and the employees.</li> <li>5. Ongoing monitoring of the situation and events at TAURON Capital Group's subsidiaries that may cause social discontent.</li> <li>6. Regular periodic meetings with the representatives of the subsidiaries dealing with the internal communications in order to exchange the information.</li> </ul>
<b>Risks related to the lack of compliance</b>			
24. Internal fraud (abuse) risk	Risk related to the appropriation or use of the Company's assets, its devastation, theft, the use of the official position for personal gain resulting in the financial losses, criminal and administrative sanctions, criminal and civil law liability.	→ ■	<ul style="list-style-type: none"> <li>1. Educational and training activities for the employees, including the mandatory e-learning training with respect to the values and standards defined, among others, in <i>TAURON Group's Corporate Social Responsibility Code of Conduct</i>.</li> <li>2. Effective use of the whistleblowing system by the organization.</li> <li>3. Conducting of the investigative (fact finding) probes by the Compliance Officer or the Compliance Coordinators.</li> <li>4. Building of the organizational culture based on TAURON Capital Group's values and principles.</li> </ul>

Risk name	Risk description	Risk trend and materiality	Reaction to risk
25. External fraud (abuse) risk	Risk related to the occurrence of an external fraud (abuse) that affects the operations of TAURON Capital Group through: the disclosure of the information to unauthorized persons, loss of information, commercial espionage, terrorist attack and hacker attacks, tax fraud, theft, vandalism, counterfeiting, money laundering, terrorist attack.	→ ■	<ol style="list-style-type: none"> <li>Application of the provisions of <i>TAURON Group's Anti-Corruption Policy</i>, <i>TAURON Group's Corporate Social Responsibility Code of Conduct</i> and <i>TAURON Group's Rules for accepting and giving gifts</i>.</li> <li>Raising of the employees' awareness through the training and information campaigns related to the existing threats of external fraud (abuse), including with respect to TAURON Group's Compliance Management System functioning in the organization.</li> <li>Application of the <i>Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries</i>.</li> <li>Application of the anti-corruption clauses to the contracts with the contractors (counterparties).</li> <li>Application of <i>TAURON Group's Anti-Corruption Policy</i>.</li> <li>Effective use of the whistleblowing system in the organization.</li> <li>Monitoring of the cooperation with the contractors (counterparties) and testing (vetting) their credibility at TAURON Capital Group in accordance with TAURON Group's Procedure for the Credibility Assessment of the Contractors (Counterparties), including in particular limiting the risk of the participation in the procedure involving tax fraud and money laundering or terrorism financing.</li> <li>Promoting of the best practices, improving of the procedures, conducting of the training courses and applying of <i>TAURON Group's Corporate Social Responsibility Code of Conduct</i> and the functioning of the whistleblowing system.</li> <li>Building of the organizational culture based on TAURON Capital Group's values and principles.</li> </ol>
26. Risk of unethical behavior and mobbing	Risk related to the occurrence of unethical behavior resulting, in particular, in the lack of cooperation, bad atmosphere in the team, mobbing, harassment, insulting, discrimination of the employees.	→ ■	<ol style="list-style-type: none"> <li>Application of the provisions of <i>TAURON Group's Respect for Human Rights Policy</i>, <i>TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination</i>, <i>TAURON Group's Anti-Corruption Policy</i> and <i>TAURON Group's Rules for accepting and giving gifts</i>.</li> <li>Effective use of the whistleblowing system in the organization.</li> <li>Conducting of the investigative (fact finding) probes by the Compliance Officer or the Compliance Coordinators with respect to the anonymous reports related to the cases of mobbing and discrimination.</li> <li>Reviewing of the reports of the mobbing or discrimination cases by the Ethics Committee.</li> <li>Promoting of the best practices, improving of the procedures, conducting of the training courses and applying of <i>TAURON Group's Corporate Social Responsibility Code of Conduct</i> as well as the functioning of the whistleblowing system.</li> <li>Building of the organizational culture based on TAURON Capital Group's values and principles.</li> </ol>
27. Legal risk	Risk related to the non-compliance with the legal provisions, misinterpretation of the new laws and regulations, the requirements imposed by the regulator and the supervisory authorities. The materialization of the risk may result in the financial penalties, criminal and civil law liability, a loss of the image of TAURON Capital Group.	→ ■	<ol style="list-style-type: none"> <li>Application of the provisions of <i>TAURON Group's Compliance Policy</i>.</li> <li>Continuous monitoring of the legal environment and the changes to the legal regulations with respect to the non-sector regulations related to the information security or the area of compliance in order to minimize the occurrence of the risk of the non-compliance.</li> <li>Monitoring of the implementation process or implementing of the changes to the internal regulations and the intra-corporate regulations required by the law.</li> <li>Setting up or participating in the working groups tasked with the adapting of the organizations to the changes stemming from the legal environment.</li> <li>Consultations with the relevant organizational units with respect to the planned key regulations for the area of compliance.</li> <li>Training of the personnel with respect to the changes to the legal regulations and the internal regulations.</li> </ol>
28. Risk of a breach of the contractual provisions (default)	Risk related to a breach of the contractual provisions with respect to the contract parameters or a failure to perform the contract (default).	→ ■	<ol style="list-style-type: none"> <li>Updating and adapting of the contract templates to the legal changes.</li> <li>Monitoring of the complaints and proceedings of the Energy Regulatory Office (URE) / Office of Competition and Consumer Protection (UOKiK).</li> <li>Process optimization.</li> </ol>



Risk name	Risk description	Risk trend and materiality	Reaction to risk
29. Personal data protection risk	Risk related to the inadequate storing and processing of personal data resulting in an undesirable leak or a violation of the rights of the data subjects related to the personal data protection	→ ■	<ol style="list-style-type: none"> <li>1. Identifying and implementing of the adequate technical or organizational measures to ensure the adequate level of the security of the personal data.</li> <li>2. Monitoring of the compliance with the legal regulations related to the personal data protection.</li> <li>3. Raising of the level of awareness of the workforce with respect to the personal data protection, in accordance with the applicable regulations.</li> <li>4. Defining and implementing of the process of handling the data subjects' requests in accordance with the regulations in force at TAURON Capital Group and the process documentation.</li> <li>5. Providing of the information and advice on the personal data protection to the employees of the organization.</li> </ol>
<b>Risks related to the customers and the counterparties (business partners, contractors)</b>			
30. Customer service risk	Risk related to the non-compliance with the customer service standards leading to the customer dissatisfaction with the service, customer complaints, loss of customers.	→ ■	<ol style="list-style-type: none"> <li>1. Monitoring and analyzing of the external customer satisfaction indicators (metrics) and the indicators (metrics) related to the complaints.</li> <li>2. Continuous raising of the customer service standards.</li> <li>3. Undertaking of the additional measures, for example with respect to the internal regulations, defining the standards of conduct as a result of the analysis of the indicators (metrics).</li> <li>4. Undertaking of the additional measures, for example introducing of the new internal regulations, in order to improve the customer service standards.</li> <li>5. Developing of the key account managers' competences and skills.</li> </ol>
31. Risk related to the performance of the agreements by the contractors and the subcontractors	Risk related to the improper performance by the contractors and the subcontractors of the works commissioned, the termination of the agreement and the delays, the changes to the budget as well as the scope related thereto.	↗ ■	<ol style="list-style-type: none"> <li>1. Concluding of the agreements with the contractors and the subcontractors in accordance with TAURON Capital Group's standards.</li> <li>2. Analyzing of the performance of the subject of the agreement, examining the quality of the services provided by the contractors and the subcontractors.</li> <li>3. Evaluating of the financial standing and the credibility of the contractors and the subcontractors.</li> </ol>
32. Volume and margin risk	Risk related to the decline in the volume of the sales of the products offered by TAURON Capital Group's subsidiaries, in particular as a result of the macro economic situation, development of the energy efficiency solutions, thermal building insulation, prosumer growth, the impact of the climate factors causing a significant temperature deviation from the planned values. The implications of the materializing of the risk materializing include, first of all, the loss of the revenue in the individual operating segments of TAURON Capital Group due to the changes in the level of the demand.	↗ ■	<ol style="list-style-type: none"> <li>1. Ongoing updating of the offering, launching of the sales of the multi package type products.</li> <li>2. Conducting of the marketing campaigns, acquiring of the new customers.</li> <li>3. Activities focused on the retaining of the existing customers and acquiring of the new customers (expansion oriented activities).</li> </ol>
33. Purchasing process risk	Risk related to the purchasing proceedings conducted, their erroneous implementation, an unplanned increase of the purchase costs, taking into account the methods used to prevent the violations of the human rights by the business partners, counteracting corruption and abuse (fraud) in the purchasing process and the compliance with the ethical and moral standards during the implementation thereof. The implications of the materializing of the risk include: the unfavorable purchase agreements, the need to cancel the tender procedures, a loss of the image of TAURON Capital Group and its credibility with the stakeholders.	→ ■	<ol style="list-style-type: none"> <li>1. Application of the provisions of the <i>Code of Conduct for Contractors (Counterparties) of TAURON Group's subsidiaries</i>.</li> <li>2. Application of the provisions of <i>TAURON Group's Anti-Corruption Policy</i> and <i>TAURON Group's Respect for Human Rights Policy</i>.</li> <li>3. Standardization of the rules of conducting the proceedings in the purchasing process and the transparency thereof.</li> <li>4. Application of the procedure for the assessment of the credibility of the Contractors (Counterparties).</li> <li>5. Building of the lasting relationships with the contractors (counterparties) based on trust and mutual respect.</li> <li>6. Expecting the contractors (counterparties) to comply with the legal provisions, ethical standards and good commercial practices, including the work health and safety standards, the principles of countering discrimination and unequal treatment, respect for human rights and dignity of the employees, transparent personnel policy, environment protection, fair competition, preventing and combating fraud, as well as information security and protection.</li> <li>7. Application of the contract forms (templates) and standard clauses in the contracts with respect to the compliance with the human rights by the business partners of TAURON Capital Group.</li> </ol>
<b>Risks related to the regulations</b>			

Risk name	Risk description	Risk trend and materiality	Reaction to risk
34. Regulatory risk	Risk related to the change of the existing regulations or the introduction of the new regulations that affect the operations of TAURON Capital Group and the need to adapt to the regulatory changes, in particular those resulting from a significant increase in the requirements of a specific regulation, including the environmental requirements stemming from the climate change, the support for the pro-climate activities (the expansion of the prosumer energy, thermal building insulation, the development of the in-house production sources). The implications of the materializing of the risk include primarily: the loss of the revenues in the individual operating segments of TAURON Capital Group, the increase in the operating expenses as a result of the need to adapt to the legislative changes.	↗ ■	<ol style="list-style-type: none"> <li>1. Ongoing analysis of the draft regulations and acts.</li> <li>2. Active participation in the works of the teams providing the opinions (feedback) on the drafts and proposing the optimal solutions.</li> <li>3. Cooperation within the industry associations (trade organizations) with respect to the consultation processes.</li> <li>4. Gradual adaptation of the generation assets and the energy mix of TAURON Capital Group to the production of the renewable energy as well as to the zero and low emission electricity generation technologies.</li> </ol>

■ Low materiality   
■ Moderate materiality   
■ Medium materiality   
■ High materiality

### 3.4. The impact of the COVID-19 pandemic on the operations of TAURON Capital Group in 2022

The year 2022 was a period of the continued COVID-19 pandemic (the 5th wave). The high number of the SARS-CoV-2 infection cases had continued to be observed in the first quarter of this year, and that number was gradually declining during the later part of this year. The restrictions continued to be in force in Poland in order to contain the spread of the pandemic, and, as the number of the infection cases reported was going down, they were gradually lifted. Such a situation, developing in 2022, led to certain disruptions in the economic and administrative system in Poland and worldwide. Currently the restrictions are definitely much less stringent, nevertheless in the medium and long term it should be expected – taking into account the high probability of the arrivals of the successive waves of elevated infections - that the COVID-19 pandemic will continue to affect, although to a lesser degree than up to now, the condition of the national, the European, as well as the global economy, making a negative impact on the macro economic factors. The material issues related to the impact of the pandemic on TAURON Capital Group in 2022 are presented below:

1. in spite of the restrictions initially in force, no material impact of the COVID-19 pandemic on the level of the demand for the electricity among TAURON Capital Group's customers has been observed,
2. no material changes and permanent trends in the level of the balance of the overdue accounts receivable or the volatility of the prices of the electricity and the related products due to the COVID-19 pandemic had been observed,
3. no material changes to the level of the prices on the electricity and the related products market due to the COVID-19 pandemic had been observed,
4. the situation related to the COVID-19 pandemic had continued to have an impact (in particular in the first quarter) upon the operational activities of the individual Lines of Business due to the heightened employee absenteeism, which however did not have a material impact on the continuity of the business operations.

TAURON Capital Group, being aware of the threats (risks) related to the epidemiological situation, had continued and adapted the measures undertaken adequately to the level of the threats and the development of the epidemiological situation during the period under review. The Management Board of the Company is continuing to monitor the pandemic situation and will be taking all of the possible steps in order to mitigate any negative effects of the pandemic's impact on TAURON Capital Group.

### 3.5. The impact of the Russian Federation's aggression against Ukraine on the current and future operations of TAURON Capital Group

The aggression of the Russian Federation against Ukraine began in February 2022. In the opinion of TAURON Capital Group, the key consequences of the aggression and the risks stemming from it, which had an impact on TAURON Capital Group in 2022, are as follows:

1. the crisis on the energy fuel market resulting from the restrictions imposed on the trade exchange with the Russian Federation causes the supply disruptions with respect to the fossil fuels and, as a consequence, leads to a step increase in the volatility and the levels of the prices of the raw materials listed on the commodity markets (including crude oil, gas and coal). This situation (occurring mainly during the second half of 2022) had an impact on an increase in the variable costs of electricity generation, while the ability to pass on that cost in order to bring about an increase in the revenues from the supply and production of electricity was

- limited. In order to mitigate the above mentioned risks, the Group was updating its trading strategy on an ongoing basis and was responding in a flexible manner to the rapidly changing market conditions,
2. restrictions on the supply of the hard coal with respect to the contracts concluded with the external suppliers, the logistics disruptions with respect to the hard coal transportation, as well as the regulatory changes, which affected the levels of the hard coal inventories required by law. In order to mitigate the above mentioned risks, measures were taken to maximize the hard coal supplies from TAURON Wydobycie and to source additional deliveries of the fuels both on the domestic as well as the foreign markets,
  3. high volatility of the prices of electricity in all of the market segments, both in Poland as well as on the European markets, which leads to the continued maintaining of the high level of the market risk. With respect to the trading, the high level of the costs of hedging (including the profiling and the trading balancing) the demand of the end customers in the Supply Line of Business was also observed. In order to mitigate the above mentioned risks, measures were taken in order to minimize the risk exposure by updating the trading strategy on an ongoing basis, as well as by shaping the electricity and gas offers for the business and the retail (household) customers,
  4. continued high volatility of prices of electricity and the related products, leading to an increase of the trading margins (margin calls) stemming from the contracts entered into on the power exchange market. As part of the response, TAURON Group made the maximum use of the non-cash forms of hedging and took advantage of the margin offsets between the Supply and the Generation Lines of Business,
  5. the rise of the inflation rate in Poland, as a result of which the Monetary Policy Council is regularly raising the NBP reference (prime) interest rate. The volatility of the interest rates is having an impact on the costs of servicing the financing at TAURON Group, as well as it will be affecting the rate of return on the capital employed in the Distribution Line of Business in 2023. As a result of the economic disturbances, the increased volatility of the foreign exchange (FX) rates and the weakening of the Polish zloty were also observed, which mainly affected the cost of purchasing the CO<sub>2</sub> emission allowances and the valuation of the debt denominated in EUR. The principles of interest rate risk and currency risk management applied by TAURON Capital Group are described in sections 7.2. and 7.3. of this report,
  6. the observed gradual deterioration of the economic situation in Poland, and what followed, the decline of the electricity supply and distribution volume (observed, in particular, in the third and the fourth quarters of 2022), which had an impact on the level of the revenue of the Distribution Line of Business as well as that of the Supply Line of Business. With respect to the risk mitigation, TAURON Group was taking actions related to the trading aspects (balancing of the sale position and the product changes aimed at curbing the impact of the changes in the demand on TAURON Group),
  7. the escalation of the wage claims and the potential social unrest at TAURON Group as a consequence of the rise of the inflation rate in Poland. With respect to the risk mitigation, the social dialogue had been conducted between TAURON's Management Board and the Social Council on the basis of the concluded Agreement on the cooperation as part of the social dialogue at TAURON Group, as a result of which the relevant agreements were signed.
  8. the implementation of the significant national regulations aimed at the curbing of the demand for the electricity, the introduction of the mechanisms aimed at the curtailing of the electricity price increases for the final consumers, the introduction of the margin caps for the electricity generators and the trading companies, as well as the changes in the rules of the functioning of the wholesale electricity market (the abolition of the power exchange trading obligation, the changes in the rules for the price setting on the balancing market). The introduction of the above mentioned regulations had an impact on TAURON Group's current trading activities in 2022 and will probably also affect the earnings of the Supply Line of Business, the conventional Generation Line of Business, the Renewable Energy Sources Line of Business, the Heat Line of Business and the Distribution Line of Business in 2023. With respect to the mitigation activities, the consultations were held within the industry (trade) organizations, among others, on the shaping of the draft regulations. The actions were also taken to adjust TAURON Group's trading strategy to the changes in the regulatory environment, as well as the actions aimed at the technical and operational implementation of the solutions imposed by these regulations.

With respect to the financial risk and the risk of lack of liquidity, as of the date of drawing up the report, TAURON Group had sufficient financial resources to enable it to meet its current obligations, as well as to carry out the investment activities that had been initiated. The principles of the said risk management rate risk applied by TAURON Capital Group are described in sections 7.2. and 7.3. of this report

In the subsequent periods, at least some of the above mentioned risk factors are expected to continue to persist, and their impact on TAURON Capital Group's liquidity and earnings will depend on the impact of the Russian Federation's aggression on the developments in the market, economic and geopolitical environment. It should be pointed out that the situation related to the Russian Federation's military aggression against Ukraine and its impact on the market and regulatory environment is highly volatile, and its future implications are multifaceted and difficult to estimate precisely, in particular in the scope of financial implications. They will depend, in particular, on the scale and the duration of the aggression, the further evolution of the situation, including a potential escalation of the military hostilities, as well as its impact on the condition of the economy in Poland and worldwide. The impact of the identified risks may also depend on the further regulatory actions taken at the EU level, as well as at the national

level with respect to the implementation of the intervention type measures, as well as shaping of the future energy market.

In addition to the continuation of the risk factors identified above, the possibility of the following risks occurring in the subsequent periods should be kept in mind:

1. economic disturbances that may lead to the financial difficulties for some of TAURON Group's customers and counterparties and thus to a rise of the credit risk. As part of its response, to date TAURON Group was carrying out both an initial, as well as an ongoing verification of the financial condition of its counterparties and applying the instruments aimed at hedging the credit exposure,
2. continued high volatility of the prices of the raw materials and the prices of the electricity and the related products, the persistent high inflation rate, as well as the possible disruptions in the supply chains of the goods and services, which may impact the schedules and profitability of the ongoing and planned investment processes. As part of the response, the individual investment activities were to date subjected to a detailed analysis and a risk assessment based on the updated knowledge and forecasts, both prior to the release of the funds, as well as during the implementation thereof,
3. changes in the EU's energy balance and, as a consequence, the possible increased level of the utilization of TAURON Capital Group's generating units, which may result in a decrease in their availability rate in the future and the risks arising from the capacity obligations imposed on some of them. In this respect, measures such as the ongoing monitoring of the condition of the assets, analysis of the causes of the failures, taking of the preventive measures, monitoring of the quality of the overhaul works, as well as the optimizing of the cost of repurchasing electricity, were taken to date,
4. risks with respect to the security (safety) and cybersecurity, including the potential restrictions in the access to the IT/OT infrastructure systems, the internet and the GSM network, as well as the physical security (safety) of the critical infrastructure elements, the breach of which may cause the disruptions in the functioning of the operational processes and business continuity. At the national level, the alert levels were maintained in the year 2022, indicating the elevated risk associated with the possibility of an occurrence of terrorist incidents. As part of the response, among other things, the measures aimed at verifying the critical IT systems and the critical OT systems, as well as the steps aimed at securing the continuity of their operation through the development of the business continuity and recovery plans in the event of the unavailability thereof, were taken.

In the other areas, in the year 2022 and as of the date of drawing up this report, TAURON Capital Group had not identified the direct effects of the aggression with respect to its own operating activities and business operations. The continuity of the functioning of its business processes was not at risk. TAURON Capital Group did not have any assets located on the territory of Ukraine, Russia and Belarus. No material changes in the balances of the overdue accounts receivable had been reported. No significant risks had been identified in 2022 with respect to the implementation of TAURON Group's long term expansion directions and its Strategy. The current and potential challenges identified in the investment and restructuring processes and related to the volatility of the prices of the raw materials, disruptions in the supply chains of goods and services, as well as the inflation, had been analyzed in detail based on the updated knowledge and forecasts before making any commitments and releasing significant financial resources.

TAURON Capital Group, while taking note of the scale of potential risks related to the current situation, was monitoring the impact of the war in Ukraine on an ongoing basis and was taking steps aimed at minimizing the potential effects for TAURON Capital Group of the risk materializing, as well as at maintaining the continuity of the operations of the critical infrastructure. In connection with the situation arisen, the dedicated crisis teams have been set up at TAURON Group's subsidiaries, in order to monitor the impact of the current situation on the business processes and to take actions in the event of identifying a risk of the interruption or disruption thereof.

## 4. ANALYSIS OF THE FINANCIAL POSITION AND ASSETS

### 4.1. Overview of the economic and financial data disclosed in the annual financial statements

#### Statement of comprehensive income

The below table presents the annual standalone statement of comprehensive income in 2021-2022, drawn up in accordance with the IFRS.

**Table no. 25. Annual standalone statement of comprehensive income in 2021-2022 drawn up in accordance with the IFRS**

Statement of comprehensive income drawn up in accordance with the IFRS (PLN m)	2021	2022	Change in % (2022 / 2021)
<b>Sales revenue</b>	<b>18 216</b>	<b>29 334</b>	<b>161%</b>
Own cost of goods, materials and services sold	(18 042)	(28 949)	160%
<b>Gross profit (loss) from sales</b>	<b>174</b>	<b>385</b>	<b>221%</b>
Cost of sales	(25)	(32)	128%
Overheads	(101)	(145)	144%
Other operating revenues and costs	(3)	(8)	267%
<b>Operating profit (loss)</b>	<b>45</b>	<b>200</b>	<b>444%</b>
<i>Operating profit margin (%)</i>	<i>0.2%</i>	<i>0.7%</i>	<i>276%</i>
Financial revenue	2 099	2 341	112%
Costs of interest on debt	(330)	(654)	198%
Revaluation of stocks and shares	(1 399)	(48)	3%
Revaluation of bonds and loans	(298)	(1 462)	491%
Other financial revenues and costs	119	(341)	-287%
<b>Pre-tax net profit (loss)</b>	<b>236</b>	<b>36</b>	<b>15%</b>
<i>Pre-tax net profit margin (%)</i>	<i>1.3%</i>	<i>0.1%</i>	<i>9%</i>
Income tax	24	31	129%
<b>Net profit (loss)</b>	<b>260</b>	<b>67</b>	<b>26%</b>
<i>Net profit margin (%)</i>	<i>1.4%</i>	<i>0.2%</i>	<i>16%</i>
<b>Other net comprehensive income</b>	<b>380</b>	<b>152</b>	<b>40%</b>
<b>Total comprehensive income</b>	<b>640</b>	<b>219</b>	<b>34%</b>
<b>EBITDA</b>	<b>57</b>	<b>218</b>	<b>382%</b>
<i>EBITDA margin (%)</i>	<i>0.3%</i>	<i>0.7%</i>	<i>237%</i>

The Company reported an operating profit of PLN 200 million in 2022, which was higher than the result achieved in 2021, primarily as a consequence of generating the higher margins on the trading operations with respect to the electricity, CO<sub>2</sub> emission allowances and fuel trading.

The result on the financing activities in 2022 included the higher interest income and interest costs due to an increase in the amount of the loans granted and the external financing drawn.

In addition, the bonds and loans were revalued in 2022.

#### Revenue

The below table presents the Company's revenue in 2021-2022.

**Table no. 26. Company's revenue in 2021-2022**

Item (PLN m)	2021	2022	Change in % (2022 / 2021)
<b>Total revenue</b>	<b>20 470</b>	<b>31 790</b>	<b>155%</b>
<b>Sales revenue</b>	<b>18 216</b>	<b>29 334</b>	<b>161%</b>
<b>Revenue from sales of goods and materials:</b>	<b>17 841</b>	<b>28 934</b>	<b>162%</b>
Electricity (without excluding excise tax)	14 816	24 845	168%
Gas	600	1 287	215%
Greenhouse gas emission allowances	2 411	2 775	115%
Other	14	27	193%
<b>Revenue from sales of services:</b>	<b>375</b>	<b>400</b>	<b>107%</b>
Trading services sales	138	167	121%
Other	237	233	98%
<b>Revenue from other operations</b>	<b>2</b>	<b>2</b>	<b>79%</b>
<b>Revenue from financial operations</b>	<b>2 252</b>	<b>2 454</b>	<b>109%</b>
Revenue from dividends	1 852	1 797	97%
Revenue from bonds and loans interest	247	544	220%
Other financial revenue	153	113	74%

The revenue from the sales of goods and materials represents 91% of the total revenue, while financial revenue represents 8%.

The high share of the revenue from the sales of goods and materials is a consequence of the adopted Business Model, where the main role of TAURON is to hedge the buy and sell positions of TAURON Capital Group's entities. In addition the Company performs the function of the Market Operator and the entity responsible for the trading balancing of TAURON Capital Group's subsidiaries and manages, among others, the property rights and the CO<sub>2</sub> emission allowances

In the reporting period ended on December 31, 2022, the Company generated sales revenues that was 61% higher than the revenue posted in 2021, which is the result of the following factors:

1. an increase of the revenue from the sales of electricity by 68% as a result of the higher electricity sales prices (82%), as compared to 2021, along with the lower sales volume (8%),
2. an increase of the revenue from the sales of the CO<sub>2</sub> emission allowances which is the result of the sale in 2022 of a larger volume of the allowances for the redemption needs of TAURON Capital Group's subsidiaries due to the emissions both for 2021, as well as for 2022. In addition, the higher revenue from the sales of the CO<sub>2</sub> emission allowances was impacted by the restructuring of the emission allowances in the portfolio of the Nowe Jaworzno Grupa TAURON subsidiary due to the delay in the commissioning of the 910 MW generating unit in Jaworzno and, as a consequence, the lower production output,
3. an increase by 115% of the revenue from the gas sales as a result of the significant increase of the prices (140%), along with the simultaneous lower gas sales volume completed (11%). The sales conducted are mainly aimed at hedging the agreements and contracts for the gas sales concluded by TAURON Sprzedaż and achieving a positive margin on the trading activities.

The second largest revenue item is the financial revenue that includes the dividends (73%), interest revenue on the bonds and loans (22%) and the other financial revenue (5%), which is a consequence of the holding operations conducted by TAURON and the implemented corporate financing model, as well as *TAURON Group's Liquidity Management Policy*, along with the *cash pool* mechanism put in place at TAURON Capital Group, which allows for efficient management of the finances of all of TAURON Capital Group's subsidiaries.

## Costs

The below table presents the level and structure of the costs incurred by the Company in 2021-2022.

**Table no. 27. Level and structure of the costs incurred by the Company in 2021-2022**

Item (PLN m)	2021	2022	Change in % (2022 / 2021)
<b>Total costs</b>	<b>(20 234)</b>	<b>(31 754)</b>	<b>157%</b>
Cost of goods, materials and services sold	(18 042)	(28 949)	160%
Costs of sales and overheads	(126)	(177)	140%
Costs of other operations	(5)	(10)	191%
Costs of financial operations	(2 061)	(2 618)	127%

The total costs of the Company's operations in 2022 represented 157% of the amount of its costs in 2021. The increase in the Company's costs was affected by the higher, by 60%, costs of goods, materials and services sold.

The cost of goods, materials and services sold came in at PLN 28 949 million and it was higher by PLN 10 907 million as compared to 2021, with the biggest impact thereupon coming from an increase of the electricity purchase costs due to the completion of the purchases at the average prices higher by 68%, while at the same time the volume of the purchases was 8% lower as compared to 2021.

The costs of the financing activities came in at PLN 2 618 million and they were higher by 27% as compared to 2021. The financial expenses include the revaluation of the loans (56%), the interest expense on the use of the external financing drawn (25%), the valuation of the derivatives (9%), and the other financial expenses (10%).

## Company's assets and financial position

The below table presents the Company's annual standalone statement of financial position, drawn up in accordance with the IFRS.

**Table no. 28. Company's annual standalone statement of financial position, drawn up in accordance with the IFRS (material items)**

Statement of financial position drawn up in accordance with the IFRS (PLN '000)	As of December 31, 2021	As of December 31, 2022	Change in % (2022 / 2021)
<b>ASSETS</b>			
<b>Fixed assets</b>	<b>27 087</b>	<b>27 329</b>	<b>101%</b>
Interests and shares	20 559	15 716	76%
Loans granted	5 936	11 172	188%
<b>Current assets</b>	<b>4 393</b>	<b>8 723</b>	<b>199%</b>
Inventory	51	72	141%
Accounts receivable due to deliveries and services	2 868	4 149	145%
Loans granted	445	2 368	532%
Cash and equivalents	440	1 039	236%
<b>TOTAL ASSETS</b>	<b>31 480</b>	<b>36 052</b>	<b>115%</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	<b>12 101</b>	<b>12 320</b>	<b>102%</b>
<b>Long term liabilities</b>	<b>10 245</b>	<b>14 822</b>	<b>145%</b>
Liabilities due to debt	9 801	14 754	151%
<b>Short term liabilities</b>	<b>9 134</b>	<b>8 910</b>	<b>98%</b>
Liabilities due to debt	4 669	3 316	71%
Liabilities towards suppliers and other liabilities	2 806	3 249	116%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>31 480</b>	<b>36 052</b>	<b>115%</b>

As of December 31, 2022, the fixed assets accounted for the biggest share of the total assets (76%), where the dominating item is the value of the interests and shares (44% of the total assets), as well as the loans granted (31% of the total assets).

The biggest impact on a decrease of the value of the interests and shares down to PLN 15 716 million came from the sale of 100% of the shares in the Nowe Jaworzno Grupa TAURON subsidiary on July 29, 2022, for the amount of PLN 4 815 million. At the same time, an increase in the value of the loans granted, to PLN 11 172 million, was mainly brought about by a loan of PLN 4 863 million granted to the TAURON Wytwarzanie subsidiary for the purchase by TAURON Wytwarzanie of the shares in the New Jaworzno Group TAURON subsidiary, including the acquisition costs.

As of December 31, 2022 and as of December 31, 2021, the equity represented, respectively, 34% and 38% of the total equity and liabilities.

The liabilities of the Company due to debt, as of December 31, 2022, were related to:

1. bonds issued under the bond issue program worth PLN 6 435 million, including the subordinated hybrid bonds in the amount of PLN 1 966 million,
2. loans obtained from the consortium of the banks in the amount of PLN 3 271 million,
3. loans obtained from Bank Gospodarstwa Krajowego (BGK) in the amount of PLN 1 001 million,
4. loans from the related entities drawn under the Agreement on the provision of the *cash pool* service in the amount of PLN 2 882 million,
5. loans obtained from the European Investment Bank (EIB) in the amount of PLN 1 901 million (along with the interest),
6. loans obtained from Intensa Sanpaolo S.p.A. in the amount of PLN 775 million (along with the interest),
7. loans obtained from SMBC Bank EU AG in the amount of PLN 499 million (along with the interest),
8. loans obtained from Erste Group Bank AG. in the amount of PLN 507 million (along with the interest),
9. loan from a subsidiary in the amount of PLN 783 million,

In addition, pursuant to IFRS 16 Leases, the Company's liabilities due to debt also include a lease liability in the amount of PLN 16 million, related to the right of perpetual usufruct of land, leases of office premises and storage space, parking spaces and cars.

## Statement of cash flows

The table below presents the statement of cash flows drawn up in accordance with the IFRS.

**Table no. 29. Statement of cash flows drawn up in accordance with the IFRS (material items)**

Statement of cash flows drawn up in accordance with the IFRS (PLN '000)	2021	2022	Change in % (2022 / 2021)
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Pretax profit / (loss)	236	36	15%
Adjustments	(533)	(218)	41%
<b>Net cash from operating activities</b>	<b>(297)</b>	<b>(182)</b>	<b>61%</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of shares in a subsidiary	-	(1 061)	-
Loans granted	(1 567)	(6 659)	425%
Sale of shares	53	4 815	9 085%
Repayment of loans granted	324	226	70%
Dividends received	1 852	1 796	97%
Interest received on loans granted	208	433	208%
<b>Net cash from investing activities</b>	<b>839</b>	<b>(472)</b>	<b>-56%</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Redemption of debt securities	(170)	(170)	100%
Repayment of credits	(3 462)	(6 061)	175%
Interest paid	(348)	(515)	148%
Loans taken	2 000	9 440	472%
<b>Net cash from financing activities</b>	<b>(2 009)</b>	<b>2 652</b>	<b>-132%</b>
<b>Increase / (decrease) in net cash and equivalents</b>	<b>(1 467)</b>	<b>1 998</b>	<b>-136%</b>



Statement of cash flows drawn up in accordance with the IFRS (PLN '000)	2021	2022	Change in % (2022 / 2021)
Net FX differences	(3)	(26)	867%
<b>Cash opening balance</b>	<b>(852)</b>	<b>(2 319)</b>	<b>272%</b>
<b>Cash closing balance</b>	<b>(2 319)</b>	<b>(321)</b>	<b>14%</b>

The balance of cash received from the operating, investing and financing activities of the Company for 2022, taking into account the opening cash balance, stood at PLN (321) million. In addition, the closing cash balance presented in the Company's balance sheet as of the end of the period is the result of the adjustment of the cash that is represented by the balances of the loans granted and drawn under the *cash pool* transactions, due to the fact that they do not constitute cash flows from the investing or financing activities, as they are used mainly for the current liquidity management.

#### 4.2. Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier

The Management Board of the Company did not publish any forecasts of the earnings of TAURON for 2022. This decision was due to the considerable volatility of the market and a substantial number of factors affecting its predictability.

#### 4.3. Key financial ratios and the Alternative Performance Measures

The below table presents the key financial ratios of TAURON, which may constitute an important source of the information for the investors on the financial and operational standing of the Company. The Alternative Performance Measures below as defined by the ESMA Guidelines on the Alternative Performance Measures, in the opinion of the Management Board, present additional information regarding the Company's financial results. They constitute the standard metrics commonly used in the financial analysis, the usefulness of which has been analyzed in terms of the information provided to the investors on the financial standing, financial efficiency and cash flows of the Company. In 2022, there had been no changes to the methodology for determining the individual indicators in relation to 2021, therefore the values of the indicators are comparable.

Table no. 30. Key financial ratios of TAURON

Item	Definition	2021	2022	Change in % (2022 / 2021)
1. Gross Profitability	Pretax profit / sales revenue	1.3%	0.1%	9.5%
2. Net Profitability	Net profit / sales revenue	1.4%	0.2%	16%
3. Return on equity	Net profit / equity as of the end of the period	2.1%	0.5%	25%
4. Return on assets	Net profit / total assets	0.8%	0.2%	23%
5. EBIT (PLN m)	Operating profit	45	200	444%
6. EBIT margin	EBIT / sales revenue	0.2%	0.7%	276%
7. EBITDA (PLN m)	Operating profit before depreciation	57	215	377%
8. EBITDA margin	EBITDA / sales revenue	0.3%	0.7%	234%
9. Current liquidity ratio	Current assets / short term liabilities	0.48	0.98	204%

The higher EBIT achieved by the Company in 2022, as compared to 2021, is mainly a consequence of generating the higher margins on the trading operations with respect to the electricity, CO<sub>2</sub> emission allowances and fuel trading.

The 2022 pre-tax and net financial results had primarily been impacted by the revaluation of the loans granted.

The amount of the operating profit is typical for a company conducting operations involving managing a holding entity (the costs related to managing TAURON Capital Group are included in the operating activities, while the revenues gained from the dividends are recognized as the items under the financial activities).

The Company's ability to pay its accounts payable had not been in jeopardy in 2022.

#### 4.4. Principles of preparing annual financial statements

The Financial Statements of TAURON have been drawn up in accordance with the IFRS approved by the EU.

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

The Financial Statements of TAURON have been drawn up with the assumption of the continuation of the business operations by TAURON in the foreseeable future, i.e. over the time frame not shorter than 1 year from the balance sheet date. As of the date of the approval of the Financial statements of TAURON for publication, no circumstances have been detected, indicating any risk for business continuity by TAURON.

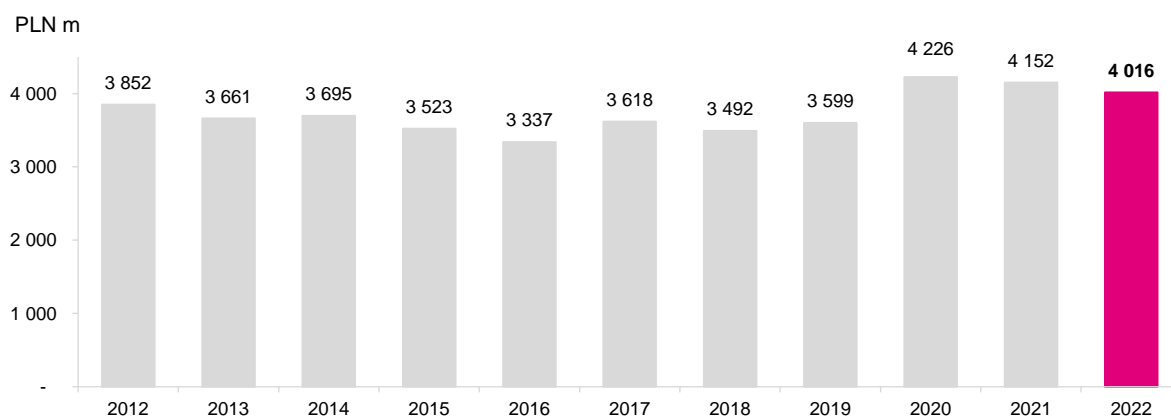
The accounting principles (policy) adopted for drawing up of the Financial Statements of TAURON are presented in the individual notes to the Financial Statements of TAURON.

## 5. ANALYSIS OF THE FINANCIAL POSITION AND ASSETS OF TAURON CAPITAL GROUP

### 5.1. TAURON Capital Group's financial results

The below table presents TAURON Capital Group's EBITDA in 2012-2022.

Figure no. 31. TAURON Capital Group's EBITDA in 2012-2022



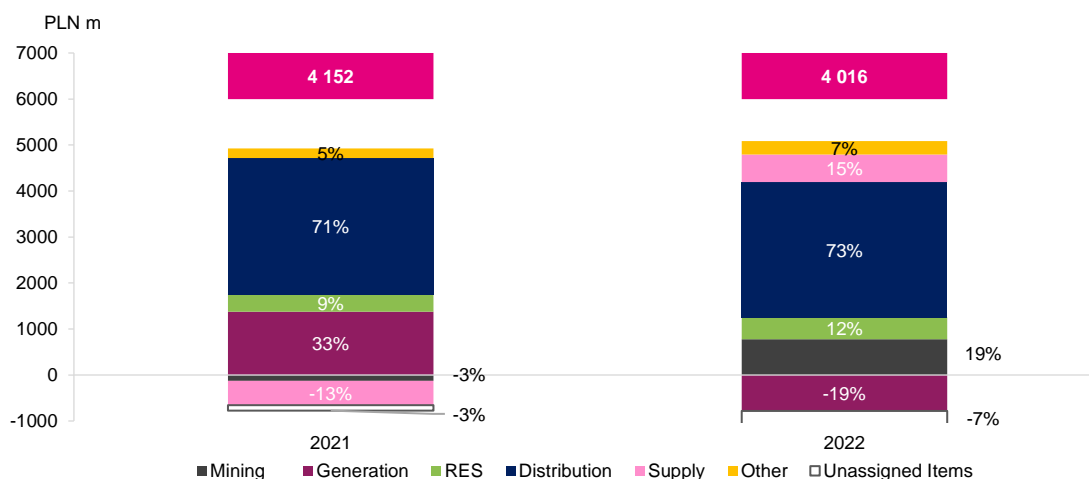
The below table presents TAURON Capital Group's 2021-2022 EBITDA broken down into individual lines of business. The data for the individual segments does not include the consolidation exclusions.

Table no. 31. TAURON Capital Group's 2020-2022 EBITDA broken down into individual lines of business (segments)

EBITDA (PLN m)	2021	2022	Change in % (2022 / 2021)	Change (2022-2021)
<i>Continuing operations</i>				
Generation	1 375	(779)	-	(2 154)
RES	376	476	127%	100
Distribution	2 967	2 939	99%	(28)
Supply	(524)	594	-	1 118
Other operations	208	298	143%	90
Unassigned items	(120)	(313)	261%	(193)
<b>EBITDA from continuing operations</b>	<b>4 282</b>	<b>3 215</b>	<b>75%</b>	<b>(1 067)</b>
<i>Discontinued operations</i>				
Mining	(130)	781	-	911
Consolidation adjustments/ Unassigned items	-	20	-	20
<b>EBITDA from discontinued operations</b>	<b>(130)</b>	<b>801</b>	<b>-</b>	<b>931</b>
<b>EBITDA total from discontinued and continuing operations</b>	<b>4 152</b>	<b>4 016</b>	<b>97%</b>	<b>(136)</b>

The below figure presents TAURON Capital Group's 2021-2022 EBITDA structure.

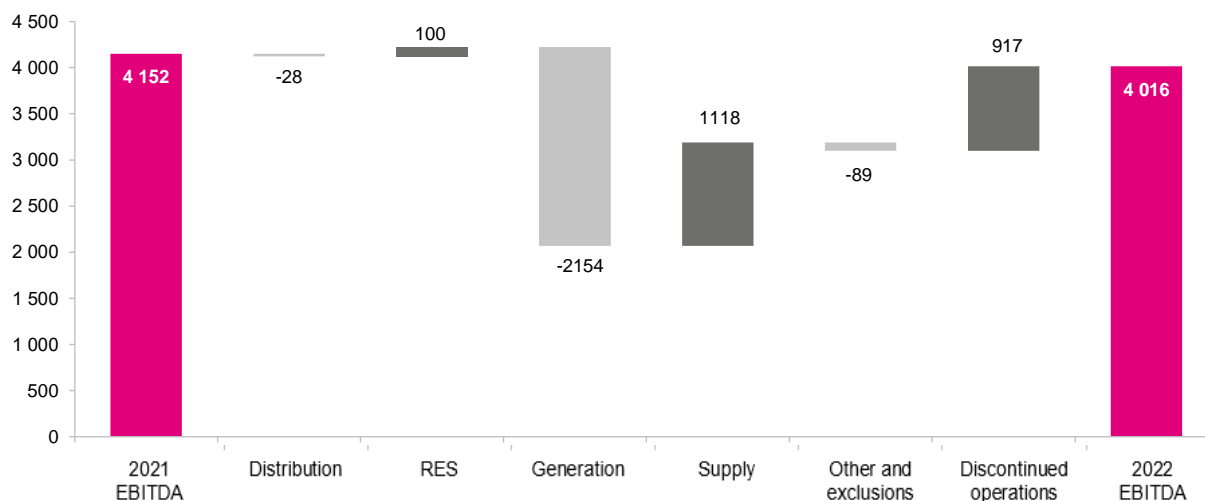
Figure no. 32. TAURON Capital Group's 2021-2022 EBITDA structure



The Distribution, Mining and Supply Segments are the biggest contributors to TAURON Capital Group's EBITDA in 2022.

The below figure presents the change in TAURON Capital Group's EBITDA in 2021-2022.

Figure no. 33. Change in TAURON Capital Group's EBITDA in 2021-2022



## 5.2. TAURON Capital Group's financial results per Segment of operations

### Generation Segment

The below table presents the Generation Segment's 2021-2022 results.

Table no. 32. Generation Segment's 2021-2022 results

Item (PLN m)	2021	2022	Change in % (2022 / 2021)	Change (2022-2021)
<b>Sales revenue</b>	<b>9 819</b>	<b>11 126</b>	<b>113%</b>	<b>1 307</b>
electricity	7 298	8 317	114%	1 019
heat	1 006	1 112	111%	106
property rights related to guarantees of origin of electricity (energy certificates)	177	150	85%	(27)
services – Capacity Market	642	676	105%	34
greenhouse gas emission allowances	654	750	115%	96
other revenue	42	121	288%	79

Item (PLN m)	2021	2022	Change in % (2022 / 2021)	Change (2022-2021)
<b>EBIT</b>	<b>(25)</b>	<b>(1 307)</b>	<b>-</b>	<b>(1 282)</b>
Depreciation and impairment charges	1 400	528	-	(1 928)
<b>EBITDA</b>	<b>1 375</b>	<b>(779)</b>	<b>-</b>	<b>(2 154)</b>

The Generation Segment's sales revenue in 2022 was higher by 113% as compared to 2021, mainly due to the higher revenue from the sales of the electricity (the higher sales volume and the higher sales price), heat (the resultant of the higher sales prices and the lower volume), as well as the sales of the CO<sub>2</sub> emission allowances (the resultant of higher prices and the lower volume).

The Generation segment's EBITDA and EBIT results were lower in 2022 than in 2021. The results posted had been affected by the following factors:

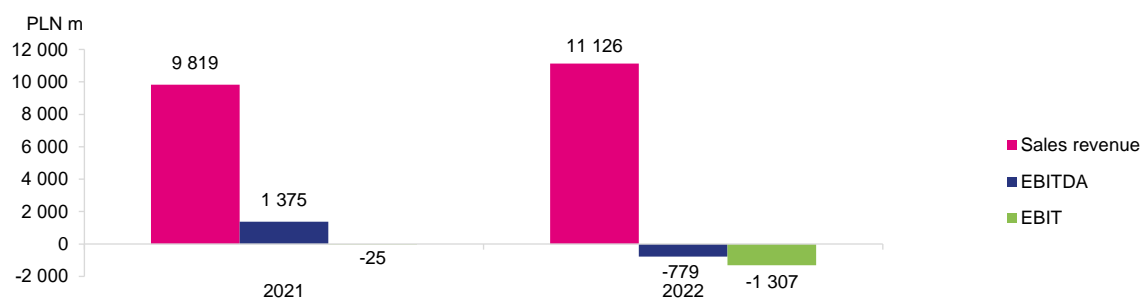
1. a lower margin on the sales of electricity as a result of the rising prices of the fuels and the CO<sub>2</sub> emission allowances, the higher costs of the electricity buybacks, primarily due to the higher electricity purchase prices. The above effects were partially offset by the higher electricity sales prices and the use of the provision for the onerous contracts, which had been set up in 2021, as a result of the planned shutdown of the generation unit in the first half of 2022,
2. a lower margin on the heat sales as a consequence of an increase in the costs of the fuels and the CO<sub>2</sub> emission allowances, partially offset by the higher heat sales prices,
3. completion of the transactions related to the CO<sub>2</sub> emission allowances:
  - 1) in connection with a delay of the commissioning of the 910 MW unit in Jaworzno and, as a consequence thereof, the lower production output, a significant surplus of the allowances contracted for the purpose of fulfilling the redemption obligation for 2020 above the actual requirement had arisen in Nowe Jaworzno Group TAURON's portfolio. As a consequence, in March 2021, TAURON Capital Group had carried out the following transactions.
    - a) restructuring of the above mentioned portfolio of the CO<sub>2</sub> emission allowances with respect to the volume of 3 258 000 of the CO<sub>2</sub> emission allowances with the collection date in March of 2021. As a result of the completed analysis of the new premises and circumstances, the Company changed its intentions regarding the above mentioned CO<sub>2</sub> emission allowances and took a decision to roll them over along with the conclusion of the new contracts with the delivery dates in March 2022, 2023, and 2024. At the same time, those transactions were completed at the prices that were higher than the originally contracted purchase, and as a consequence, they led to an increase of the costs of setting up a provision by TAURON Capital Group for the liabilities related to the CO<sub>2</sub> emissions for 2021 and for the subsequent financial years. As a result of the above TAURON Capital Group estimates that the total impact of the restructuring on the operating results thereof in the years 2021 - 2023 will not be significant,
    - b) resale of the CO<sub>2</sub> emission allowances held in the quantity of 691 000 EUAs that had also constituted a surplus above the redemption needs of the subsidiary for 2020 due to the delay of the commissioning of the 910 MW unit in Jaworzno,
  - 2) as a consequence of a failure of the 910 MW unit in Jaworzno that had taken place in June 2021, which led to its shutdown in the subsequent periods, a surplus of the emission allowances had arisen in the company's portfolio above the redemption obligation in 2021. Taking into account the need to match the delivery of the emission allowances and the cash expenditure, TAURON Capital Group made a decision to sell the CO<sub>2</sub> emission allowances in the quantity of 1 717 000 EUAs,
4. other factors, including mainly the PCC tax assessed on the acquisition of the Nowe Jaworzno Group subsidiary by TAURON Wytwarzanie, the sale of the assets of EC Stalowa Wola (the 2021 effect), the lower revenue from the sale of the liquidated fixed assets, and the higher result of the TAMEH Group's companies, in which TAURON holds shares.

In addition, the Segment's EBIT result was impacted by the booking of the impairment charges.

In 2022, TAURON Capital Group recognized, in the financial results, the booking of the impairment charges related to the loss of the carrying amount on the balance sheet of the Generation Segment's cash generating units (CGU), whose total impact on the charge to the Segment's operating profit reached PLN 75 million. The amount of the CGU write-downs in 2022 is lower than in the same period of the previous year, when it stood at PLN 941 million.

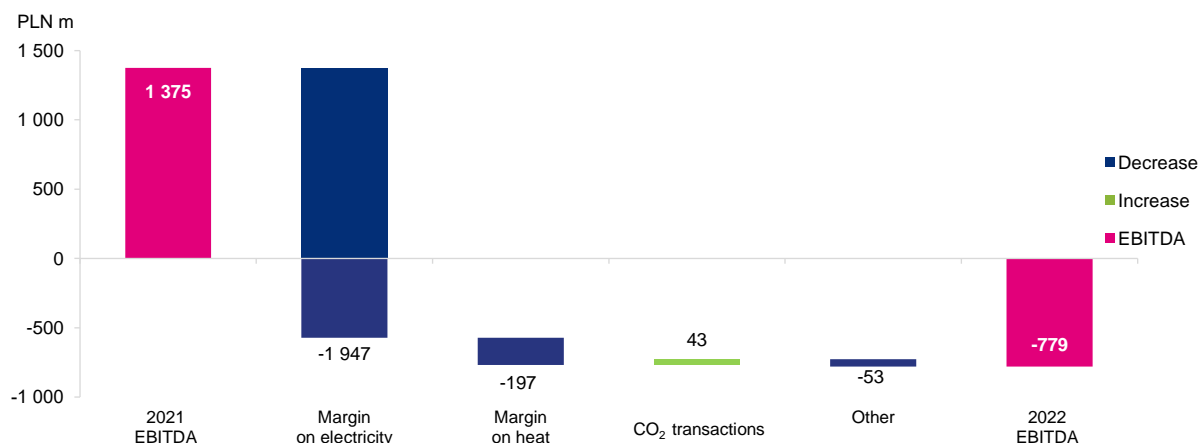
The below figure presents the Generation Segment's financial data for the years 2021-2022.

Figure no. 34. Generation Segment's financial data for the years 2021-2022



The below figure presents the Generation Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 35. Generation Segment's EBITDA



### Major investments (CAPEX)

The Generation Segment's total capital expenditures came in at PLN 383 million in 2022, including the outlays on the following strategic investment projects:

1. PLN 129 million on the replacement expenditures and the overhaul components at TAURON Wytwarzanie,
2. PLN 56 million on the construction of the 910 MWe power generation unit in Jaworzno,
3. PLN 29 million on the construction of the peaking and backup boiler houses at ZW Bielsko,
4. PLN 29 million on connecting of the new facilities,
5. PLN 23 million on the construction of the gas fired boiler with a capacity of 140 MWt at ZW Katowice
6. PLN 17 million PLN on the Low Emission Elimination Program at TAURON Ciepło,
7. PLN 17 million on maintaining of the district heating network.

### Renewable Energy Sources Segment

The below table presents the RES Segment's results in the years 2021-2022.

Table no. 33. RES Segment's results in the years 2021-2022

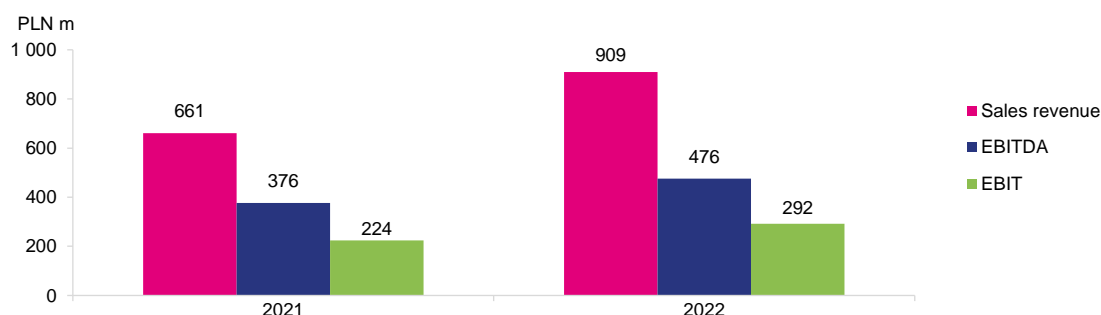
Item (PLN m)	2021	2022	Change in % (2022 / 2021)	Change (2022-2021)
<b>Sales revenue</b>	<b>661</b>	<b>909</b>	<b>138%</b>	<b>248</b>
electricity	372	547	147%	175
valuation of the guarantees of origin of electricity	158	147	93%	-11
sales of the guarantees of origin of electricity	117	198	169%	81
other revenue	14	17	121%	3
<b>EBIT</b>	<b>224</b>	<b>292</b>	<b>130%</b>	<b>68</b>
Depreciation and impairment charges	152	184	121%	32
<b>EBITDA</b>	<b>376</b>	<b>476</b>	<b>127%</b>	<b>100</b>

The RES segment's EBITDA and EBIT results were higher in 2022, as compared to 2021. The results posted had primarily been affected by the following factors:

1. higher margin on the electricity sales, mainly due to the higher sales price, the higher electricity sales volume by the hydro power plants, which was partly offset by the lower production output by the wind farms,
2. lower revenue from the sales of the guarantees of origin of electricity, which is a consequence of the lower valuation thereof as compared to 2021,
3. lower revenue due to the functioning of the Capacity Market,
4. higher operating expenses, including mainly an increase of the cost of labor and of the maintenance (operation) of the power equipment.

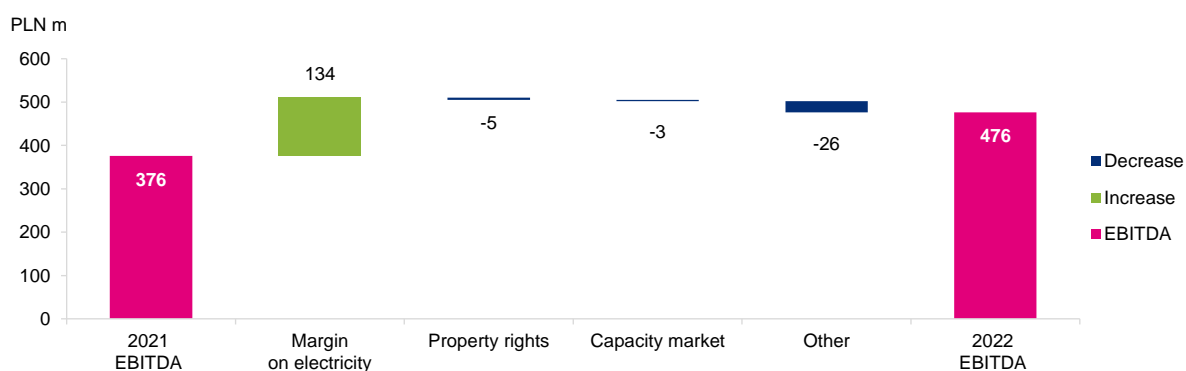
The below figure presents the RES Segment's financial data for the years 2021-2022 .

Figure no. 36. RES Segment's financial data for the years 2021-2022



The below figure presents the RES Segment's EBITDA, including the material factors impacting the change year on year.

Figure no. 37. RES Segment's EBITDA



### Major investments (CAPEX)

The RES Segment's total capital expenditures came in at PLN 459 million in 2022, including the outlays on the following investment projects:

1. PLN 162 million on the construction of the Piotrków wind farm,
2. PLN 78 million on the construction of the Mierzyn wind farm,
3. PLN 78 million on the construction of the Mysłowice PV farm,
4. PLN 35 million on the construction of the Majewo wind farm,
5. PLN 29 million on the construction of the Gamów wind farm,
6. PLN 20 million on the modernization of TAURON Ekoenergia's hydro power plants,
7. PLN 18 million on the construction of the Nowa Brzeźnica wind farm,
8. PLN 11 million on the construction of the Proszówek PV farm,
9. PLN 8 million on the construction of the Warblewo wind farm,
10. PLN 3 million on the construction of the Choszczno PV farm.

### Distribution Segment

The below table presents the Distribution Segment's results in the years 2021-2022.

**Table no. 34. Distribution Segment's results in the years 2021-2022**

Item (PLN m)	2021	2022	Change in % (2022 / 2021)	Change (2022-2021)
<b>Sales revenue</b>	<b>7 099</b>	<b>7 611</b>	<b>107%</b>	<b>512</b>
distribution and trading services	6 772	7 273	107%	501
grid connection fees	83	111	134%	28
revenue due for fixing power line collisions	68	52	76%	(15)
lighting services	53	53	100%	0
other revenue (illegal consumption, construction and assembly services, maintenance and support services, goods and materials)	124	121	98%	(3)
<b>EBIT</b>	<b>1 767</b>	<b>1 679</b>	<b>95%</b>	<b>(88)</b>
Depreciation and impairment charges	1 200	1 260	105%	60
<b>EBITDA</b>	<b>2 967</b>	<b>2 939</b>	<b>99%</b>	<b>(28)</b>

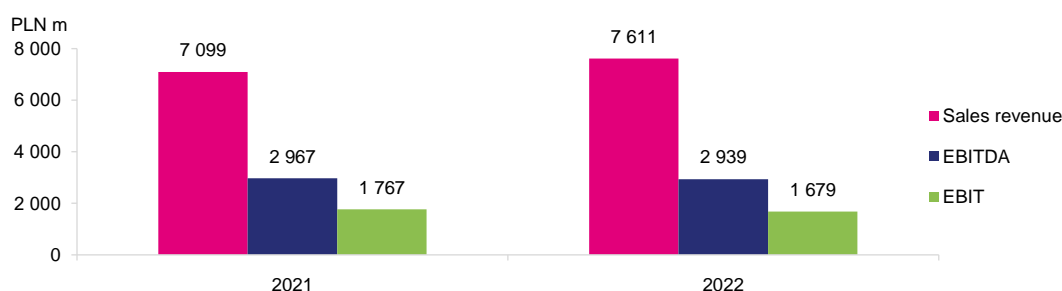
The Distribution Segment reported an increase of the sales revenue by 7% in 2022, as compared to 2021, mainly as a consequence of an increase in the distribution tariff as compared to last year and the completion of a significant grid connection for poly-metallurgy site of KGHM Polska Miedź.

The Distribution Segment's EBITDA result came in lower by 1%, as compared to the previous year, and the change had been affected by the following factors:

1. an increase of the average rate for the distribution service sales to the final consumers, as a result of an increase in the value of the regulated revenue and the change in the structure of the electricity deliveries,
2. a decrease of the total electricity delivery by 288 GWh, including to the final consumers by 465 GWh, first of all in the A and C groups, as a result of a slowdown of the economy, the lack of the purchase orders in the steel making industry as a consequence of, among other things, the war in Ukraine, the curtailing of the electricity consumption or a liquidation of the business operations by some of the consumers in response to the several fold increase of the prices of electricity,
3. higher costs of the purchasing of the transmission and distribution services,
4. an increase of the costs of purchasing electricity to cover the balancing difference as a result of the higher purchase price, and the lower volume and a positive balance of the upward adjustment,
5. an increase of the other revenues related to the electricity distribution operations, mainly due to the over-contracted reactive power consumption and the grid connection fees,
6. a rise of the other fixed costs, including the labor costs as a result of the wages agreements signed with the workforce, the costs of the taxes on the grid assets due to the increase of the value of the assets as a result of the investment projects conducted, the higher costs of the external (outsourced) services purchased on the market.

The below figure presents the Distribution Segment's financial data for the years 2021-2022.

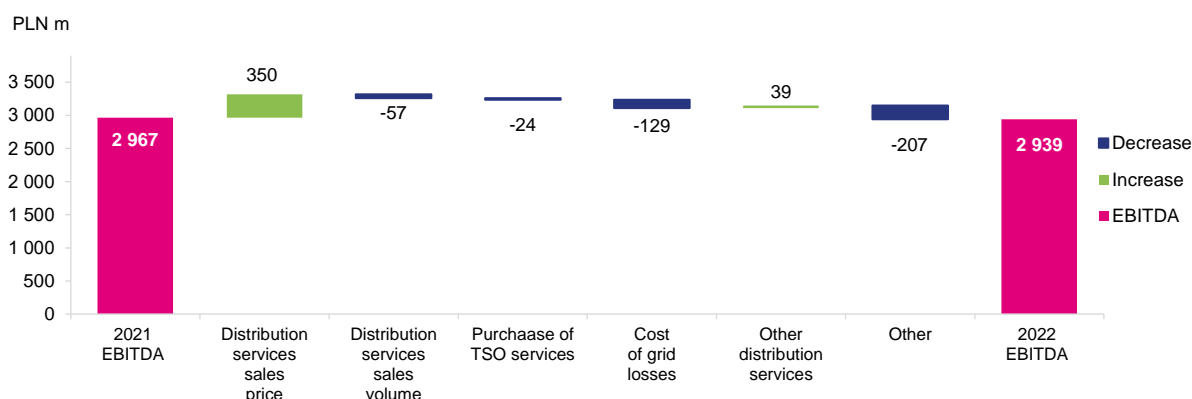
**Figure no. 38. Distribution Segment's financial data for the years 2021-2022**



The below figure presents the Distribution Segment's EBITDA, including the material factors impacting the change year on year.



Figure no. 39. Distribution Segment's EBITDA



### Major investments (CAPEX)

The Distribution Segment's total capital expenditures came in at PLN 2 137 million in 2022. The main capex directions included:

1. PLN 1 138 million on the investment projects related to connecting of the new consumers to the grid,
2. PLN 852 million on the investment projects related to the grid modernization and replacements,
3. PLN 79 million on the investments related to the IT and communications systems.
4. PLN 60 million on the other investment projects, including buildings and structures, means of transportation, tools.

### Supply Segment

The below table presents the Supply Segment's results in the years 2021-2022.

Table no. 35. Supply Segment's results in the years 2021-2022

Item (PLN m)	2021	2022	Change in % (2022 / 2021)	Change (2022 - 2021)
<b>Sales revenue</b>	<b>24 134</b>	<b>35 491</b>	<b>147%</b>	<b>11 357</b>
electricity, including:	16 348	24 553	150%	8 205
revenue from retail electricity supply	10 315	15 894	154%	5 579
greenhouse gas emission allowances	2 107	2 775	132%	668
fuel	1 896	4 341	229%	2 445
distribution service (passed on)	3 302	3 308	100%	6
street lighting service	123	130	106%	7
other revenue, including trading services	358	384	107%	26
<b>Compensation payments</b>	<b>(9)</b>	<b>482</b>	<b>-</b>	<b>491</b>
<b>EBIT</b>	<b>(564)</b>	<b>550</b>	<b>-</b>	<b>1 114</b>
Depreciation and impairment charges	40	44	110%	3
<b>EBITDA</b>	<b>(524)</b>	<b>594</b>	<b>-</b>	<b>1 118</b>

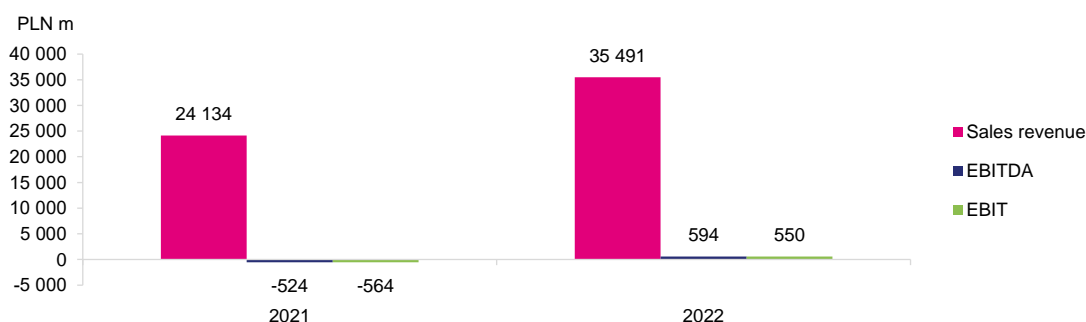
The Supply Segment's sales revenue in 2022 was higher by 47%, as compared to 2021, first and foremost as a result of the changes in the prices for the sale of electricity to the customers outside the ERO tariff introduced during the year in response to a significant change in the unit cost of sourcing electricity stemming directly from the market situation that had occurred in 2022 and the different demand profile reported by the customers. In addition, the increase in the revenues is also due to the changes in the tariff rates approved by the President of the ERO, albeit the pace of the changes was lower than in the case of the price list changes. The revenue from the sales of the CO<sub>2</sub> emission allowances had also gone up, mainly due to the higher quoted prices of the emission allowances resold mainly for the redemption needs of the generation companies.

The Supply Segment's EBITDA and EBIT results had been substantially higher in 2022 than in the previous year. The results posted had been affected by the following factors:

1. a higher margin earned on the electricity sales as a consequence of:
  - 1) having obtained a higher price for the sale of electricity, which is a result of the observed changes in the price trends on the electricity market as a consequence of the high volatility on the global commodity and energy markets as a result of the Russian Federation's aggression in Ukraine, as well as an increase in the tariff approved by the President of the ERO,
  - 2) having purchased electricity from the 910 MW unit in Jaworzno at a lower price as a consequence of the expiration of the contract between the subsidiaries for the purchase of electricity concluded based on the cost plus formula that had been in effect in 2021,
  - 3) a change with respect to the obligation to present the RES Property Rights for redemption - a decrease from 19.5% to 18.5%,
2. a lower margin on the sales of gas as a consequence of a significant increase of the gas wholesale price with no possibility to pass the rising cost on some customers,
3. other factors

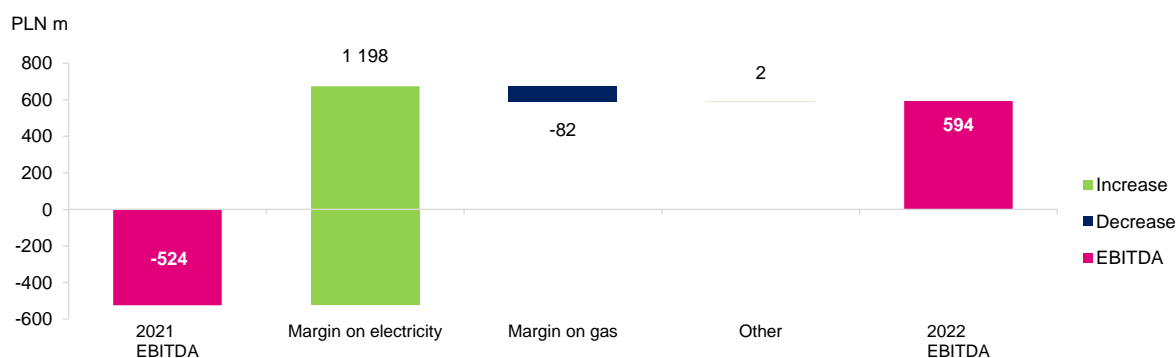
The below figure presents the Supply Segment's financial data for the years 2021 - 2022.

Figure no. 40. Supply Segment's financial data for the years 2021 - 2022



The below figure presents the Supply Segment's EBITDA, including the material factors impacting the change year on year

Figure no. 41. Supply Segment's EBITDA



### Major investments (CAPEX)

The Supply Segment's total capital expenditures came in at PLN 75 million in 2022, the amount spent mainly by the TAURON Nowe Technologie subsidiary, for the activities related to the maintenance and expansion of the street lighting in the amount of PLN 68 million.

### Other operations

The below table presents the Other Operations Segment's results in the years 2021-2022.

Table no. 36. Other Operations Segment's results in the years 2021-2022

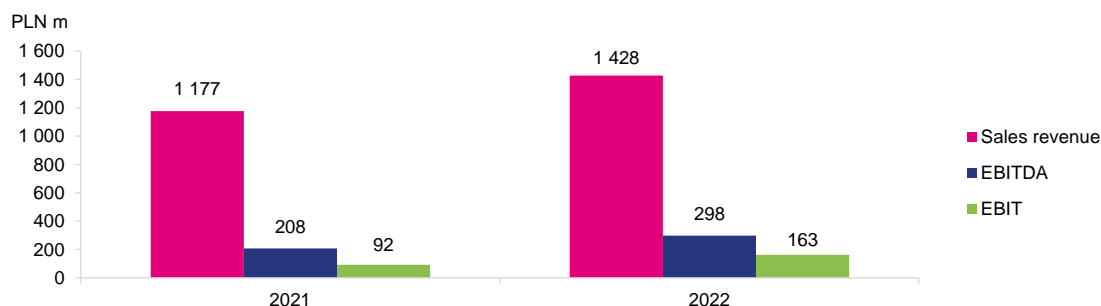
Item (PLN m)	2021	2022	Change in % (2022 / 2021)	Change (2022 - 2021)
Sales revenue	1 177	1 428	121%	251
customer service	250	285	114%	35

Item (PLN m)	2021	2022	Change in % (2022 / 2021)	Change (2022 - 2021)
support services	545	603	111%	58
aggregates	119	146	123%	27
electricity	51	92	180%	41
biomass	113	197	174%	84
other revenue	98	104	106%	6
<b>EBIT</b>	<b>92</b>	<b>163</b>	<b>177%</b>	<b>71</b>
Depreciation and impairment charges	116	135	116%	19
<b>EBITDA</b>	<b>208</b>	<b>298</b>	<b>143%</b>	<b>90</b>

Other Operations Segment subsidiaries' sales revenue in 2022 was higher by 21% as compared to the sales revenue posted in 2021, which was primarily due to the higher sales of the biomass, the higher sales of electricity as a result of the rising sales prices on the market, the larger volume of the support services completed for the needs of TAURON Capital Group's subsidiaries, the higher sales of the rocks and the derivatives thereof as a result of the greater demand for this product by the power industry and the sales of the other services, including, among others, of the by-products of the combustion and extraction processes.

The below figure presents the Other Operations Segment's financial data for the years 2021-2022.

Figure no. 42. Other Operations Segment's financial data for the years 2021-2022



### Major investments (CAPEX)

The Other Operations Segment subsidiaries' capital expenditures came in at PLN 391 million in total in 2022 and they included mainly the outlays related to the investments in the IT systems at TAURON Obsługa Klienta, including PLN 78 million for the broadband internet construction project as part of the POPC III program.

### Mining Segment – discontinued operations

The operations of TAURON Wydobywanie have been classified as the discontinued operations, as part of the Mining Segment, due to TAURON Group's loss of the control over TAURON Wydobywanie as of December 31, 2022, as a result of the sale of 100% of the shares in TAURON Wydobywanie to the State Treasury, further described in Note 3 to the Consolidated Financial Statements

The below table presents the Mining Segment's results in the years 2021-2022.

Table no. 37. Mining Segment's results in the years 2021-2022

Item (PLN m)	2021	2022	Change in % (2022 / 2021)	Change (2022 - 2021)
<b>Sales revenue</b>	<b>1 467</b>	<b>2 680</b>	<b>183%</b>	<b>1 213</b>
hard coal – large and medium size lump coal	393	1 116	284%	723
thermal coal	995	1 421	143%	426
other revenue	78	143	183%	65
<b>EBIT</b>	<b>(458)</b>	<b>490</b>	<b>-</b>	<b>948</b>
Depreciation and impairment charges	328	291	89%	(37)
<b>EBITDA</b>	<b>(130)</b>	<b>781</b>	<b>-</b>	<b>911</b>

The Mining Segment's sales revenue was higher by 83% in 2022, as compared to 2021, first and foremost due to the obtained higher price of the hard coal sold, which was a consequence of an increase in the hard coal prices on the domestic and international markets. The hard coal production by TAURON Wydobycie clocked in at 5.01 million Mg in 2022, and it was lower by 3% as compared to 2021. An increase in the production output was recorded at the Janina Coal Mine and at the Brzeszcze Coal Mine, which as a consequence of a more favorable configuration of the longwall fronts than the setup that occurred in 2021. The lower production volume at the Sobieski Coal Mine was due to the extraction works conducted on the longwalls with the lower reserves, which resulted in the geological and mining difficulties that prevented the normal exploitation of the longwall and made it necessary to carry out the mining prophylaxis measures in the section where the disturbances occurred.

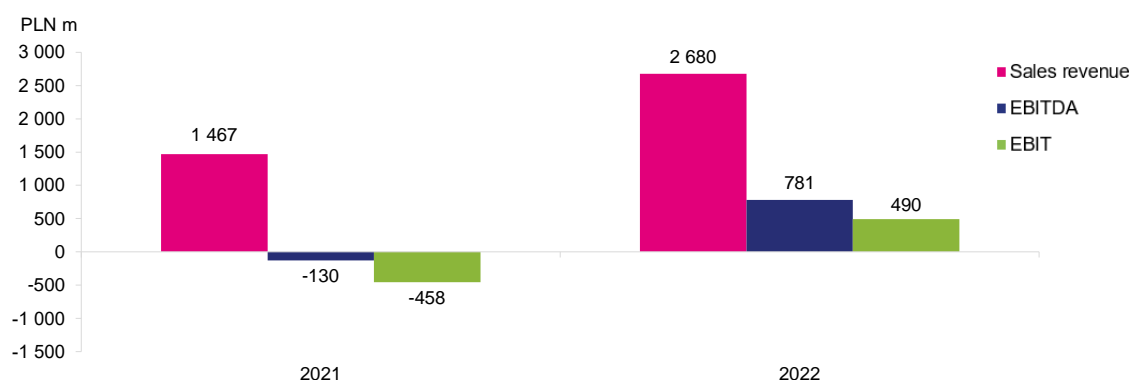
The Mining Segment's EBITDA and EBIT results were higher in 2022 as compared to 2021. The results posted were impacted by the following factors:

1. an increase of the average hard coal price by 103% which was mainly impacted by the rise in the price of the large and medium size lump coal as well as that of the coal dust, including the coal products sold intra-Group,
2. an effect of a change of the product structure (types) of the hard coal sold, i.e. the sales of a larger volume of the large and medium size lump coal, along with the lower sales of the coal dust for the energy industry, and the lower allocation of the costs to profit or loss due to a change in the coal inventory level,
3. other - mainly related to an increase in the fixed costs, including the labor costs as a result of signed wages agreements, the cost of the electricity and the materials used in the production.

In addition, the EBIT result was impacted by the lower impairment charge than in 2021.

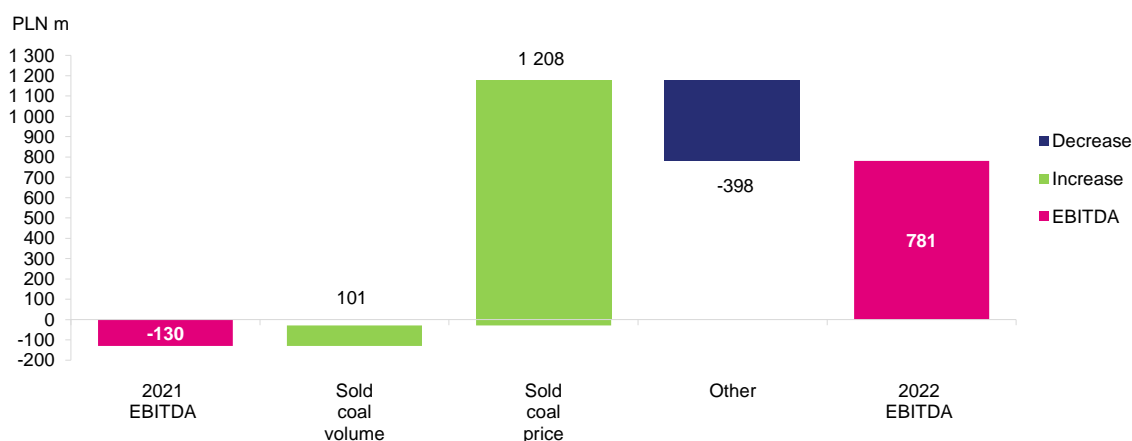
The below figure presents the Mining Segment's financial data for the years 2021 - 2022.

**Figure no. 43. Mining Segment's financial data for the years 2021 - 2022**



The below figure presents the Mining Segment's EBITDA, including the material factors impacting the change year on year.

**Figure no. 44. Mining Segment's EBITDA**



### Major investments (CAPEX)

The Mining Segment's total capital expenditures came in at PLN 517 million in 2022, including the outlays on the following investment projects:

1. PLN 337 million of the outlays on the preparation of the future production,
2. PLN 130 million of the outlays on the replacement and upgrade works,
3. PLN 44 million on the construction of the "Grzegorz" shaft.

### 5.3. Characteristics of the structure of assets and liabilities in the consolidated statement of financial position

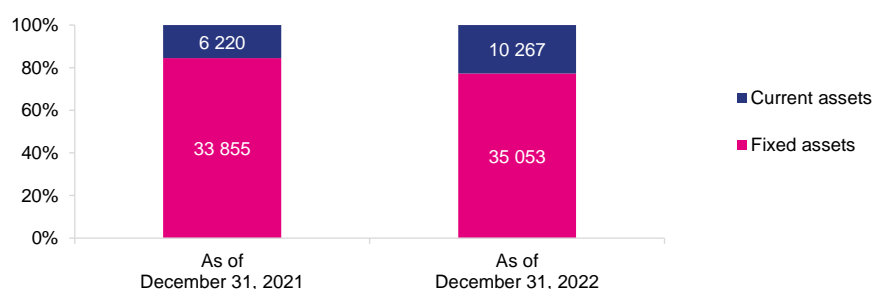
The below table presents the structure of the annual consolidated statement of financial position.

**Table no. 38. Structure of the annual consolidated statement of financial position**

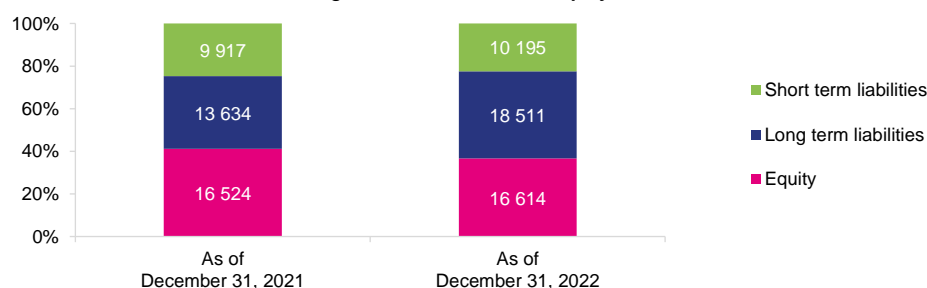
Consolidated statement of financial position	As of December 31, 2021	As of December 31, 2022
<b>ASSETS</b>		
Fixed assets	84.5%	77.3%
Current assets	15.5%	22.7%
<b>TOTAL ASSETS</b>	<b>100.0%</b>	<b>100.0%</b>
<b>EQUITY AND LIABILITIES</b>		
Equity attributable to shareholders of the parent entity	41.2%	36.6%
Non-controlling stakes	0.1%	0.1%
<b>Total equity</b>	<b>41.2%</b>	<b>36.7%</b>
Long term liabilities	34.0%	40.8%
Short term liabilities	24.7%	22.5%
<b>Total liabilities</b>	<b>58.8%</b>	<b>63.3%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Financial liabilities</b>	<b>10 944</b>	<b>13 266</b>
<b>Net financial liabilities</b>	<b>10 129</b>	<b>11 588</b>
Net debt / EBITDA ratio	2.4x	2.9x
Current liquidity ratio	0.63	1.01

The below figures present the structure of assets as well as equity and liabilities

**Figure no. 45. Structure of assets**



**Figure no. 46. Structure of equity and liabilities**

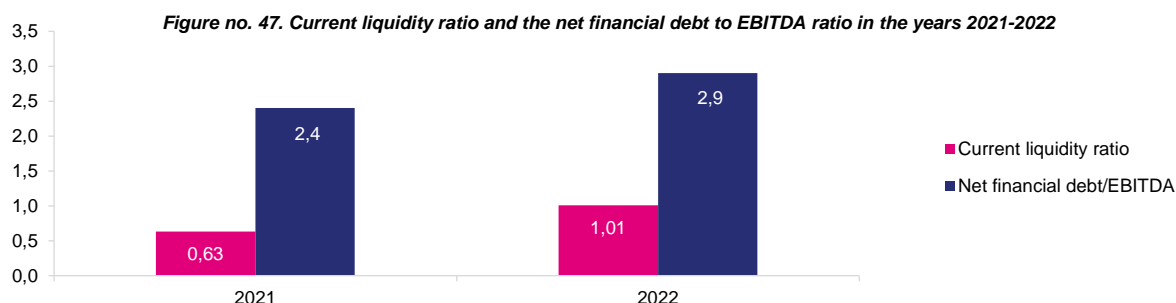


As of December 31, 2022, similar as in 2021, the value of the fixed assets constitutes the largest share in the structure of assets, i.e. 77.3%, and it is 7.2 pp lower than last year. The decrease is related to the divestment, as of December 31, 2022, of 100% of the shares of the TAURON Wydobycie subsidiary and the consequent decline in the value of TAURON Capital Group's assets.

As of December 31, 2022, the liabilities represent the largest share in the structure of equity and liabilities, i.e. 63.3%, with their share rising by 4.6 pp.

The level of debt of TAURON Capital Group remains at a stable level, which is indicated by the value of the leverage ratio which is below the value agreed upon with the institutions financing TAURON Capital Group's operations. The current liquidity ratio and the net debt to EBITDA ratio remain at a stable level.

The below figure presents the current liquidity ratio and the net financial debt to EBITDA ratio in the years 2020 - 2021.



The below table presents the annual consolidated statement of financial position – assets.

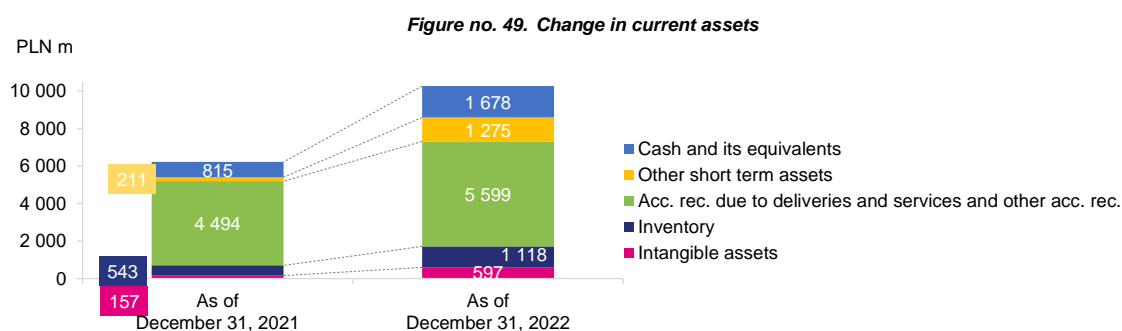
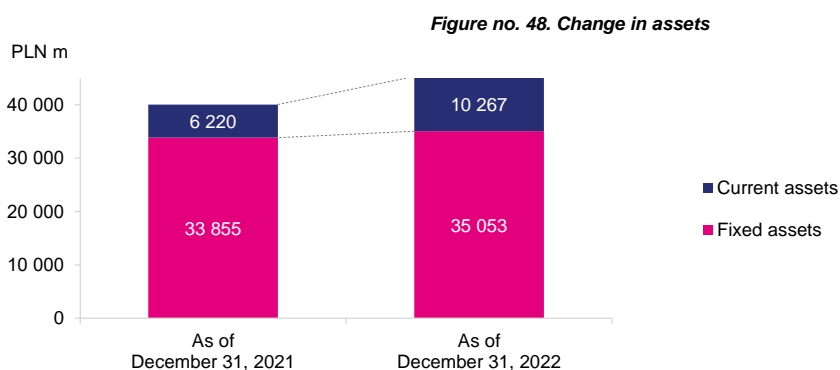
**Table no. 39. Annual consolidated statement of financial position - assets (material items)<sup>1</sup>**

Statement of financial position (PLN m)	As of December 31, 2021	As of December 31, 2022	Change in % (2022 / 2021)
<b>ASSETS</b>			
<b>Fixed assets</b>	<b>33 855</b>	<b>35 053</b>	<b>104%</b>
Tangible fixed assets	29 174	29 731	102%
<b>Current assets</b>	<b>6 220</b>	<b>10 267</b>	<b>165%</b>
Cash and equivalents	815	1 678	206%
Fixed assets classified as held for sale	10	7	70%
<b>TOTAL ASSETS</b>	<b>40 075</b>	<b>45 320</b>	<b>113%</b>

<sup>1</sup>Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

As of December 31, 2022, the statement of the financial position of TAURON Capital Group indicates the balance sheet total higher by 13%.

The below figures present the change in the level of assets and current assets.



The fixed assets represent the biggest item of the assets as of the end of December 2022, accounting for 77.3% of the balance sheet total. As compared to the level as of the end of 2021, the value of the fixed assets is higher by PLN 1 198 million, i.e. by 3.5%, which was brought about due to the following factors:

1. tangible fixed assets – an increase by 2% which is the resultant of an increase in the value of the tangible fixed assets as a consequence of the investment projects implemented by TAURON Capital Group's subsidiaries, the recognized depreciation write-downs, as well as the booked impairment charge related to the non-financial fixed assets as a result of the impairment tests carried out as of June 30, 2022, and December 31, 2022, as well as the divestment of the shares of TAURON Wydobycie,
2. guarantees of origin of electricity and the greenhouse gas emission allowances to be redeemed – a decline by 88% which is mainly the result of the reclassifying of the guarantees of origin of electricity and the CO<sub>2</sub> emission allowances as the current assets held in order to fulfill the obligation related to the redemption of the above mentioned assets,
3. other intangible assets – an increase by 34%,
4. loans extended to the joint ventures – an increase by 108%, which is related to the granting of a loan to EC Stalowa Wola in March of 2022 in order to enable the company to settle the liability stemming from the settlement agreement with Abener Energia, concluded on December 31, 2021,
5. derivative instruments – a decrease by more than 27%, which is a consequence of the settlement in December 2022 of a portion of the derivative instruments relating to the forward transactions for the purchase and sale of the CO<sub>2</sub> emission allowances as well as of the change in the fair value measurement of the derivative instruments and the foreign currency forward or futures derivative instruments, in accordance with the principles adopted in *TAURON Group's Accounting Policy*,
6. other financial assets – an increase by 69%, as a result of the advance payment for the fixed assets under construction, including those related to the construction of the wind farms,
7. deferred income tax assets – a increase by 446%, which is related to the lack of the offsetting between the assets and liabilities due to the deferred tax of the subsidiaries forming the Tax Capital Group (PGK) in 2021, as these subsidiaries will not be filing a joint tax return for 2022 due to an expiration, as of December 31, 2021, of the decision on the registration of the agreement to set up the Tax Capital Group (PGK) for the years 2021 - 2023, which is described in more detail in the *Consolidated Financial Statements of TAURON Capital Group*.

The following factors had an impact on the rise in the value of the current assets by PLN 4 047 million. i.e. by 65%:

1. balance of cash on hand and equivalents – an increase by 106%. *The information on the reasons for the change is provided further on in this report, in the section under the heading Cash Flows,*
2. guarantees of origin of electricity and the CO<sub>2</sub> emission allowances to be redeemed – an increase by 280%, which is the result of:
  - 1) purchase in 2022 or the recognition of the guarantees of origin of electricity produced in-house for the fulfillment of the obligation to redeem the property rights,
  - 2) reclassifying as the short term assets of a part of the property rights and the CO<sub>2</sub> emission allowances held, originally classified as the long term assets, that were reclassified due to their allocation for the purpose of the ongoing fulfilling of the obligation to redeem the above mentioned allowances and rights,
  - 3) purchase of the CO<sub>2</sub> emission allowances in 2022 for the redemption obligation for the year 2022,
3. inventory levels – an increase by 106% mainly due to the rise in the value of the hard coal stocks as a consequence of the higher prices of the purchasing thereof in relation to the prices reported in 2021,
4. accounts receivable from the consumers – an increase by 15%,
5. accounts receivable due to the income tax – an increase by 25%,
6. accounts receivable due to the other taxes and fees – an increase by 175% which is mainly related to the reduction, starting as of January 1, 2022, of the VAT rate applicable for electricity from 23% to 5%,
7. other financial assets – an increase by 437%, mainly as a result of recognizing, as of December 31, 2022, of the accounts receivable due to the compensation payments for the trading companies,
8. other non-financial assets – an increase by 605%, mainly as a result of the advance payments related to the future hard coal deliveries that had been paid but had not been settled as of the balance sheet date,

The below table presents the annual consolidated statement of financial position – equity and liabilities.

**Table no. 40. Annual consolidated statement of financial position – equity and liabilities (material items)<sup>1</sup>**

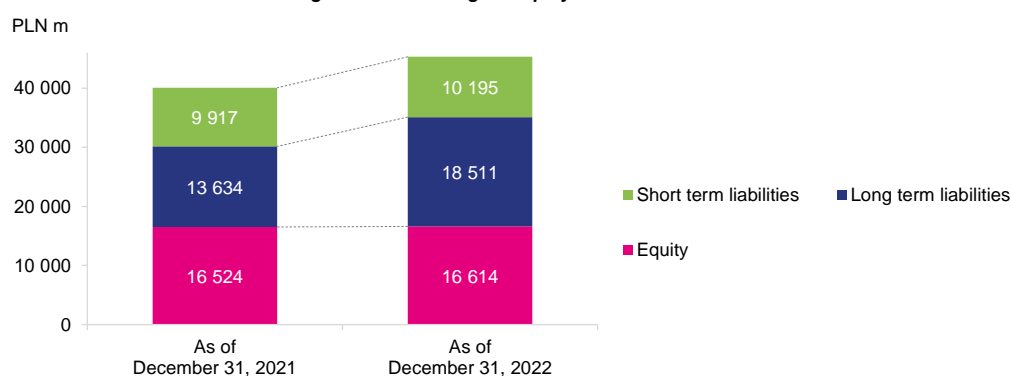
Statement of financial position (PLN m)	As of December 31, 2021	As of December 31, 2022	Change in % (2022 / 2021)
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to shareholders of the parent entity	16 491	16 581	101%
Non-controlling stakes	33	33	100%

Statement of financial position (PLN m)	As of December 31, 2021	As of December 31, 2022	Change in % (2022 / 2021)
<b>Total equity</b>	<b>16 524</b>	<b>16 614</b>	<b>101%</b>
Long term liabilities	13 634	18 511	136%
Liabilities due to debt	10 947	15 959	146%
Short term liabilities	9 917	10 195	103%
Liabilities due to debt	2 143	528	25%
<b>Total liabilities</b>	<b>23 551</b>	<b>28 706</b>	<b>122%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>40 075</b>	<b>45 320</b>	<b>113%</b>

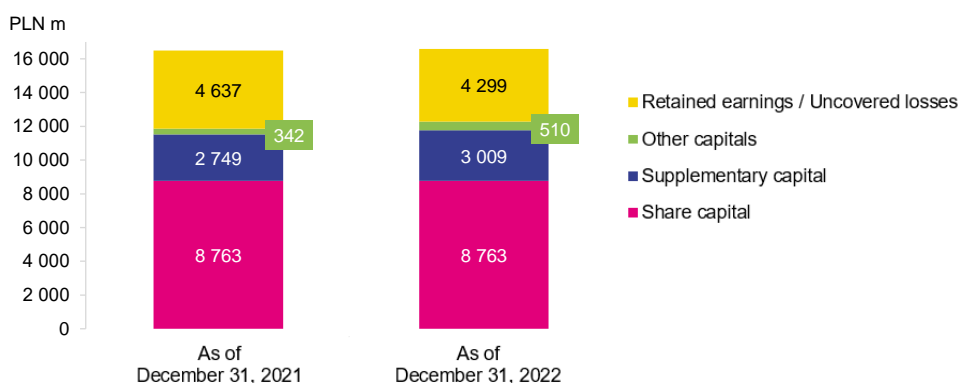
<sup>1</sup>Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

The below figures present the change in the amount of the equity and liabilities as well as equity attributable to the majority shareholders.

**Figure no. 50. Change in equity and liabilities**



**Figure no. 51. Change in equity attributable to majority shareholders**



The share of equity in the total equity and liabilities stood at 36.7% in 2022, and it was lower by 4.6 pp as compared to 2021. The external capital, in the form of the debt obligations, was a significant source of asset financing, whose share in total liabilities also stood at 36.4% as of December 31, 2022, and it was higher by 3.7 pp than its share at the end of 2021.

The below figures present the change in the amount of short term and long term liabilities.

**Figure no. 52. Change in long term liabilities**

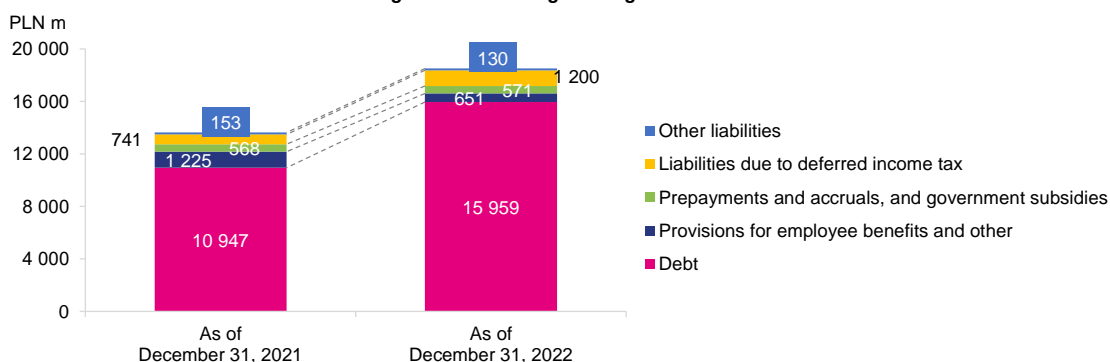
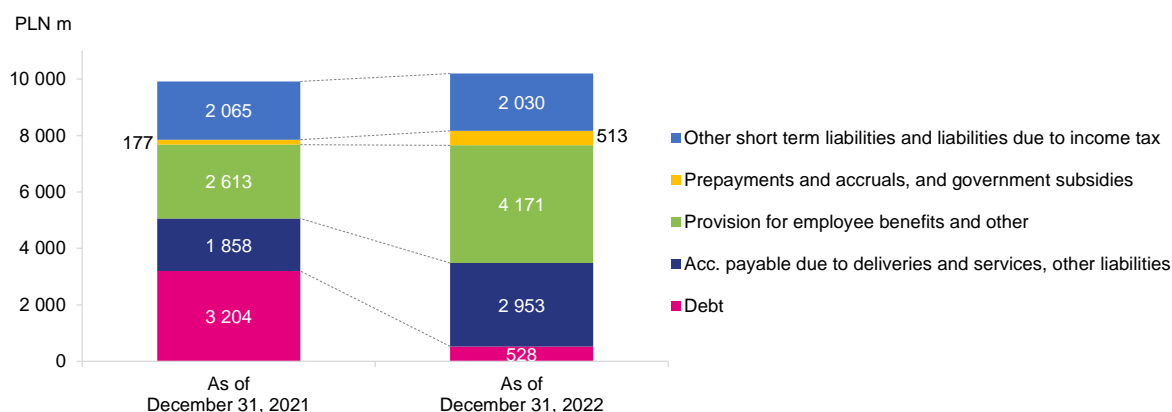




Figure no. 53. Change in short term liabilities



The amount of TAURON Capital Group's long term liabilities had gone up by PLN 4 877 million, i.e. by 36%, in 2022, which had mainly been a consequence of the following factors:

1. liabilities due to debt – an increase by 46%, as a result of taking on the new debt in 2022, the updating of the value of the debt in a foreign currency as a result of a change of the FX rate as of December 31, 2022, in relation to the FX rate as of December 31, 2021, and the reclassification of some liabilities as the short term ones,
2. provisions for the employee benefits – a drop by 37% mainly as a consequence of a change of the discount rate by 3.13 pp,
3. provisions related to the costs of dismantling the fixed assets and land reclamation - a decrease by 64%, primarily as a result of a change of the discount rate and the reduction of these costs as a result of the divestment of 100% of the shares of the TAURON Wydobycie subsidiary,
4. prepayments and accruals, as well as the government subsidies – an increase by 62%.
5. liabilities due to the deferred income tax – an increase by 62%,
6. derivative instruments - a decrease by 91%, which is a consequence of the settlement in December 2022 of a portion of the derivative instruments relating to the forward transactions for the purchase and sale of the CO<sub>2</sub> emission allowances as well as of the change in the fair value measurement of the derivative instruments and the foreign currency forward or futures derivative instruments, in accordance with the principles adopted in TAURON Group's Accounting Policy,
7. other financial liabilities – an increase by 261%,
8. other non-financial liabilities – a decline by 75%.

The amount of TAURON Capital Group's short term liabilities had gone up by PLN 278 million, i.e. by 3%, which was primarily a consequence of the following factors:

1. liabilities due to debt – a decrease by 75%, which is a result of the reclassifying of a part of the long term financial liabilities, the updating of the value of the bonds issued in a foreign currency as a result of an increase of the FX rate as of December 31, 2022, in relation to the FX rate as of December 31, 2021, and the repayment of the loans received in the amount of PLN 6 067 million and the redemption of the debt securities in the amount of PLN 170 million,
2. accounts payable towards the suppliers – an increase by 81% and the investment related commitments – a rise by 15%,
3. liabilities due to the acquisition of the non-controlling stake – a decline of the liability down to the value of PLN 0, which is a consequence of the fulfillment, in the first quarter of 2022, of the entire obligation towards the Infrastructure Investments Fund - Equity FIZAN (Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZAN) (PFR Fund) due to the acquisition of the shares in the subsidiary Nowe Jaworzno Grupa TAURON (currently TAURON Wytwarzanie),
4. provisions for the employee benefits – a drop by 12% mainly as a consequence of a change of the discount rate by 3.13 pp,
5. provisions for the liabilities due to the guarantees of origin of electricity and the CO<sub>2</sub> gas emissions – an increase by 95%, which is mainly due to a rise in the prices of the green certificates (PMOZE) and the CO<sub>2</sub> emission allowances in 2022 in relation to the prices thereof in 2021,
6. other provisions – a decrease by 37%, which is mainly due to having used, in 2022, the provision for the contracts for the sale of electricity in connection with the shutdown of the 910 MW unit in Jaworzno, which had been set up as of the balance sheet date falling on December 31, 2021,
7. prepayments and accruals, as well as the government subsidies – a rise by 190%, mainly due to the receipt in December 2022 of an advance payment for the compensation payments to the trading companies in the amount of PLN 337 million, as a result of the applications submitted by the Supply Segment subsidiaries in accordance with the provisions of the Act of October 27, 2022, on the Emergency Measures to Cap the Electricity Prices and Provide Support for Certain Consumers in 2023,
8. accounts payable due to the income tax – an increase by 325%,

9. liabilities due to the taxes and fees – a decrease by 48%, mainly as a consequence of the lower accounts payable due to VAT, accounts payable due to the social security and the personal income tax,
10. derivative instruments – a decrease by 13%, which is a consequence of the settlement in December 2022 of a portion of the derivative instruments relating to the forward transactions for the purchase and sale of the CO2 emission allowances as well as of the change in the fair value measurement of the derivative instruments and the foreign currency forward or futures derivative instruments, in accordance with the principles adopted in *TAURON Group's Accounting Policy*,
11. other financial liabilities – an increase by 6%,
12. other non-financial liabilities – an increase by 48%, which is a consequence of the higher overpayments received from the customers and the advance payments on account of the grid connection fees.

## 5.4. Discussion of the economic and financial figures disclosed in the annual consolidated financial statement

### Consolidated statement of comprehensive income

The below table presents the annual consolidated statement of comprehensive income. Due to the changes in the segments and in order to maintain the comparability, the results are presented for 2 years.

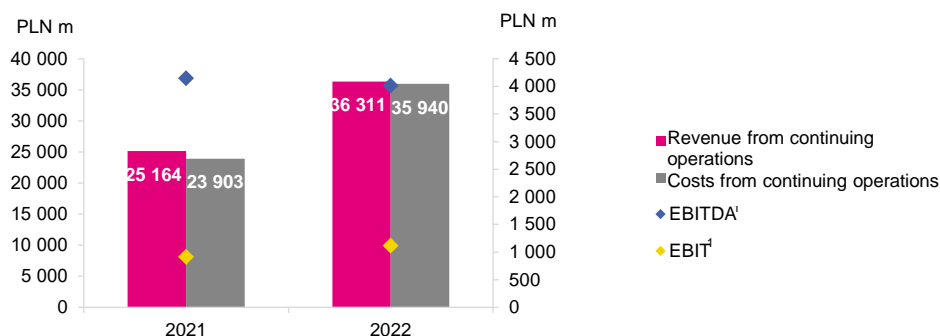
**Table no. 41. Annual consolidated statement of comprehensive income for 2021-2022<sup>1</sup>**

Statement of comprehensive income (PLN m)	2021	2022	Change in % (2022 / 2021)
Sales revenue	25 164	36 311	144%
Compensations	(9)	484	-
Own cost of sales	(23 903)	(35 940)	150%
Other operating revenues and costs	76	86	113%
Share in the profits of the joint ventures	32	128	400%
<b>Operating profit</b>	<b>1 360</b>	<b>1 069</b>	<b>79%</b>
Cost of interest on debt	(365)	(591)	162%
Other financial revenue and costs	130	(368)	-
<b>Pretax profit / loss</b>	<b>1 125</b>	<b>110</b>	<b>10%</b>
Income tax	(293)	(319)	109%
<b>Net profit / loss from continuing operations</b>	<b>832</b>	<b>(209)</b>	<b>-</b>
<b>Net profit / loss from discontinued operations</b>	<b>(447)</b>	<b>75</b>	<b>-</b>
<b>Net profit (loss) for the period</b>	<b>385</b>	<b>(134)</b>	<b>-</b>
<b>Total income for the period</b>	<b>865</b>	<b>108</b>	<b>13%</b>
<b>Net (profit) attributable to:</b>			
Shareholders of the parent entity	338	(134)	-
Non-controlling stakes (interests)	47	-	-
<b>EBIT and EBITDA</b>			
EBIT	916	1 119	122%
EBITDA	4 152	4 016	97%

<sup>1</sup>Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

The below figure presents TAURON Capital Group's financial results for the years 2021 - 2022.

Figure no. 54. TAURON Capital Group's financial results for the years 2021 - 2022



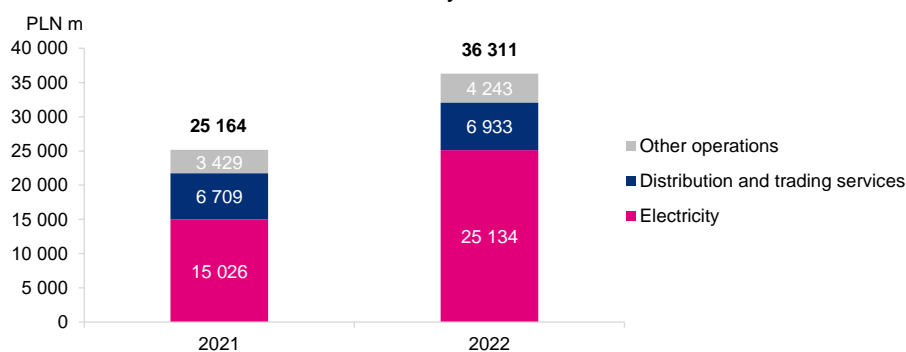
<sup>1</sup>in total from the continuing operations and the discontinued operations. In 2022, the EBITDA results stand at respectively, PLN 3 215 million and PLN 801 million, while the EBIT results: PLN 1 069 million and PLN 50 million. In 2021, the EBITDA results stand at, respectively, PLN 4 282 million and PLN (130) million, while the EBIT results: PLN 1 360 million and PLN (444) million.

TAURON Capital Group generated PLN 36 311 million of revenue from the continuing operations conducted in 2022, i.e. it was higher by 44% as compared to the amount generated in 2021, which is the result of the following factors:

1. higher revenue from the electricity sales by 67%, which is mainly the result of the rising electricity prices on the exchange market and the increase of the prices under the G tariff approved by the President of the ERO. The main reason for the rising electricity prices was the increase in the energy commodity prices caused by the disruption of the supply chains as a result of the Russian aggression against Ukraine. As a consequence of the war, the EU countries made a decision to impose an embargo on the import of the Russian raw materials, including crude oil, gas and coal, among others. The sanctions introduced caused a deficit of these raw materials on the European market and forced the imports of more expensive raw materials from the rest of the world,
2. 25% higher revenues from the sales of the CO<sub>2</sub> emission allowances, including from the restructuring of the CO<sub>2</sub> portfolio, the reasons for which are described below:
  - 1) due to the failure of the 910 MW unit in Jaworzno that had taken place in June 2021 and its shutdown for the remainder of the year, there was an excess of the emission allowances for the redemption purposes for 2021. A portion of the resulting surplus in the amount of 1 717 000 EUAs was allocated for the redemption purposes of another installation of TAURON Capital Group for 2022. Taking into account the need to match the delivery of the emission allowances and the cash outlay, TAURON Capital Group took a decision to sell the above volume of the emission allowances and, at the same time, repurchase such a volume in the EUA MAR'23 forward product for the purpose of the redemption of the emission allowances for 2022, thus generating the revenue in the amount of PLN 604 million in the first quarter of 2022,
  - 2) restructuring of the CO<sub>2</sub> emission allowances completed in the first quarter of 2021 with respect to the volume of 3 258 000 of the EUAs in the portfolio of Nowe Jaworzno Grupa TAURON. As a result of the completed analysis of the new premises and circumstances, the Company changed its intentions regarding the above mentioned CO<sub>2</sub> emission allowances and took a decision to roll them over along with the conclusion of the new contracts with the delivery dates in March 2022, 2023, and 2024. Due to the fact that the original contracts had not been settled by way of the physical delivery, the Company recognized the contracts in accordance with IFRS 9 Financial Instruments at fair value at the date of the change in the judgment, i.e. in March 2021, and subsequently recognized the result from the settlement of the instruments, which led to an increase in the sales revenue and operating profit in the amount of PLN 303 945 000 (i.e. EUR 65 893 000). The newly contracted transactions with a delivery date in the years 2022 - 2024, are subject to an exclusion from the scope of the IFRS 9 Financial Instruments and are not measured at fair value. At the same time, those transactions were completed at the prices that were higher than the originally contracted purchase, and as a consequence, they will lead to an increase of the costs,
  - 3) In the first quarter of 2021, due to a delay in the commissioning of the 910 MW unit in Jaworzno in 2020, TAURON Group had sold 691 000 Mg of the emission allowances on the market as part of its efforts to manage the resulting surplus, which led to the recognition of the revenue in the amount of PLN 135 million in that period. In addition, with respect to the remaining volume of 3 258 000 allowances with the delivery date in March 2021, they were rolled over by entering into the new contracts with the delivery dates in March 2022, 2023, and 2024. TAURON Capital Group recognized the result from the settlement of the instruments in accordance with IFRS 9 Financial Instruments, which led to an increase in the sales revenue and operating profit in the amount of PLN 304 million,
3. higher revenue from the valuation of the property rights by 5%,
4. higher revenue from the distribution and trading services sales by 3%, as a consequence of an increase of the distribution and transmission service rate, along with the simultaneous rise of the distribution service volume,
5. higher revenue from the gas sales by 90% mainly as a consequence of the significant rise of the prices, year on year, in connection with the increase of the prices observed both on the domestic, as well as on the global markets.

The below figure presents the structure of TAURON Capital Group's sales revenue (except for the compensation payments) from the continuing operations in the years 2021 - 2022.

**Figure no. 55. TAURON Capital Group's sales revenue (except for the compensation payments) from the continuing operations in the years 2021 - 2022<sup>1</sup>**



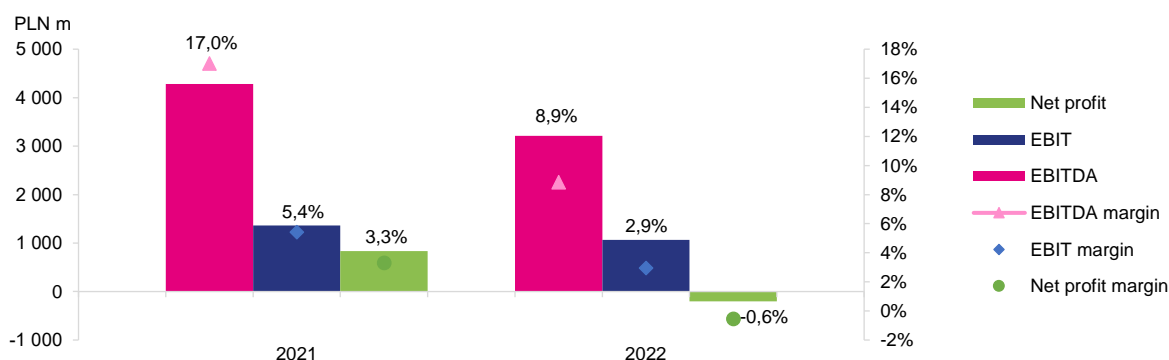
<sup>1</sup>Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

The costs of TAURON Capital Group's operations (operating expenses) came in at PLN 35 940 million in 2022, i.e. they were 50% higher than the costs incurred in 2021, which is the result of the following factors:

1. higher depreciation costs, mainly as a result of an increase in the value of the assets of TAURON Capital Group,
2. lower value of the impairment charges related to the non-financial fixed assets, which is the result of the asset impairment tests carried out as of June 30, 2022, and as of December 31, 2022, which demonstrated the legitimacy of booking the write-downs in an amount lower than in the same period of 2021,
3. higher costs of the electricity purchased for the purpose of the resale thereof, due to an increase in the electricity purchase price year on year, as a consequence of the higher prices reported on the domestic market,
4. higher costs of the gas purchased for the purpose of the resale thereof, which is a consequence of an increase in the prices year on year,
5. higher costs of the greenhouse gas emission allowances, which is a consequence of an increase in the prices of the emission allowances,
6. higher costs of the materials and energy consumption, mainly as a result of:
  - 1) higher costs of the hard coal fuel consumed for the purpose of the production of the electricity and heat, mainly as a consequence of a significant increase in the energy commodity prices triggered by the disruption of the supply chains as a result of the Russian aggression against Ukraine. As a result of the war, the EU countries took a decision to impose an embargo on the imports of the Russian raw materials, including, among others, crude oil, gas and coal, among others. The sanctions introduced caused a deficit of these raw materials on the European market and forced the imports of the more expensive raw materials from other parts of the world,
  - 2) higher costs of the heating oil consumed for the purpose of the production of the electricity and heat as well as the biomass, due to the rise in the purchase prices along with the lower volume of the consumption thereof,
7. higher costs of the employee benefits, which is the result of the following factors:
  - 1) booking in the costs of the reported period of 2022 of the effects of the agreements signed with the workforce in the second half of 2021 as well as in the first quarter and in the third quarter of 2022,
  - 2) an increase of the minimum wage in 2022,
  - 3) change in the discount rate and, as a consequence, a change in the value of the actuarial provisions,
8. higher costs of the distribution services due to an increase of the tariff for the PSE (TSO) distribution services,
9. higher costs of the other external services, mainly as a result of an increase in the rates for the services purchased and an extension of the scope of such services,
10. higher costs of the taxes and fees, mainly due to the increase in the value of grid assets that is the base for calculation of real estate tax and a rise in the rate of this tax,
11. higher value of the costs of the services provided for the in-house purposes, which is mainly due to the wider scope of the works performed using the in-house resources on the distribution assets.

The below figure presents TAURON Capital Group's financial results and the level of the margins realized from the continuing operations.

Figure no. 56. TAURON Capital Group's financial results and the level of the margins realized from the continuing operations in the years 2021 - 2022<sup>1</sup>



<sup>1</sup>Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report

The EBITDA and EBIT margins generated from the continuing operations in 2022 had come in at, respectively, 8.9% and 2.9%, and they were lower by 8.1 pp and by 2.5 pp, as compared to the margins posted in 2021. The net profit margin stood at a lower level in the reported period than the margin achieved a year ago and it came in at (0.6)%, as compared to the margin of 3.3% earned in 2021. The main reasons for the decline of the above mentioned profitability ratios are the significant increases of the revenues, the reasons for which are described above. The second material reason, in the case of the EBITDA margin from continuing operations, is the lower earnings of the Generation Segment, which was mainly due to the need to repurchase electricity on the market in place of the electricity not produced by the 910 MW unit in Jaworzno as a result of its failure, which had taken place between August 6 and September 2, 2022, as well as the higher costs of the fuel purchased in 2022. *The detailed reasons for the change in the EBITDA result of the Segments are described in Section 5.2 of this report.* The EBIT result from the continuing operations had also been lower, but its decline relative to the change in the EBITDA result was partially neutralized by the lower impairment losses related to the non-financial fixed assets, the reasons for which are described above.

## Statement of cash flows

The below table presents the statement of cash flows.

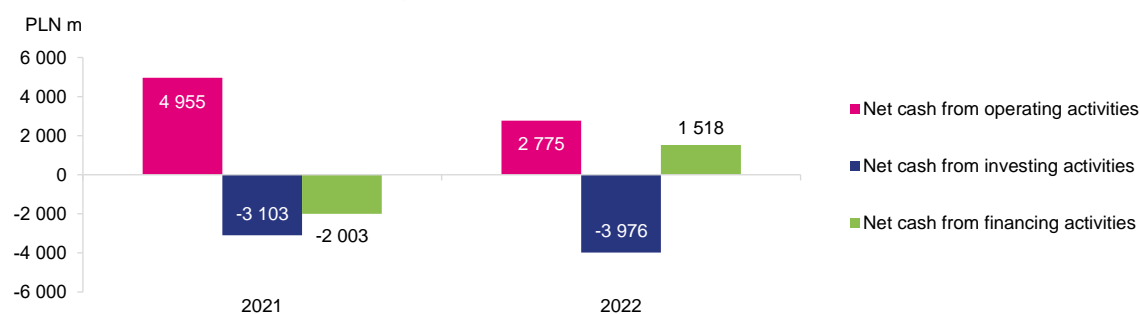
Table no. 42. Statement of cash flows (material items) in the years 2021 - 2022<sup>1</sup>

Statement of cash flows (PLN m)	Year ended on December 31, 2020	Year ended on December 31, 2021	Change in % (2022 / 2021)
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Pre-tax profit / loss from continuing and discontinued operations	675	133	20%
Adjustments	4 280	2 642	62%
<b>Net cash from operating activities</b>	<b>4 955</b>	<b>2 775</b>	<b>56%</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of tangible fixed assets and intangible assets	(3 255)	(3 879)	119%
<b>Net cash from investing activities</b>	<b>(3 103)</b>	<b>(3 976)</b>	<b>128%</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Redemption of debt securities	(170)	(170)	100%
Proceeds from taking out credits / loans	2 003	9 440	471%
Repayment of loans / credits	(3 466)	(6 067)	175%
Interest paid	(343)	(500)	146%
<b>Net cash from financing activities</b>	<b>(2 003)</b>	<b>1 518</b>	-
Increase / (decrease) in net cash and equivalents	(151)	317	-
<b>Cash opening balance</b>	<b>774</b>	<b>623</b>	<b>80%</b>
<b>Cash closing balance</b>	<b>623</b>	<b>940</b>	<b>151%</b>

<sup>1</sup>Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report

The below figure presents the cash flows in the years 2021 - 2022.

Figure no. 57. Cash flows in the years 2021 - 2022



The amount of cash flows from operating activities in 2022 came in at PLN 2 775 million, which was the result of the following factors:

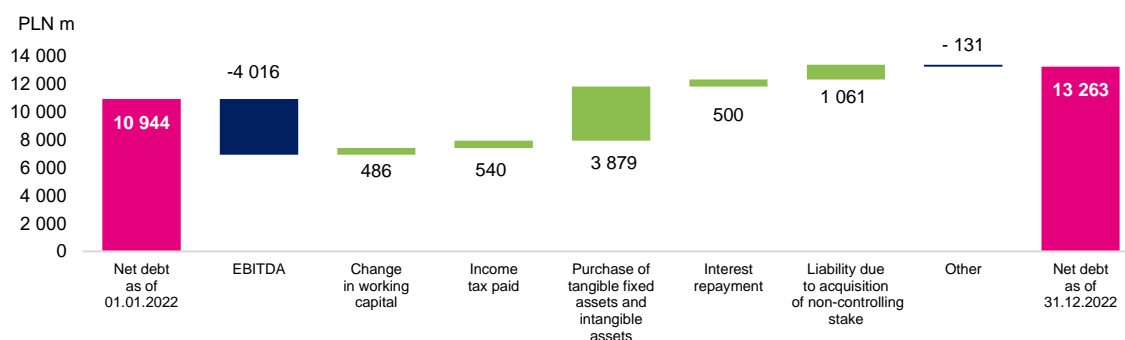
1. generated EBITDA in the amount of PLN 4 016 million,
2. a negative change in the working capital in the amount of PLN 486 million, which is the result of:
  - 1) a negative change in the balance of the accounts receivable, mainly from the consumers, in the amount of PLN 1 286 million,
  - 2) a negative change of the inventory level, in the amount of PLN 707 million, mainly due to the increasing of the value of the hard coal inventory, which is primarily due to the increase of the prices of the hard coal purchased,
  - 3) a positive change in the balance of the accounts payable in the amount of PLN 1 561 million, mainly as a result of an increase of the accounts payable towards the suppliers, the overpayments received and the advance payments on account of the services provided,
  - 4) a positive change of the other long and short term assets as well as the provisions in the total amount of PLN 210 million,
  - 5) a positive change of the prepayments and accruals as well as the government subsidies in the amount of PLN 293 million, mainly as a consequence of the receipt of the advance payments for the compensation payments to the trading companies in the amount of PLN 337 million, as a result of the applications, submitted in December 2022 by the Supply Segment subsidiaries, for the advance payments for the compensation payments with respect to the electricity trading, submitted by the subsidiaries in accordance with the provisions of the *Act of October 27, 2022, on the Emergency Measures to Cap the Electricity Prices and Provide Support for Certain Consumers in 2023*, which is described in more detail in note 12 to the Consolidated Financial Statements,
  - 6) a negative change in the balance of the collateral transferred to IRGiT in the amount of PLN 557 million,
3. A surplus of the expenditure over the refund received due to the income tax in the amount of PLN 540 million, which is the result of:
  - 1) income tax paid by TAURON Capital Group's subsidiaries in the amount of PLN 914 million due to the settlement thereof for the period from January to December 2022,
  - 2) received refund of the income tax overpayment due to the settlement of the Tax Capital Group (PGK) for 2020 in the amount of PLN 374 million,
4. other factors: PLN -215 million.

The expenditures for the purchase of the tangible fixed assets have the biggest impact on the cash flow from the investing activities, coming in at PLN 3 879 million in the reporting period and they were higher by PLN 624 million than the outlays incurred in 2021. The largest expenditures were incurred by the Distribution Segment and they accounted for 54% of TAURON Group's total capital expenditures.

The positive value of the cash flow from the financing activities is primarily due to the higher inflows from the financing obtained, as compared to the expenditures incurred in connection with the repayment of the financial obligations. The amount of the proceeds received due to the taking out of the loans clocked in at PLN 9 440 million, the amount of the credits and loans repaid came in at PLN 6 067 million, while the amount of the redeemed securities stood at PLN 170 million. In addition, in 2022, TAURON Capital Group paid the amount of PLN 500 million due to interest, mainly on the financial obligations, and repaid the accounts payable due to the leases in the amount of PLN 126 million, while the amount of the subsidies received and the other payments stood at PLN 2 million. The timely payment of the liabilities towards the Infrastructure Investments Fund - Equity FIZAN (Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZAN) due to the acquisition of the shares in the subsidiary Nowe Jaworzno Grupa TAURON (currently TAURON Wytwarzanie) had a material impact on the level of this item of the cash flows from the financing activities, which is described in more detail in note 47 to the Consolidated Financial Statements.

TAURON Capital Group has continued to maintain its market position. The current liquidity ratio and the net debt to EBITDA ratio have remained at a stable level.

The below figure presents TAURON Capital Group's cash flows in 2022.



TAURON Capital Group is effectively managing its financial liquidity using the central financing model put in place and the central financial risk management policy. TAURON Capital Group is using the *cash pool* mechanism in order to minimize the potential cash flow disruptions and the risk of the liquidity loss. TAURON Capital Group is using various sources of funding, such as, for example, overdrafts, bank loans, loans from the environmental funds, bond issues.

## 5.5. Material off-balance sheet items

The material off-balance sheet items of TAURON Capital Group, as of December 31, 2022, include:

1. lawsuits brought by the companies from the Polenergia and Wind Invest groups against TAURON and Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. (PEPKH), related to the termination of the long term contracts for the purchase of the electricity and property rights by PEPKH,
2. claim of the WorleyParsons consortium against the company Polskie Elektrownie Jądrowe (Polish Nuclear Plants) (formerly PGE EJ 1),
3. claim of Huta Łaziska (Łaziska Steel Works) for the alleged damage caused by a failure to implement by GZE S.A. (company taken over by TAURON) the decision of the President of the Energy Regulatory Office (ERO) related to the resumption of the electricity supply by GZE to Huta Łaziska (Łaziska Steel Works),
4. lawsuit brought by Enea against TAURON as well as against TAURON Sprzedaż and TAURON Sprzedaż GZE as the co-defendants, where the basis of Enea claim are the allegations related to the Company's unjust enrichment (benefit) in connection with the possible errors with respect to the determination of the metering and billing data by Enea Operator sp. z o.o., constituting the basis for the settlements of Enea and TAURON with PSE, due to an imbalance on the Balancing Market,
5. administrative and investigative proceedings as well as the proceedings with respect to the imposition of the fines initiated by the President of the Office of Competition and Consumer Protection (UOKiK) and the President of the Energy Regulatory Office (ERO) against the Supply Segment's subsidiaries,
6. contingent liabilities related to the possibility of the future costs to be incurred by TAURON Capital Group's subsidiaries due to the non-contractual use of the real estate, i.e. the land on which distribution grids, the district heating installations and the devices related thereto are located.

*The detailed information related to the off-balance sheet items both in the subjective and objective terms, as well in terms related to the value thereof is presented in notes 54 and 55 to the Consolidated Financial Statements of TAURON Capital Group.*

## 5.6. Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier

The Management Board of the Company did not publish any forecasts of the earnings of TAURON Capital Group for 2022. This decision was due to the considerable volatility of the market and a substantial number of factors negatively affecting the predictability thereof.

## 5.7. Key financial ratios and the Alternative Performance Metrics

The below table presents the key financial ratios of TAURON Capital Group, which may constitute an important source of information for the investors about the financial and operational standing of TAURON Capital Group. The Alternative Performance Measures presented below as defined by the ESMA Guidelines on the Alternative Performance Metrics, in the opinion of the Management Board, present the additional information with respect to the financial results of TAURON Capital Group's business operations. They constitute the standard metrics commonly used in the financial analysis, the usefulness of which has been analyzed in terms of the information provided to the investors on the financial efficiency, cash flows and debt of TAURON Capital Group. In 2022, there

had been no changes in the methodology for determining the individual metrics in relation to 2021, therefore the values of the metrics are comparable.

**Table no. 43. Key financial ratios of TAURON Capital Group for the continuing and discontinued operations<sup>1</sup>**

Ratios	Definition	2021	2022
<b>PROFITABILITY</b>			
EBIT Margin	Operating profit / Sales revenue	3.6%	3.0%
EBITDA Margin	EBITDA / Sales revenue	16.2%	10.8%
Net Profitability	Net profit / Sales revenue	1.5%	-0.4%
Return on Equity (ROE)	Net profit / Equity at the end of the period	2.3%	-0.8%
<b>LIQUIDITY</b>			
Current liquidity ratio	Current assets / Short term liabilities	0.63	1.01
<b>DEBT</b>			
Total debt ratio	Total liabilities / total equity and liabilities	0.59	0.63
Net financial debt / EBITDA	(Financial liabilities - Cash) / EBITDA	2.4x	2.9x
<b>OTHER RATIOS</b>			
Earnings per share (EPS)	Net result attributable to shareholders of the parent entity / Number of ordinary shares	0.19	(0.08)

<sup>1</sup>Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report

In 2022, the EBITDA margin from the continuing and the discontinued operations came in at 10.8%, i.e. it was 5.4 pp. lower than in 2021, which had been the effect of the rising electricity, gas and hard coal sales prices, which had contributed to a significant increase, i.e. by 44%, of TAURON Capital Group's revenues, while the EBITDA posted had been at a slightly lower level.

In 2022, the EBIT margin and net profitability ratio from the continuing and the discontinued operations of TAURON Capital Group stand at the level of 3.0% and (0.4)%, respectively, and they are higher than the ratios reported for 2021. The decline of the above mentioned ratios is lower than the decrease of the EBITDA margin from the continuing and the discontinued operations as a consequence of recognizing, in 2022, of the balance of the impairment charges related to the carrying amount of the non-financial fixed assets, in the amount lower than in 2021. The above difference is a result of the asset impairment tests performed as of June 30, 2022, and as of December 31, 2022, which demonstrated the legitimacy of recognizing the impairment charges at a lower amount than in the corresponding period of 2021.

As of December 31, 2022, the current liquidity ratio was higher than as of December 31, 2021, which is the result of an increase in the value of the current assets, mainly due to an increase of the value of the inventories and cash at hand, which is described in more detail in sections 5.1. and 5.3. of this report.

The total debt ratio and the net debt to EBITDA ratio illustrate the share of the liabilities in financing TAURON Capital Group. The current level of these ratios enables TAURON Capital Group to obtain the external financing required to carry out the planned investment (capex) projects. The levels of both ratios confirm the stable financial position of TAURON Capital Group.

The EPS ratio (calculated in relation to the net result attributable to the shareholders of the parent entity) stands at PLN (0.08) / share and it is lower than the figure reported in the previous year.

The below table presents the reconciliation of the net financial debt, the amount of which, along with the EBITDA amount, is the basis for calculating the net debt to EBITDA ratio.

**Table no. 44. Net financial debt reconciliation**

Item (PLN m)	2021	2022
<b>Cash and equivalents</b>	<b>(815)</b>	<b>(1 678)</b>
<b>Long term financial debt</b>	<b>7 830</b>	<b>12 806</b>
Long term credits and loans, and other	2 685	7 765
Long term liabilities due to the unsubordinated bonds issued	5 145	5 041



Item (PLN m)	2021	2022
<b>Short term financial debt</b>	<b>2 053</b>	<b>460</b>
Short term credits and loans, and other	1 850	245
Short term liabilities due to the unsubordinated bonds issued	203	215
<b>Liabilities due to the acquisition of the non-controlling interests (stake)</b>	<b>1 061</b>	-
<b>Total financial debt</b>	<b>10 944</b>	<b>13 266</b>
<b>Conditional liabilities treated as equivalent to debt in the financial documentation</b>	-	<b>187</b>
<b>Net financial debt</b>	<b>10 129</b>	<b>11 775</b>

The below table presents the reconciliation of the result at the EBITDA level.

**Table no. 45. Reconciliation of the result on the EBITDA level**

Item (PLN m)	2021	2022
<b>Net profit (loss) from continuing operations</b>	<b>832</b>	<b>(209)</b>
Income tax charged to the financial result	293	319
Interest rate costs on debt	365	591
Financial income and other financial costs	(130)	368
<b>EBIT from discontinued operations</b>	<b>1 360</b>	<b>1 069</b>
EBIT from discontinued operations	-444	50
<b>EBIT from continuing and discontinued operations</b>	<b>916</b>	<b>1 119</b>
Depreciation charged to the financial result from continuing and discontinued operations	2 101	2 215
Impairment loss charged to the result from continuing and discontinued operations	1 135	682
<b>EBITDA from continuing and discontinued operations</b>	<b>4 152</b>	<b>4 016</b>

## 5.8. Key financial and operating data for the last 5 years

The below table presents the key financial data and operating data of TAURON Capital Group for the last 5 years, i.e. for the 2018 – 2022 time frame.

**Table no. 46. Financial data and operating data for the years 2018 – 2022<sup>1</sup>**

Key information	unit	2018	2019	2020	2021	2022	Change in % (2022 / 2021)
<b>STATEMENT OF COMPREHENSIVE INCOME</b>							
Sales revenue	PLN m	18 122	19 558	20 850	25 614	37 341	146%
Operating profit	PLN m	791	295	(1 537)	916	1 119	122%
Financial revenue (total)	PLN m	83	95	196	193	127	66%
Financial costs (total)	PLN m	(11)	(407)	(838)	(434)	(1 086)	250%
Pre-tax profit (loss) from continuing operations	PLN m	505	(113)	(2 179)	1 125	110	10%
Income tax	PLN m	(298)	19	6	(293)	(319)	105%
Net profit (loss) from continuing operations	PLN m		(94)	(2 173)	832	(209)	-
Net profit (loss) from discontinued operations	PLN m				(447)	75	
Net profit (loss) from continuing and discontinued operations attributable to:	PLN m	207	(12)	(2 173)	385	(134)	-
shareholders of the parent entity	PLN m	205	(11)	(2 170)	338	(134)	-
non-controlling stakes (interests)	PLN m	2	(1)	(3)	47	0	-

Key information	unit	2018	2019	2020	2021	2022	Change in % (2022 / 2021)
EBITDA from continuing and discontinued operations	PLN m	3 492	3 599	4 226	4 152	4 016	97%
<b>STATEMENT OF FINANCIAL POSITION</b>							
Fixed assets	PLN m	32 542	35 052	33 585	33 855	35 053	104%
Current assets	PLN m	4 556	6 865	6 111	6 220	10 267	165%
Total equity	PLN m	18 428	19 093	16 727	16 524	16 614	101%
Total liabilities	PLN m	18 669	22 825	22 969	23 551	28 706	122%
long term liabilities	PLN m	11 382	14 963	15 687	13 634	18 511	136%
short term liabilities	PLN m	7 287	7 862	7 102	9 917	10 195	103%
Net financial debt	PLN m	8 572	10 130	10 595	10 129	11 775	116%
Capital expenditures	PLN m	3 838	4 128	4 039	2 932	3 962	135%
<b>CASH FLOW ACCOUNT</b>							
Net cash from operating activities	PLN m	2 223	2 036	4 042	4 955	2 775	56%
Net cash from investing activities	PLN m	(3 387)	(4 535)	(3 977)	(3 103)	(3 976)	128%
Net cash from financing activities	PLN m	1 171	2 895	(374)	(2 003)	1 518	-
Cash closing balance	PLN m	808	1 204	895	623	940	151%
<b>RATIOS</b>							
EBIT margin	%	4%	2%	(7)%	4%	3%	84%
EBITDA margin	%	19%	18%	20%	16%	11%	66%
Net financial debt / EBITDA	multiple	2.5x	2.8x	2.5x	2.4x	2.9x	120%
Net earnings per share	PLN / share	0.12	-0.01	-1.24	0.19	-0.08	-
<b>OPERATING DATA</b>							
Commercial coal production	Mg m	5.01	3.78	4.54	5.15	5.01	97%
Gross electricity production	TWh	16.21	1,88	12.5	15.59	15.55	100%
Electricity production from RES	TWh	0.97	1.38	1.94	1.71	1.57	92%
Heat production	PJ	11.29	10.85	11.63	12	10.58	88%
Retail electricity supply	TWh	34.52	33.73	32.43	33.41	31.14	93%
Electricity distribution	TWh	51.97	51.73	50.26	53.97	53.68	99%
Number of customers (Distribution)	M	5.60	5.65	5.71	5.78	5.84	101%

<sup>1</sup>The values presented for the years 2018-2019 do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in the presentation (organization) of the Segments.

The below table presents TAURON Capital Group's EBITDA for the last 5 years, i.e. for the 2018 – 2022 time frame.

**Table no. 47. TAURON Capital Group's EBITDA, broken down into Segments of Operations<sup>1</sup>**

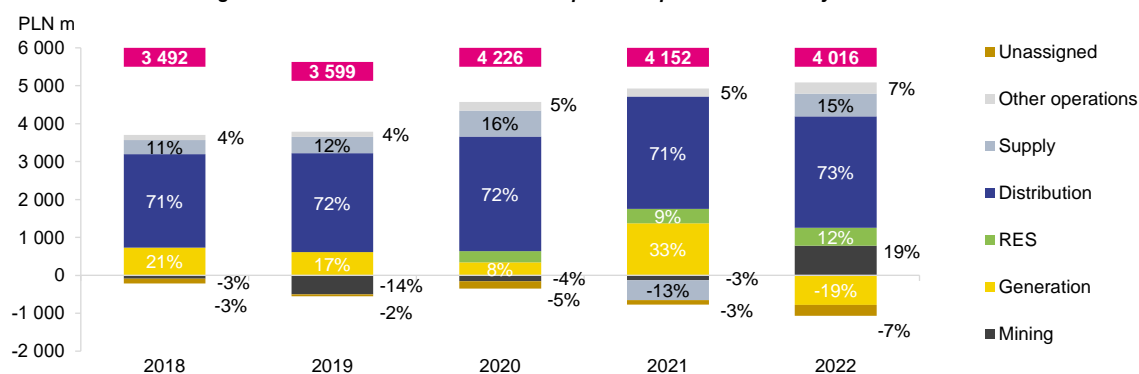
EBITDA (PLN m)	2018	2019	2020	2021	2022	Change in % (2022 / 2021)	Change (2022 - 2021)
<i>Continuing operations</i>							
Mining	(90)	(500)	(157)				
Generation	731	438	344	1 375	(779)	-	(2 154)
RES		368	297	376	476	127%	100
Distribution	2 466	2 606	3 023	2 967	2 939	99%	(28)
Supply	372	429	683	(524)	594	-	1 118

EBITDA (PLN m)	2018	2019	2020	2021	2022	Change in % (2022 / 2021)	Change (2022 - 2021)
Other operations	135	136	229	208	298	143%	90
Unassigned items	(122)	(56)	(193)	(134)	(313)	234%	(193)
<b>EBITDA from continuing operations</b>	<b>3 492</b>	<b>3 599</b>	<b>4 226</b>	<b>4 268</b>	<b>3 215</b>	<b>75%</b>	<b>(1 053)</b>
<i>Discontinued operations</i>							
Mining				(130)	781	-	911
Consolidation adjustments / Unassigned items				14	20	-	20
<b>EBITDA from discontinued operations</b>				<b>(116)</b>	<b>801</b>	<b>-</b>	<b>917</b>
<b>EBITDA total from discontinued and continuing operations</b>	<b>3 492</b>	<b>3 599</b>	<b>4 226</b>	<b>4 152</b>	<b>4 016</b>	<b>97%</b>	<b>-136</b>

<sup>1</sup>The values presented for the years 2017-2018 do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in the organization of the Segments that took place in 2020, i.e. the spinning off of the RES Segment from the Generation Segment. In addition due to the loss, as of December 31, 2022, of the control by TAURON Group over the TAURON Wydobycie subsidiary as a result of the divestment of the shares thereof to the State Treasury, the results of the Mining Segment subsidiary for the years 2021 and 2022 are presented as part of the discontinued operations.

The below table presents the structure of TAURON Capital Group's EBITDA in the years 2018 – 2022.

Figure no. 59. Structure of TAURON Capital Group's EBITDA in the years 2018 – 2022



### Key information for the years 2018-2022 by Segments of Operations

The below figures present the financial data for the years 2018 - 2022 by Segments of Operations.

Figure no. 60. Mining Segment's data for the years 2018 - 2022

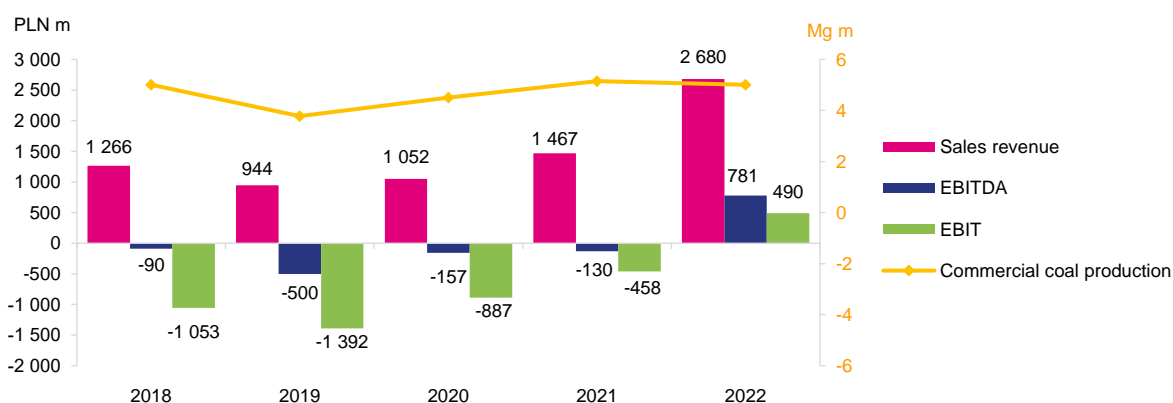


Figure no. 61. Generation and RES Segment's data for the years 2018 - 2022

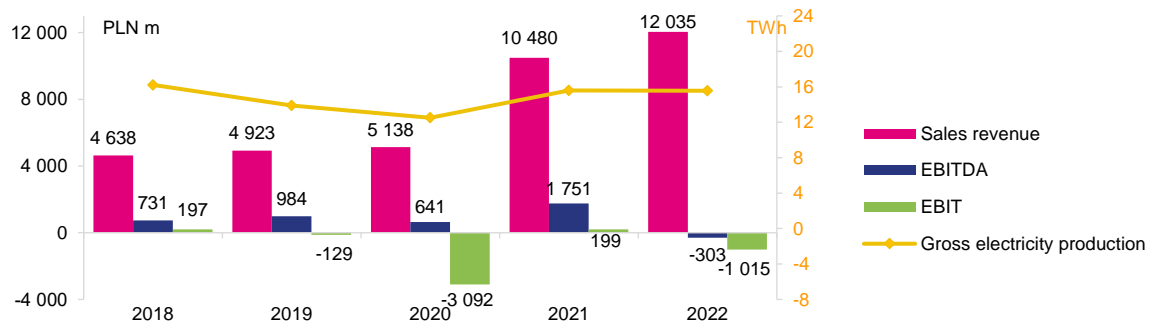


Figure no. 62. Distribution Segment's data for the years 2018 - 2022

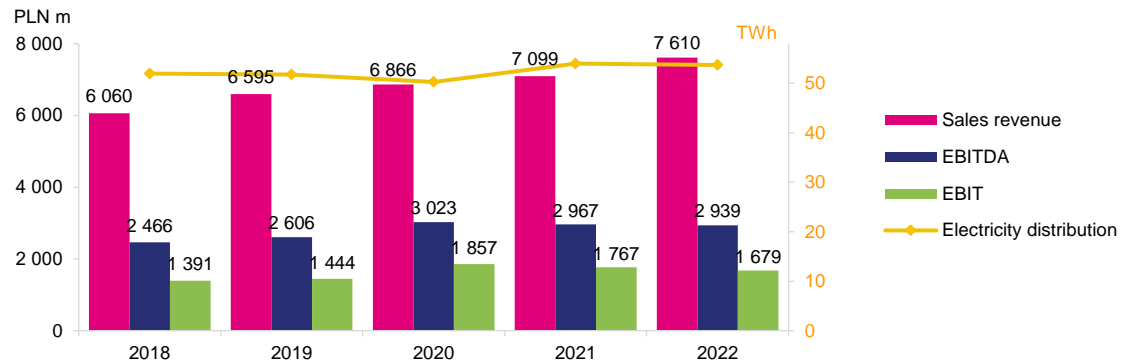


Figure no. 63. Supply Segment's data for the years 2018 - 2022

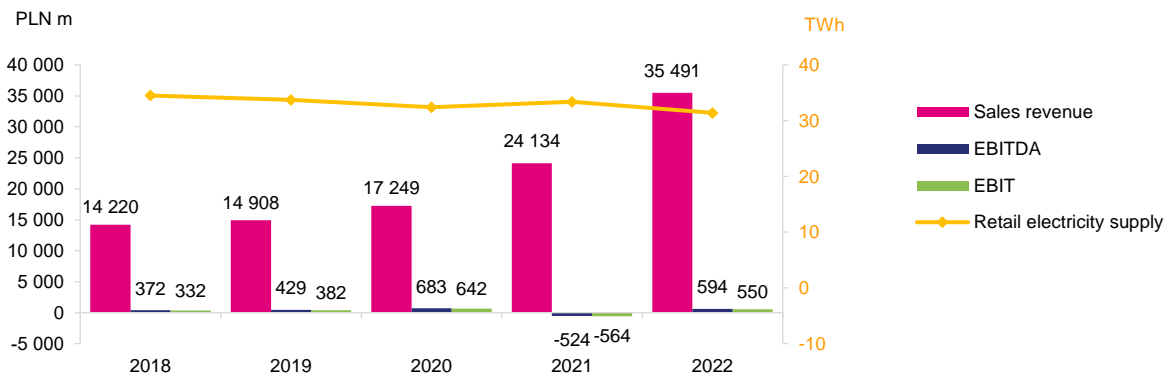
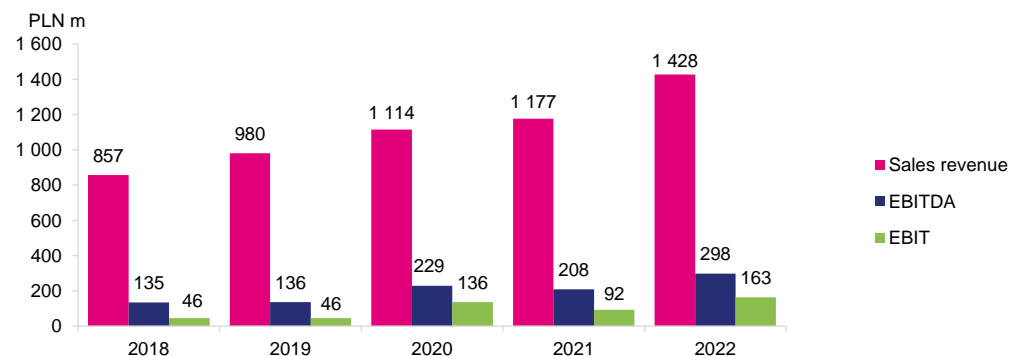


Figure no. 64. Other Operations Segment's data for the years 2018 - 2022



## 5.9. What can we expect in 2023

The World Bank, in its projections presented in January 2023, updated its forecast of Poland's GDP growth rate. According to the World Bank, Poland's projected GDP growth rate in 2023 will come in at 0.7%, and in 2024 it will clock in at 2.2%. The projections presented have been revised downward in both cases, by 2.9 pp and 1.5 pp, respectively, as compared to the World Bank's earlier June 2022 forecast. In the World Bank's view, the Polish economy was resilient in 2022 to a number of global shocks and rebounded faster than expected from the 2020 recession, and this despite the war in Ukraine, the energy crisis and the tighter global monetary policy. However, the World Bank expects the Polish economy's growth rate to slow down considerably to less than one percent in 2023, due to the much weaker growth rate in the eurozone, standing at zero in 2023, which is 1.9 pp lower than forecasted in June 2022.

The projections presented above do not take into account the current geopolitical turmoil and the armed conflict in Ukraine.

In the projection of the NBP published on March 10, 2023 as compared to the previous projection of November 2022 NBP projected GDP growth rate at 0.9% in 2023, 2.1% in 2024, and upheld its value of 3.1% in 2025. The NBP indicates that in Q1 2023 the economy is decreasing. At present, the result is negative but in the opinion of the bank's analysts the coming quarter should close with a positive result. A more dynamic GDP increase should be expected in 2024 and in the subsequent year. Bank's representatives draw attention to the fact that in comparison to the very good 2021, GDP growth rate in the perspective of the projection decreases significantly. Domestic economy is still impacted by a strong negative supply-related shock reflected in a rapid increase of prices of many commodities, goods and services. This year the effects of interest rate increases introduced to date gradually materialize. We can also observe unfavourable impact of developed economies' slowdown on domestic economic activities. In 2024 positive impact of foreign economies hike will be reduced by significant reduction in the income of European funds once the funds from the EU's 2014-2020 perspective have been spent.

According to the Statistics Poland's data, the average annual inflation rate clocked in at 14.4% in 2022. Over the 2023 – 2025 time frame, the NBP is projecting the inflation to gradually decline to 13.1% in 2023, 5.9% in 2024, and to 3.5% in 2025. The fall in the level of the inflation rate will be affected by the expiration of the factors that had driven the rise in the inflation rate in 2022, namely, the reduction in the prices of the energy raw materials and agricultural commodities on the global markets, the slowdown in the growth rate of the domestic demand, the recovery of the supply chains, the slowdown of the inflation rate abroad, as well as the decelerating growth rate of the labor costs.

The future economic situation in Poland is highly dependent on the scale of the disruptions in the functioning of the global economy. The energy crisis, the aggression of the Russian Federation in Ukraine and the pressure to become independent of the energy resources hitherto sourced from Russia have brought about an increase in the cost of electricity production. These factors have improved the cost competitiveness of RES, which has led to an acceleration of their expansion. The passing of the *Act of October 27, 2022, on emergency measures to limit electricity prices and provide support for certain consumers in 2023* and other regulations aimed at limiting electricity prices, as well as the abolition of the so-called power exchange trading obligation, have caused significant changes in the market and the need for changes in the trading strategies.

The future shape of the anti-inflationary policies of central banks and governments is also an important source of risk with respect to inflation.

2023 is marked by the implementation of the structural solutions for the hard coal mining industry and the coal fired power generation aimed at ensuring energy security through the establishment of the National Energy Security Agency, which will certainly have an impact on the operations of all of the domestic energy groups by, among other things, increasing their investment capabilities.

In the long term, sweeping changes to the entire power sector are expected. The tightening climate policy at the EU level is having a material impact on the functioning of the electricity market in Poland. A permanent change in the structure of electricity production due to the decarbonization of the power sector is under way. TAURON Capital Group is responding to market and regulatory changes by focusing on a sustainable transition towards a leading low-carbon energy group.

The additional information related to the forecasts for 2023 is provided in section 5.10. of this report.

## 5.10. Current and forecast financial and assets situation

Taking into account the current market situation, it is expected that the results of TAURON Capital Group in the coming years will be affected by both the external factors, as well as by the actions taken inside the Group.

In the **Generation Segment**, TAURON Ciepło's cogeneration units have continued to be in a good position in 2023. The earnings of the coal based electricity generation units will be affected by the introduced statutory regulations aimed at limiting an increase in electricity prices for the final consumers. In spite of an increase in the electricity production, the outlook for the assets will be affected by the ultimate solutions with respect to the integration within

NABE (National Energy Security Agency). The works related to the required reorganization are highly advanced at TAURON Capital Group.

In the **RES Segment**, due to the provisions of the *Act of October 27, 2022, on emergency measures to limit electricity prices to provide support for certain consumers in 2023*, the year 2023 will be characterized by a curtailment of the achievable revenues from the sales of electricity generated and fed into the grid by the generating units. In the subsequent years, the financial results are expected to be stable with an upward outlook thanks to the rising wholesale electricity prices. In the short term, the RES Segment's further expansion will be focused on investments in photovoltaic farms and onshore wind farms. The *Act of March 9, 2023 on amending the act on investments in the scope of wind farms and some other acts* introduces less stringent regulations limiting farm location. Liberalization of law may lead to new projects appearing on the market, however many of them will need months-long design works resulting from the requirement to update clearances and administrative decisions. For both technologies, obtaining of the DSO grid connection conditions is a headwind. In the long term, the development of the offshore wind farms is also planned.

The **Distribution Segment** is and will be a stable source of revenue for TAURON Capital Group. However, the rapid growth of the distributed sources and electromobility requires substantial capital expenditures on the modernization and expansion of the distribution grid. The investments in this regard are required to ensure an even broader utilization of the electricity from RES and, therefore, extensive work is underway to support their financing under the regulatory model, as well as with the use of the assistance funds.

In the **Supply Segment**, the projected financial situation will continue to depend on the pressures existing on the fuel and energy markets, related to the war in Ukraine, restricted fuel availability and the need to restructure supply chains. The high price volatility will also be impacted by the risk of a potential economic slowdown, which could significantly curb the demand for electricity and gas, and consequently affect the price relationships between these products on the wholesale markets. The level of electricity prices on the wholesale market in 2023 will also be affected by the regulatory environment and the legal changes that had taken place in 2022. In particular, the amendment to the *Energy Law* abolishing the obligation to sell electricity on the commodity exchanges may result in a decrease in the supply of electricity on the power exchange and a decline in the liquidity of the futures contracts, which will lead to changes in the factors impacting the market electricity prices. At the same time, the Supply Segment is assumed to carry on posting positive financial results and continue the implementation of its value growth model based on customer relationships and the sales of additional products and services in connection with the supply of electricity.

**Other operations** - the main consumers of the shared services provided include, first and foremost, the Distribution Segment and the Supply Segment, for the benefit of which the projects with respect to customer service are implemented and finalized, while at the same ensuring the highest quality of service. In addition, the services for TAURON Capital Group's subsidiaries are provided, with respect to, among others, financial and accounting services, human resources (HR) and payroll services, IT services, fleet management services and the real estate management services. Such activities enable achieving synergy effects across TAURON Capital Group and bring the cost efficiency improvements.

## 5.11. Principles of preparing annual consolidated financial statements

The Consolidated financial statements of TAURON Capital Group have been drawn up in accordance with the IFRS approved by the EU.

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

TAURON Capital Group's subsidiaries and the parent entity keep their accounting books and prepare their financial statements in accordance with the IFRS, excluding TAURON Czech Energy that is preparing the financial statements in accordance with the accounting principles applicable in the Czech Republic and the companies Łagisza Grupa TAURON, TEC1, TAURON Zielona Energia, AVAL-1, WIND T1 sp. z o.o., „Polpower”, FF PARK PV1, „MEGAWATT S.C.”, WIND T4, WINDPOWER Gamów, WIND T30MW and Energetyka Cieszyńska that are keeping their books and preparing their financial statements in accordance with the *Act of September 24, 1994, on accounting*.

The consolidated financial statements contain adjustments which are not included in the ledgers of TAURON Capital Group's entities, introduced in order to bring the consolidated statements into compliance with IFRS.

The Consolidated financial statements of TAURON Capital Group have been drawn up with the assumption of the continuation of business operations by TAURON Capital Group's subsidiaries in the foreseeable future, i.e. over the time frame not shorter than 1 year from the balance sheet date. As of the date of approval of the Consolidated financial statements of TAURON Capital Group for publication, no circumstances have been detected, indicating any risk for business continuity by TAURON Capital Group's subsidiaries.

The accounting principles (policy) adopted for drawing up of the Consolidated financial statements of TAURON Capital Group are presented in note 6 to the Consolidated financial statements of TAURON Capital Group.

## 6. INFORMATION ON THE AUDIT FIRM

On November 9, 2021, the Supervisory Board, based on the recommendation of the Audit Committee, appointed the audit firm Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa (Limited Liability Company Limited Joint-Stock Partnership) (Ernst & Young Audyt Polska) to conduct an audit of the financial statements and the consolidated financial statements of TAURON for the years 2022-2024. On February 28, 2019, TAURON concluded an agreement with Ernst & Young Audyt Polska and the subject of the agreement covered:

1. audit of the financial statements of the Company for the years 2022-2024, drawn up in accordance with the requirements of the IFRS,
2. audit of the financial statements of the selected subsidiaries of TAURON Capital Group for the years 2022-2024, drawn up in accordance with the IFRS,
3. audit of the consolidated financial statements for the years 2022-2024, drawn up in accordance with the IFRS,
4. review of the interim, half year financial statements of the Company, required by the Warsaw Stock Exchange (WSE), for the periods ended on June 30, 2022, June 30, 2023, and June 30, 2024, drawn up in accordance with the requirements of the IFRS,
5. review of the interim, half year consolidated financial statements, required by the Warsaw Stock Exchange (WSE), for the periods ended on June 30, 2022, June 30, 2023, and June 30, 2024, drawn up in accordance with the requirements of the IFRS.

In addition, in accordance with the agreement, TAURON exercised the option involving the ability to commission the financial audit services including the evaluation of the annual report of the Supervisory Board on the compensation of the Company's Management Board and Supervisory Board for the years 2022-2024 and other permitted services including the verification of the interim, half-year and annual consolidation packages of the selected subsidiaries of TAURON Capital Group for the years 2022-2024, necessary for the preparation of the consolidated financial statements and carrying out, in the years 2022-2024, of the agreed procedures with respect to the verification of the subsidiary's report on the update of the Regulatory Asset Base (RAB) and the Regulatory Asset Base for the AMI System (AMI RAB) for the purpose of determining a reasonable rate of return on capital employed by the President of the Energy Regulatory Office (ERO) for the years 2023-2025.

Prior to 2022 the services provided for the Company by Ernst & Young Audyt Polska had included the audit of the standalone financial statements and the consolidated financial statements of the Company for the years from 2008 until 2012 and the years from 2017 to 2021, the reviews of the interim, half year standalone financial statements and the consolidated financial statements of the Company for the periods ended on June 30 in the individual years from 2010 until 2012 and from 2017 to 2021, verification of half year and annual consolidation packages of selected Group's companies for the years from 2017 to 2021, performance in the years 2019-2021 of agreed procedures concerning verification of report of a subsidiary on the update of Regulatory Asset Base for the purposes of calculating justified return on involved capital by the President of Energy Regulator Office and performance of the service consisting in assessment of the Supervisory Board's report on remunerations for the years 2019-2020 and 2021. The Company had also used, prior to 2018, the advisory and training services provided by Ernst & Young Audyt Polska, to the extent in line with the legal regulations in force and not leading to the curtailment of the level of the impartiality and independence of the auditor.

The compensation of the audit firm Ernst & Young Audyt Polska and of the audit firms auditing the financial statements of the selected subsidiaries for the services provided for the benefit of TAURON Capital Group's subsidiaries is presented in the below table. The total amount of compensation for audit firms was PLN 2,987,000, of which compensation for Ernst & Young Audyt Polska was PLN 2,844,000.

**Table no. 48. Compensation of the audit firms for the services provided for TAURON Capital Group's subsidiaries**

Services provided for TAURON Capital Group's subsidiaries	Year ended on December 31, 2022 (PLN '000)	Year ended on December 31, 2021 (PLN '000)
1. Mandatory audit, including	2 162	1 378
1) consolidated financial statements	308	147
2) standalone financial statements of the parent entity	288	175
3) standalone financial statements of the subsidiaries	1 566*	1 024
2. Other certifying services provided for TAURON Capital Group, including reviews of financial statements and the evaluation of the annual report of the Supervisory Board on the compensation	825	1 077
3. Tax advisory services	0	0
4. Other services (including training) provided for TAURON Capital Group	0	0



Services provided for TAURON Capital Group's subsidiaries	Year ended on December 31, 2022 (PLN '000)	Year ended on December 31, 2021 (PLN '000)
<b>Total</b>	<b>2 987</b>	<b>2 455</b>

(\*) as part of the amount of PLN 1,566,000 related to examination of standalone financial statements of subsidiaries, the amount of PLN 1,423,000 is related to the audit firm Ernst & Young Audyt Polska and compensation in the amount of PLN 143,000 is related to other audit firms.

## 7. FINANCIAL RESOURCES AND INSTRUMENTS

### 7.1. Proceeds from security issues

The Company did not issue any securities in 2022.

On March 10, 2022 (an event that took place after the balance sheet date), the Company signed an annex to the documentation of the subordinated bond issuance program worth up to PLN 450 million, concluded in 2021 with Bank Gospodarstwa Krajowego (BGK). The annex extends to 36 months, from the date of signing the documentation, the period allowing for the issuance of the subordinated bonds.

The Company may conduct the issues in several series for a financing period of up to 12 years from the date of issue, with the first financing period (the so-called non-call period) defined at 7 years, in accordance with the characteristics of the hybrid financing, during which no early redemption of the subordinated bonds by TAURON will be allowed, and no early sale of the bonds by BGK to the third parties will be allowed (in both cases subject to the exceptions provided for in the documentation). The agreement also provides for the possibility of deferring the payment of interest on the bonds, up to the date of their redemption at the latest. The subordinated nature of the hybrid bonds means that in the event of TAURON's bankruptcy or liquidation, the obligations stemming from them will have a priority ranking for the satisfaction of obligations only ahead of the claims of TAURON's shareholders. A potential issuance of the subordinated bonds will have a positive impact on TAURON's financial stability, as they are excluded from the calculation of the leverage ratio, which is a covenant of certain TAURON financing programs.

### 7.2. Financial instruments

#### Application of the financial instruments with respect to eliminating price changes, credit risk, material disruptions of cash flows and loss of financial liquidity

The financial risk at TAURON Capital Group is managed by TAURON. The centralizing of the financial risk management function is aimed at optimizing the process, including minimizing TAURON's and TAURON Capital Group's costs in the above mentioned respect. As part of the financial risk management in 2022 TAURON Capital Group continued to hedge the risk of volatility of the cash flows resulting from its debt based on the WIBOR reference rate by continuing the interest rate swap (IRS) hedging transactions that it had entered into earlier.

In addition, in 2022 TAURON hedged its FX exposure arising from the trading operations (mainly due to the purchase of the CO<sub>2</sub> emission allowances) as well as from the investing activities related to the implementation of the projects in the field of renewable energy sources by concluding the forward contracts. In 2022 TAURON was also continuing the strategy of hedging its foreign currency exposure generated by the interest payments on the financing obtained in EUR by concluding the forward contracts. The goal of such transactions was to hedge against the risk of the cash flow volatility resulting from the FX rate fluctuations.

With respect to hedging the credit risk, TAURON Capital Group did not use any financial instruments.

As part of the efforts aimed at eliminating the price risk (loss of margin), the contracting of the electricity sales is followed by the contracting of the CO<sub>2</sub> emission allowances. Such a method of hedging the positions allows for minimizing the risk of the CO<sub>2</sub> costs not being covered by the contracted electricity price. The basis for determining the CO<sub>2</sub> sales price for the emission allowances volume defined this way is the CO<sub>2</sub> price on the exchange from the time when the CO<sub>2</sub> volume is contracted.

On the other hand, as part of the liquidity loss risk management, the instruments referred to in section 7.3 of this report are used.

#### Objectives and methods of the financial risk management

As part of the financial risk management, TAURON Capital Group is managing the FX risk and the interest rate risk, based on *TAURON Group's Financial Risk Management Policy* as well as the Risk Tolerance approved by the Management Board, the Global Financial Risk Limit including the decomposition thereof into the individual financial risk types. The main goal of managing such risks is to minimize the sensitivity of TAURON Capital Group's cash flows to the financial risk factors and to minimize the financial costs and the hedging costs as part of the transactions with the use of the derivative instruments. In cases when it is possible and economically justified, TAURON uses the derivative instruments the characteristics of which allow for applying the hedging accounting.

With respect to the financial risks TAURON Capital Group also identifies and actively manages the liquidity risk understood as a potential loss or limitation of the ability to pay the current expenses, due to an inadequate value or structure of liquid assets in relation to the short term obligations or an insufficient level of the actual net inflows from the operating activities.

As part of the identified financial risks TAURON is also managing the risk of financing understood as a lack of the possibility to acquire the new funding, an increase of the cost of funding and the risk of the termination of the existing financing agreements. As part of the efforts aimed at minimizing the financing risk, TAURON is conducting a policy

of acquiring the funding for TAURON Capital Group with an adequate advance notice in relation to the planned date of the use thereof, i.e. up to 24 months in advance of the planned funding requirement. This means that TAURON Capital Group should hold signed programs of guaranteed financing or hedging for such financing by accumulating the funds on TAURON Capital Group's accounts. Such a policy is first and foremost aimed at ensuring a flexible choice of the financing sources and taking advantage of the favorable market conditions as well as reducing the risk of the need to take on the new liabilities under unfavorable market conditions. TAURON's policy also covers the standardizing of the covenants and the provisions of the financing agreements in the most important elements of the documentation.

### 7.3. Assessment of the financial resources management

TAURON is conducting the corporate financial management policy and as a result of that effective management of the finances of entire TAURON Capital Group is possible. The main tools enabling effective management include adequate internal corporate regulations as well as the *cash pool* service functioning within TAURON Capital Group and the intra-Group loans. In addition, the adopted financial management model is supported by the *Policy with respect to TAURON Capital Group's financial risk management* and the *TAURON Capital Group's Insurance Policy*. In these areas the Company is performing the function of the management body (manager) and the decision maker with respect to the directions of the measures to be undertaken, enabling the setting of the relevant limits of the risk exposure.

In accordance with the adopted financing policy the Company is responsible for acquiring the financing for TAURON Capital Group's subsidiaries. The funds acquired both internally (from TAURON Capital Group's subsidiaries generating financial surpluses), as well as externally (from the financial market) are subsequently transferred to TAURON Capital Group's subsidiaries that are reporting the need for the financing.

The conducted policy with respect to the acquiring of the funding sources enables, first of all, to increase the possibility of obtaining the financing for the general corporate purposes and the capital expenditures (CAPEX), decrease the cost of the external capital, curtail the establishing of the number and forms of the collaterals (pledges) on the assets of TAURON Capital Group as well as the covenants required by the financial institutions, and also leads to the reduction of the administrative (overhead) costs. The corporate financing model also enables acquiring of the funding sources that are not available for the individual subsidiaries. The Company is also considering implementing the method of acquiring funding using the *project finance* formula with respect to the RES projects. The Company has an option to exclude the financing obtained by TAURON's selected special purpose vehicles (SPV) for the implementation of the RES investment projects from the net debt / EBITDA ratio calculation. In case of the *project finance* solutions, the funds will be obtained directly by the companies implementing the investment projects in the field of the renewable energy sources (RES) in cooperation with TAURON, where TAURON will be performing the arrangement (organizational) functions. The above mentioned action should enable a greater use of the debt financing as part of the Green Turn strategy implemented by TAURON.

The other key element impacting the financial management efficiency is the financial liquidity management policy, implemented, among others, through the determination of the liquidity position and implementation of the liquidity controlling processes. TAURON Capital Group manages cash flows efficiently, maintains adequate liquidity of TAURON Capital Group by optimizing the level of expenses and cash balances at the subsidiaries. The above mentioned activities lead to improving the selection of the moment of fund raising and determining the maturity date, as well as to maintaining an adequate level of the liquidity reserve, and also bring about the reduction of the financial costs.

In order to optimize TAURON Capital Group's financial liquidity management and the decision making processes, in particular with regard to the total working capital and approving the liquidity position of TAURON Capital Group's subsidiaries for the given year, as well as for the purpose of the ongoing monitoring and developing the management guidelines for the subsidiaries, the Liquidity Committee is in place at TAURON Capital Group.

The liquidity management is supported by the implemented *cash pool* mechanism. Its overarching goal is to ensure TAURON Capital Group's ongoing financial liquidity, while at the same time curbing the costs of the short term external financing and minimizing the financial costs related to maintaining cash surpluses on the bank accounts. Due to the functioning of the cash pool structure, TAURON Capital Group's subsidiaries, facing short term funding deficits, may use the funds of the subsidiaries generating the financial surpluses, without the need to acquire the external financing.

Both, the financing policy, as well as TAURON Capital Group's liquidity management policy conducted by TAURON are aimed, apart from increasing the efficiency of managing TAURON Capital Group's finances, first of all, at eliminating threats of the curtailment or loss of TAURON Capital Group's financial liquidity. The guaranteed sources of the financing, obtained with an adequate lead time, effectively eliminate the risk of TAURON Capital Group losing its liquidity. The Company is pursuing a policy of diversifying the financing instruments, but, first and foremost, it is seeking to secure the financing and to maintain the ability of TAURON Capital Group's subsidiaries to meet the current and future obligations in the short and long term.

In addition, TAURON Capital Group has dedicated agreements in place to provide the collateral for the liabilities towards IRGiT (Warsaw Commodity Exchange Clearing House) and the bank guarantee programs, as part of which it is possible to issue guarantees to provide the collateral (pledges) for the liabilities of TAURON Capital Group's subsidiaries within the centralized bank limits. The above mentioned measure curtailed the costs of the guarantees acquired and curbed the formal actions required to obtain a guarantee.

In 2022 the Company and TAURON Capital Group demonstrated full capacity to pay its accounts payable within the payment deadlines thereof.

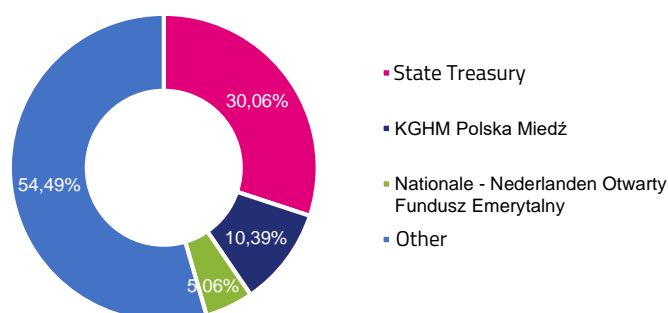
## 8. SHARES AND SHAREHOLDERS OF TAURON POLSKA ENERGIA S.A.

### 8.1. Shareholding structure

As of December 31, 2022, and as of the date of drawing up this report the Company's share capital, in accordance with an entry in the National Court Register, stood at PLN 8 762 746 970 and was split into 1 752 549 394 shares with a nominal value of PLN 5 per share, including 1 589 438 762 ordinary AA series bearer shares and 163 110 632 registered ordinary BB series shares.

The below figure presents the shareholding structure as of December 31, 2022, and as of the date of drawing up this report.

Figure no. 65. Shareholding structure as of December 31, 2022, and as of the date of drawing up this report



The detailed information regarding the shareholding structure is presented in section 9.4. of this report.

### 8.2. Dividend policy

As part of the Strategy adopted in June 2022, TAURON also adopted a dividend policy assuming a minimum dividend payment of 40% of the consolidated net profit in the long term. During the time frame covered by the Strategy, i.e. until 2030, due to the high level of the planned capital expenditures associated with the implementation of the strategic projects, the dividend policy assumes that the Company's Management Board will not recommend to the Company's General Meeting of the Shareholders the payout of the dividend, provided that, in the opinion of the Management Board, such a retention of the funds by TAURON Group will contribute to an increase in the value of its assets. The decision to pay out the dividends will be made by the Company's General Meeting following a recommendation by the Management Board, which will take into account the circumstances set forth in the dividend policy when determining the recommended level of dividends.

The dividend was last time paid out by the Company in 2015, in the amount of PLN 262 882 409.10 for the financial year 2014. Starting from 2015, the Company has not paid out any dividend.

On May 24, 2022, the Ordinary General Meeting (GM) of the Company passed a resolution on the distribution of the net profit for the financial year 2021 by allocating the full net profit amount to the reserve capital of the Company.

### 8.3. Number and nominal value of TAURON Polska Energia S.A.'s shares, as well as of the shares and interests in the related units, held by the Members of the Management Board and the Supervisory Board

The below table presents the Company's shares held by the Members of the Company's Management Board as of December 31, 2022, and as of the date of drawing up this report.

Table no. 49. Company's shares held by the Members of the Company's Management Board as of December 31, 2022, and as of the date of drawing up this report

First name and last name	Date of appointment to the Management Board of the Company	Number of the Company's shares held	Nominal value of the Company's shares held
1. Paweł Szczeszek	11.04.2022	0	0
2. Patryk Demski	05.08.2021	0	0
3. Bogusław Rybacki	09.09.2022	0	0
4. Krzysztof Surma	05.08.2021	10 000	PLN 50 000
5. Tomasz Szczegielniak	06.09.2022	0	0

First name and last name	Date of appointment to the Management Board of the Company	Number of the Company's shares held	Nominal value of the Company's shares held
6. Artur Warzocha	21.01.2022	0	0

As of December 31, 2022, and as of the date of drawing up this report, the Members of the Management Board of the Company did not hold any shares or interest in the units related to the Company.

As of December 31, 2022, and as of the date of drawing up this report, the Members of the Supervisory Board of the Company did not hold any TAURON shares or any shares or interests in the units related to the Company.

#### 8.4. Agreements related to potential changes to the shareholding structure

The Company does not have any information on the existence of agreements (including also the agreements concluded past the balance sheet date), as a result of which changes in the proportions of shares held by the existing shareholders and bondholders may occur in the future.

#### 8.5. Share buybacks

In 2022 and as of the date of drawing up this report TAURON and its subsidiaries have not purchased and have not held own shares, with the exception of TAURON Dystrybucja, which is described below.

##### Acquiring of the shares in TAURON Dystrybucja S.A.

In 2022 TAURON Dystrybucja purchased for redemption a total of 649 500 of its own shares with a total nominal value of PLN 12 990, which, after rounding up, represents 0.002% of the company's share capital. Pursuant to Article 418<sup>1</sup>, § 6 of the *Commercial Companies Code*, the share repurchase price is equal to the value of the net assets per share, as shown in the financial statements for the last financial year, less the amount to be distributed to the shareholders. Accordingly, the shares were repurchased at a price of PLN 0.45 per share.

Pursuant to Article 418<sup>1</sup>, § 4 of the *Commercial Companies Code*, if a resolution on the obligatory repurchase of shares is not adopted at the General Meeting, the company shall be obliged to purchase, for redemption, the shares of the minority shareholders, within 3 months from the date of the General Meeting.

Taking into account art. 418<sup>1</sup>, § 4 of the *Code of Commercial Companies*, the Management Board of TAURON Dystrybucja took steps aimed at redeeming its own shares purchased from the minority shareholders, i.e.:

1. on January 11, 2022, the Management Board of TAURON Dystrybucja adopted the resolutions on the redemption of the company's shares purchased by TAURON Dystrybucja in 2021 from the shareholders representing no more than 5% of the share capital and on the lowering of TAURON Dystrybucja's share capital as well as the amendments to the company's articles of association. The Management Board of TAURON Dystrybucja took the decision to lower the company's share capital from PLN 560 489 734.52 by the amount of PLN 9 613.90, i.e. to PLN 560 480 120.62,
2. on January 24, 2023, the Management Board of TAURON Dystrybucja adopted the resolutions on the redemption of the company's shares purchased by TAURON Dystrybucja from the shareholders representing no more than 5% of the share capital and on the lowering of TAURON Dystrybucja's share capital as well as the amendments to the company's articles of association. The Management Board of TAURON Dystrybucja took the decision to lower the company's share capital from PLN 560 489 734.52 by the amount of PLN 12 990.00, i.e. to PLN 560 467 130.62.

Following the abovementioned redemption of purchased shares, TAURON Dystrybucja does not hold any own shares.

#### 8.6. Employee stock award programs

No employee stock award programs were implemented by the Company in 2022.

#### 8.7. Share price performance on the Warsaw Stock Exchange (WSE)

TAURON shares have been listed on the Main Market of the Warsaw Stock Exchange (WSE) since June 30, 2010.

TAURON share price fluctuated between PLN 1.745 and PLN 3.562 (at the closing prices) in 2022. During the last stock market session of 2022 the share price stood at PLN 2.119.

2022 was marked by the Russian Federation's aggression against Ukraine. The event had a material impact on the majority of the sectors of the economies around the world, including, in particular, on the situation on the electricity and fuel markets. The majority of the global stock exchanges experienced declines. The rapid diversion of the supply routes' directions due to the raw materials embargo, the commodity availability problems and as a consequence rising fuel and energy prices led to a significant increase in the level of the inflation rate, which

averaged 14.4% in Poland in 2022. The high rate of inflation has resulted in a number of high interest rate hikes, which have had a negative impact on the sentiment on the WSE.

After an upbeat 2021, the Warsaw trading floor experienced a halt to the good times and suffered a reversal of the upward trends. After a sharp downturn caused by the start of the hostilities by the Russian Federation, the sentiment began to gradually and slowly improve in the fourth quarter of 2022, but for all of 2022 the Polish stock market was among the weakest exchanges in the world. Most indices recorded double digit declines, the largest in recent years - the WIG index fell 17.08% over the course of 2022, the WIG20 plummeted 20.95%, the mWIG40 dived 21.49%, while the WIG-Energia index, which groups the energy sector companies, posted a 12.68% drop.

Despite the difficult stock market situation, the Polish economy reported the quarterly gains. The domestic GDP grew 8.6% in the first quarter of 2022, 5.8% in the second quarter, 3.6% year on year in the third quarter, and 2.0% in the fourth quarter, which led to a 4.9% economic growth rate for all of 2022.

The price performance of TAURON shares and the shares of the entire energy sector were impacted in 2022, in addition to the above mentioned macro economic factors, by the information related to the situation on the electricity market, the prices of coal and the problems with the availability thereof, the transition of the energy sector under way, carried out as part of the Government's NABE (The National Energy Security Agency) Concept, the shutdowns of the 910 MW power generation unit in Jaworzno as well as the process of the sale of the coal mining assets operating thus far as part of TAURON Capital Group to the State Treasury completed at the end of 2022.

As of December 31, 2022, TAURON shares were included in the following stock exchange indices:

1. **WIG** – an index that includes all of the companies listed on WSE's Main Market that meet the basic criteria for the inclusion in the indices. TAURON's share in the WIG index: 0.7448%,
2. **WIG-Poland** – a national index that groups solely shares of the domestic companies listed on WSE's Main Market that meet the basic criteria for the inclusion in the indices. TAURON's share in the WIG-Poland index: 0.7783%,
3. **WIG30** – an index that includes 30 of the largest and most liquid companies listed on WSE's Main Market. TAURON's share in the WIG30 index: 1.0377%,
4. **WIG40** – an index that includes 40 of the largest and most liquid companies listed on WSE's Main Market. TAURON's share in the WIG40 index: 4.0121%,
5. **WIG-Energia** – a sector based index that comprises companies that are included in the WIG index and also qualified to the energy sector. TAURON's share in the WIG-Energia index: 17.153%,
6. **WIG-ESG** – an index that includes the shares of the companies considered as socially responsible, i.e. those that comply with the principles of the corporate social responsibility, in particular with respect to the environmental, social, economic and corporate governance issues. TAURON's share in the WIG-ESG index: 0.6026%.

The below table presents the key data on the Company's shares price performance in 2011-2022.

**Table no. 50. Key data on the Company's shares in 2011-2022**

Year	Share price high (PLN)	Share price low (PLN)	Last share price (PLN)	Market capitalization at the end of the period (PLN m)	Market capitalization at the end of the period (%)	Book value (PLN m)	Price / Earnings
2011	6.81	4.65	5.35	9 376	2.1	15 922	8.1
2012	5.61	4.08	4.75	8 325	1.59	16 839	5.5
2013	5.39	3.85	4.37	7 659	1.29	17 675	5.5
2014	5.69	4.04	5.05	8 850	1.5	18 107	7.8
2015	5.29	2.37	2.88	5 047	0.98	18 837	4.2
2016	3.19	2.31	2.85	4 995	0.9	16 349	-
2017	4.12	2.75	3.05	5 345	0.8	17 880	3.02
2018	3.28	1.67	2.19	3 838	0.66	18 967	3.7
2019	2.44	1.43	1.64	2 874	0.52	19 168	13.9
2020	3.26	0.82	2.72	4 770	0.89	18 071	-
2021	3.82	2.495	2.654	4 651	0.66	16 497	-
2022	3.562	1.745	2.119	3 714	0.65	17 235	13.5

Year	Price / Book Value	Rate of return ytd* (%)	Dividend yield (%)	Trading volume (PLN m)	Trading volume share (%)	Average volume per session (pcs)	Average number of transactions per session (pcs)
2011	0.35	10.0	0.0	100	0.0	100	100
2012	0.35	10.0	0.0	100	0.0	100	100
2013	0.35	10.0	0.0	100	0.0	100	100
2014	0.35	10.0	0.0	100	0.0	100	100
2015	0.35	10.0	0.0	100	0.0	100	100
2016	0.35	10.0	0.0	100	0.0	100	100
2017	0.35	10.0	0.0	100	0.0	100	100
2018	0.35	10.0	0.0	100	0.0	100	100
2019	0.35	10.0	0.0	100	0.0	100	100
2020	0.35	10.0	0.0	100	0.0	100	100
2021	0.35	10.0	0.0	100	0.0	100	100
2022	0.35	10.0	0.0	100	0.0	100	100

2011	0.59	-16.73	2.8	5 575	2.21	3 721 539	1 373
2012	0.49	-5.03	6.5	3 199	1.7	2 667 725	960
2013	0.43	-3.64	4.6	3 104	1.41	2 793 020	1 022
2014	0.49	20.07	3.8	3 135	1.53	2 489 329	1 106
2015	0.27	-40.78	5.2	3 063	1.5	3 190 195	1 431
2016	0.31	-1.04	-	3 199	1.69	4 662 087	1 465
2017	0.31	7.02	-	2 737	1.16	3 261 765	1 323
2018	0.2	-28.2	-	3 104	1.52	5 622 737	1 769
2019	0.15	-25.11	-	2 001	1.04	4 508 965	1 699
2020	0.26	65.98	-	3 233	1.09	6 807 622	2 523
2021	0.28	-2.50	-	3 015	0.96	3 883 666	2 167
2022	0.22	-20.16	-	2 651	0.93	4 086 822	2 026

<sup>†</sup>Rate of return calculated taking into account the investor's income from the dividend and assuming that the additional income realized is re-invested. Methodology in accordance with Biuletyn Statystyczny GPW (WSE Statistical Bulletin)  
Source: Biuletyn Statystyczny GPW (WSE Statistical Bulletin)

Following the stock market session on March 18, 2022, an annual portfolio review of the WIG20, WIG20TR, mWIG40, mWIG40TR, sWIG80, sWIG80TR, WIG30 and WIG30TR indices was carried out, as a result of which TAURON left the WIG20 index and became a part of the mWIG40 index.

The below graphs present the historical TAURON share price performance and trading volumes, including against the backdrop of the WIG20, mWIG40 and WIG-Energia indices.

Figure no. 66. TAURON share price performance and trading volumes in 2022

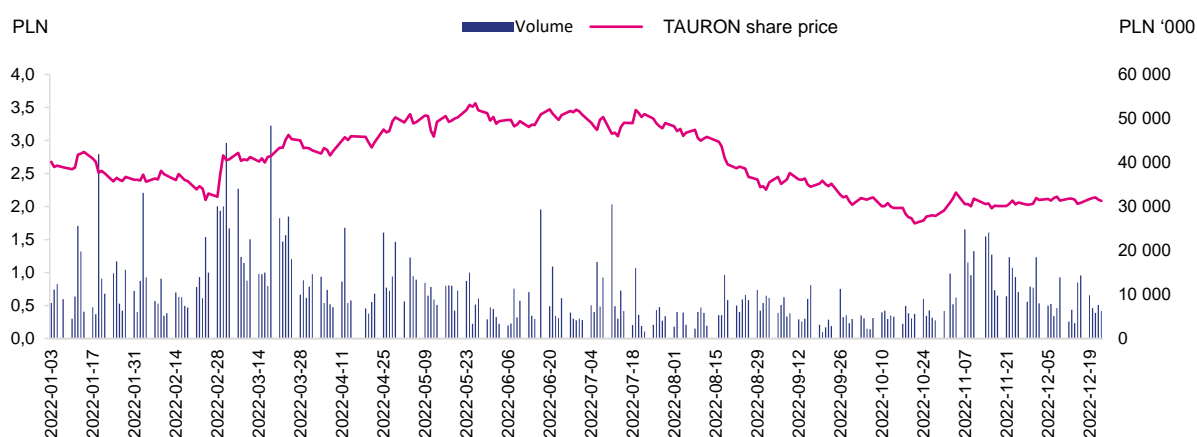


Figure no. 67. TAURON share price and trading volumes since the market debut until December 31, 2022

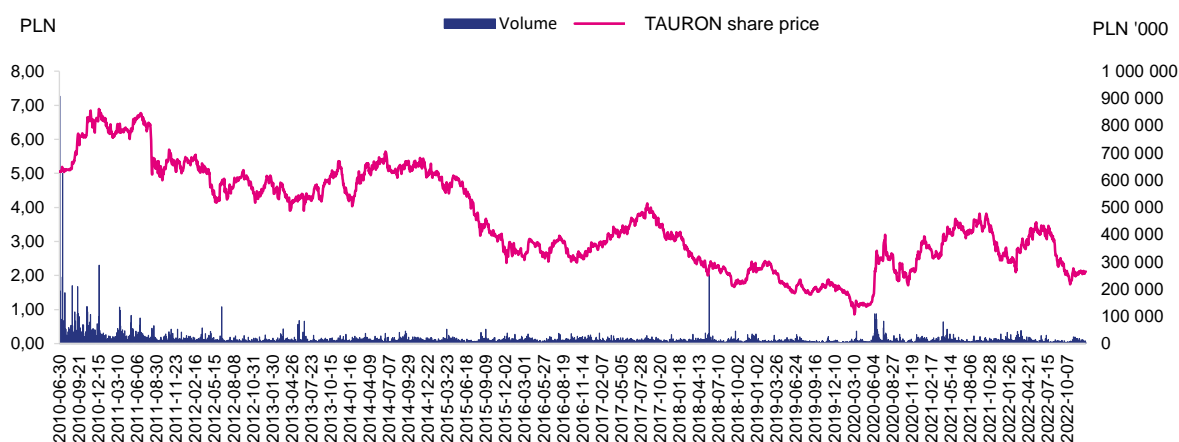




Figure no. 68. TAURON share price (in PLN) versus WIG20 and WIG-Energia indices since the market debut until December 31, 2022

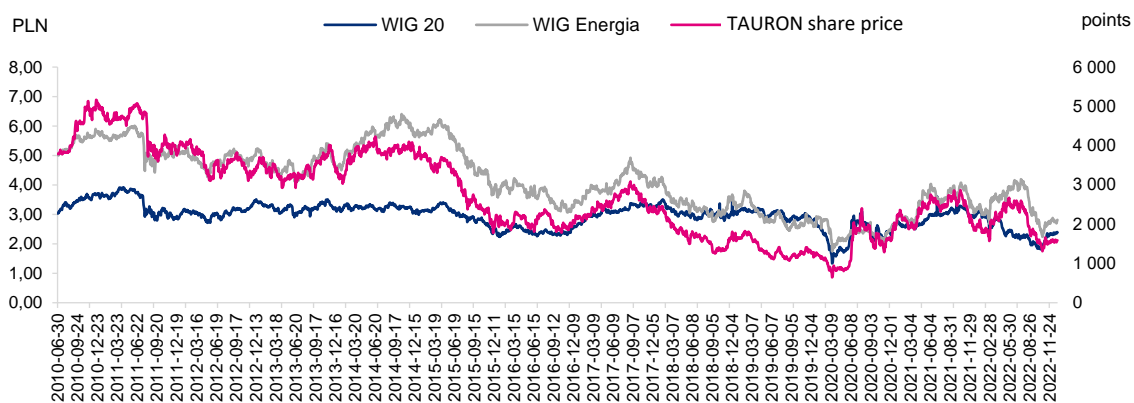
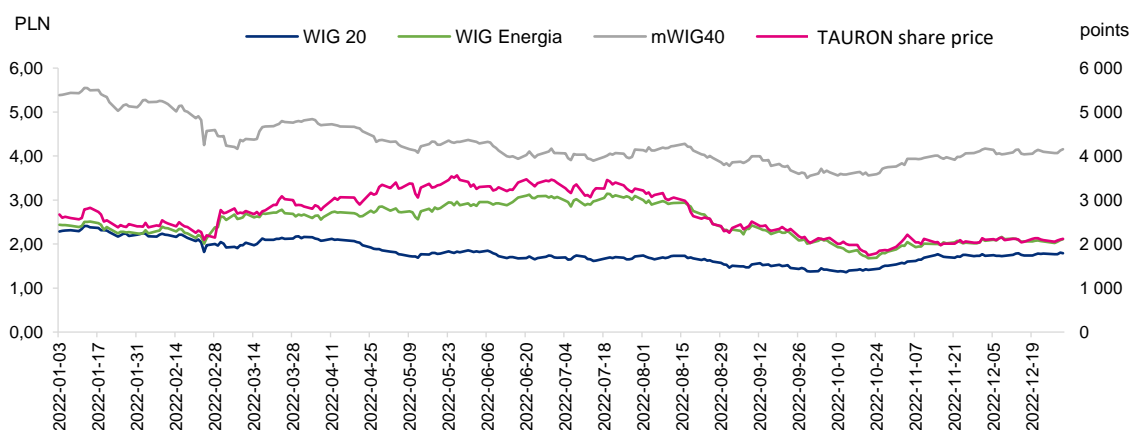


Figure no. 69. TAURON share price versus WIG20, mWIG40 and WIG-Energia indices in 2022



Analysts from brokerage houses and investment banks issued, in total, 10 recommendations for TAURON shares in 2022, including:



The below table presents a list of recommendations issued in 2022.

Table no. 51. Recommendations issued in 2022

Date of issuing recommendation	Institution issuing recommendation	Recommendation / target price
12.01.2022	Citi	Buy / PLN 4.70
21.04.2022	Santander	Buy / PLN 6.40
22.04.2022	Societe Generale	Buy / PLN 6.40
09.05.2022	PKO Securities	Buy / PLN 4.40
07.06.2022	Santander BM	Buy / PLN 5.80
29.06.2022	Wood&Co.	Buy / PLN 6.20
14.10.2022	Biuro Maklerskie Pekao	Buy / PLN 5.90
2.12.2022 r.	Santander BM	Buy / PLN 4.20
9.12.2022	Biuro Maklerskie Pekao	Buy / PLN 3.40
12.12.2022	TRIGON DM	Hold / PLN 2.23

## 8.8. Investor relations

Transparent, accurate and regular communications is the foundation of TAURON's investor relations (IR) program. It is taking place not only in the form of the mandatory activities required by the legal regulations, i.e. by disclosing the information in the current and periodic regulatory filings (current reports) for example, but it is also supplemented via a number of additional activities and tools addressed directly to all of the stakeholders. As a consequence, the high quality communications leads to the higher level of trust among the investors, financing institutions and business partners. Building the relationships with the investors is based on both implementing the best practices applied around the world, as well as setting the highest standards on the Polish capital market.

The analysts, fund managers and shareholders had access to a wide spectrum of the information on TAURON Capital Group in 2022, through the use of various communications tools.

In connection with the publication of the periodic, interim reports, the Company was organizing the earnings conference calls for the investors and analysts, each time attended by several dozen representatives of the capital markets and media. Such events were simultaneously interpreted into English. The ability to replay them at a later date was also provided. As a result, all of the interested parties were guaranteed an equal access to the information. In addition, the Company organized three chats with the representatives of the Management Board, dedicated to the individual (retail) investors.

Apart from the meetings accompanying the publication of the periodic, interim reports, the Members of the Management Board and the representatives of the Investor Relations Team took part in the meetings with the investors and the conferences for the investors in 2022, during which several dozen meetings with the investment fund managers and the capital market analysts were held. During the meetings with the investors, the Members of TAURON's Management Board and the key managers were presenting TAURON Capital Group's strategy, discussing the most important capex projects, the financial position, as well as the current situation on the market and the outlook for the energy sector.

In 2022, similar as in the previous years, TAURON also participated in the events addressed to the individual investors. The Company was, inter alia, a partner of the "WallStreet" conference organized by the Individual Investors Association (Stowarzyszenie Inwestorów Indywidualnych).

In connection with the growing importance of the online channels and the social media, the Company is placing a lot of weight on the development of the use thereof with respect to the communications with the investors. The broadcasts of the events that are important for the investors are provided via the YouTube service, for example, the earnings conference calls or the General Meetings. TAURON also has a corporate profile on Twitter where the entries related to, among others, the investor relations are posted. Being aware of the fact that the website is a significant source of information for the investors, in particular, its *Investor Relations* tab; the Company takes care of its content and the validity of the content provided therein. The *Investor Relations* section contains a lot of useful information on both the current events as well as the planned ones, the financial results or the strategy of TAURON Capital Group. The presentations and the video broadcasts of the conference calls summarizing the financial results are also posted thereupon.

The activities with respect to the investor relations are regularly appreciated by the participants of the capital market, as well as by the investors.

*The detailed information on the awards and accolades (honorable mentions) received by TAURON and TAURON Capital Group's subsidiaries is presented in section 2.7. of this report.*

The below table presents a timeline of the investor relations highlights (events) and activities that took place in 2022.

**Table no. 52. Timeline of the investor relations highlights (events) and activities that took place in 2022**

Date	Highlight (event)
30.03.2022	Full year 2021 standalone and consolidated earnings reports published
31.03.2022	Video conference call for the analysts, fund managers and the media to present the FY 2021 financial results
31.03.2022	Chat for the individual investors as part of the cooperation with the Individual Investors Association
24.05.2022	Ordinary General Meeting of the Company
25.05.2022	Q1 2022 consolidated earnings report published
26.05.2022	Video conference call for the analysts, fund managers and the media to present the Q1 2022 financial results
26.05.2022	Participation in the WallStreet conference organized by the Individual Investors Association
2.06.2022	Participation in the CEE Days Conference, Ipopema

Date	Highlight (event)
13.07.2022	Extraordinary General Meeting of the Company
7.09.2022	H1 2022 consolidated earnings report published
8.09.2022	Video conference call for the analysts, fund managers and the media to present the H1 2022 financial results
8.09.2022	Chat for the individual investors as part of the cooperation with the Individual Investors Association
27.09.2022	Participation in the <i>RES Energy Conference</i> , BM Pekao
5-6.10.2022	Participation in <i>The Finest CEElection 2022 Conference</i> , Erste Group
23.11.2022	Q3 2022 consolidated earnings report published
24.11.2022	Video conference call for the analysts, fund managers and the media to present the Q3 2022 financial results
25.11.2022	Chat for the individual investors as part of the cooperation with the Individual Investors Association

## 9. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

Pursuant to § 70, clause 6, sub-clause 5) of the Regulation of the Minister of Finance of March 29, 2018 on current and periodic (interim) information disclosed by the issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a non-member state (i.e. Journal of Laws of 2018, item 757), the Management Board of the Company presents the statement on the application of corporate governance in 2022.

### 9.1. Applied set of corporate governance rules

In 2022 the Company was subject to the corporate governance rules, described in the Best Practice of the WSE (GPW) Listed Companies 2021 (Best Practice 2021), adopted by the Supervisory Board of the WSE (GPW) by way of the resolution no. 13/1834/2021 of March 29, 2021, which came into force on July 1, 2021, and have been applied by the Company since that date.

The text of the Best Practice 2021 document is published on the WSE (GPW) website at the address: <https://www.gpw.pl/dobre-praktyki2021>.

Up to date Information on the application by the Company of the principles contained in the Best Practice 2021 document is posted on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/lad-korporacyjny>.

#### Description of the manner in which the Company is applying the principles provided in the Best Practice 2021

The Company presents the below information on the rules applied by the Company that.

##### The rules related to the information disclosure policy and communications with the investors

Section 1 of the Best Practice 2021 sets out the rules for ensuring the proper communications with the stakeholders and conducting a transparent and reliable information disclosure policy.

The Company uses various channels of communications with the capital market participants. All of the information required by the law is posted and updated on an ongoing basis on the Company's website. The Company maintains ongoing contacts with the investors (institutional and individual) as well as the analysts from the brokerage houses and the investment banks. The Company communicates with them at the conferences organized following the publication of every interim report, individual meetings organized at the request of the investors and analysts, and the regularly organized chats for the retail investors. The contact details for the investors along with the available telephone numbers and e-mail addresses, as well as a contact form (rule 1.1.), are provided on the website <https://www.tauron.pl/tauron/relacje-inwestorskie>.

The Company prepares and publishes, on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie>, the periodic (interim) reports containing the financial results as soon as possible following the end of the reporting period. In order to reduce the investors' uncertainty with respect to the Company's financial standing, the Company publishes the estimated financial results prior to the publication of the periodic (interim) reports (rule 1.2.).

The Company also incorporates the ESG subjects into its business strategy, including in particular:

1. environmental issues, including the metrics and risks related to climate change and the sustainability issues,
2. social and labor issues, including the measures, taken and planned, aimed at, among others, ensuring gender equality, sound working conditions, respect for the employees' rights, dialogue with the local communities, customer relations.

The Group's Strategy also covers the ESG subjects and it was described in current report no. 27/2022 of June 22, 2022. The detailed information on the adopted Strategy is provided in the presentation posted along with the current report on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/raporty-biezace/raport-biezacy?id=8361315>. In addition, the most relevant information with respect to the Strategy was included in the 2021 Integrated Report published on the Company's website at the address: <https://raport.tauron.pl/> (rule 1.3.).

In order to ensure proper communications with the stakeholders, with respect to the adopted business strategy, the Company posts, on the Company's website at the addresses: <https://www.tauron.pl/tauron/o-tauronie/tauron-dla-otoczenia/zielony-zwrot> and <https://www.tauron.pl/tauron/o-tauronie/raportowanie-esg>, the information on the assumptions of the strategy it has, measurable goals, including in particular the long term goals, planned activities and the progress in the implementation thereof, defined by the metrics, financial and non-financial. The information on strategy in the ESG area, among other things: explains how the climate change issues are taken into account in the decision making processes of the Company and those of its Group's entities, indicating the risks involved with respect thereto (rule 1.4.).

The Company discloses the expenses incurred thereby and its Group to support culture, sports, charitable institutions, the media, social organizations, trade unions, etc. in the Report of the Management Board on the Operations of TAURON Polska Energia S.A. and TAURON Capital Group in section 2.9. (rule 1.5.).

The Company holds conference calls for the investors, analysts and media representatives every time after the publication of the financial results. These conference calls are made available online in real time to all of the interested parties. During the earnings conference calls, the representatives of the Management Board of the Company present and comment on the financial results posted, the adopted strategy and the implementation thereof, as well as the most important events that have an impact on the operations of the Company and TAURON Capital Group, as well as the outlook for the future. During the meetings, the Management Board of the Company publicly provides explanations and gives answers to the questions asked (rule 1.6.).

Investors may submit their questions in writing, by phone, via e-mail or using the contact form available on the website <https://www.tauron.pl/tauron/relacje-inwestorskie/kontakt-dla-inwestorow/formularz>. The Company has adopted a Procedure for disclosing the information on the Company and the subsidiaries thereof for the purpose of the Investor Relations, along with an indication of the deadlines for completing the individual activities. The answers to the questions are provided immediately, and in the case of the issues that would require in-depth analyses / calculations, within 10 days (rule 1.7.).

### **The rules related to the Management Board and the Supervisory Board**

Section 2 of the Best Practice 2021 sets out the rules with respect to the performance of the Management Board and the Supervisory Board of their duties.

At least two members of the Supervisory Board shall meet the independence criteria listed in the Act of May 11, 2017, on certified auditors, audit firms and public oversight, and have no actual and material ties to a shareholder holding at least 5% of the total number of votes in the company (rule 2.3.).

The Company shall ensure that the voting of the Supervisory Board and the Management Board is public, unless otherwise provided for by the legal regulations (rule 2.4.).

The Rules of Procedure of the Company's Supervisory Board and the Rules of Procedure of the Company's Management Board shall provide for the voting Members of the Management Board and the Supervisory Board to submit a dissenting opinion to the minutes (rule 2.5.).

Serving on the Company's Management Board shall be the main area of the professional activity of the Members of Management Board, and the performance of functions by the Members of the Management Board on the corporate bodies of the entities outside of the Capital Group shall require an approval of the Supervisory Board (rule 2.6. and rule 2.7.). The Members of the Supervisory Board shall be able to devote the required amount of time to perform their duties (rule 2.8.), the Chairperson of the Supervisory Board shall not manage the works of the Audit Committee (rule 2.9.), and the administrative and financial resources shall be delegated in accordance with the Company's size and the Company's financial position to ensure the efficient functioning of the Supervisory Board (rule 2.10.).

Once a year, the Supervisory Board shall prepare and submit to the Ordinary General Meeting for approval an annual report that includes at least the information indicated in rule 2.11.

### **The rules related to the internal systems and functions**

Section 3 of the Best Practice 2021 refers to the efficient operation of the Company's internal systems and functions as the tools to be used for the oversight.

The Company shall maintain the following effective systems: internal control system, risk management system and compliance system, as well as an effective internal audit function, corresponding to the size of the Company and the type and scale of its operations (rule 3.1.). The Company shall have in place separate units responsible for the tasks of the individual systems or functions (rule 3.2.).

The Company has appointed an internal auditor who shall manage the internal audit function acting in accordance with generally recognized international standards of professional internal audit practice (rule 3.3.).

The compensation of the persons responsible for the risk management and compliance as well as that of the head of the internal audit shall depend on the performance of the assigned tasks and not on the Company's short term results (rule 3.4.). The persons responsible for the risk management and compliance shall report directly to the President or another Member of the Management Board (rule 3.5.).

At least once a year, the person in charge of internal audit shall submit to the Supervisory Board an assessment of the effectiveness of the systems and functions referred to in rule 3.1, along with a corresponding report (rule 3.8.). The Audit Committee shall monitor the effectiveness of the following systems: internal control system, risk management system, compliance system, and the internal audit function, while the Supervisory Board shall perform an annual assessment of the effectiveness of the functioning of these systems and functions (rule 3.9.). By 2026, the Company is planning to perform an independent assessment of the internal audit function (rule 3.10.).

## The rules related to the General Meeting and the relations with the shareholders

Section 4 of the Best Practice 2021 sets out the rules for holding the General Meetings and the other rules aimed at encouraging the shareholders to get involved in the Company's affairs.

Pursuant to the Regulations of the General Meeting, the Company shall determine the place and date, as well as the form of the General Meeting in a manner that would enable the participation of as many shareholders as possible (rule 4.2.).

The Company shall provide a publicly available broadcast, in real time, of the General Meeting, and the representatives of the media shall be allowed to attend the General Meetings (rule 4.3. and rule 4.4.).

In case the General Meeting is convened by an entity or authority other than the Management Board pursuant to the provisions of the Code of Commercial Companies, the Management Board shall take all of the required steps to convene, organize and conduct the General Meeting (rule 4.5.).

The draft resolutions of the General Meeting related to the issues and decisions other than those of a procedural nature shall include a justification (statement of reason), unless it stems from the documentation presented to the General Meeting (rule 4.6.).

The Supervisory Board shall provide its opinion (feedback) on the draft resolutions to be put on the agenda of the General Meeting by the Management Board (rule 4.7.).

In accordance with the Regulations of the General Meeting the Shareholders should submit draft resolutions of the General Meeting on the issues put on the agenda of the General Meeting no later than 3 days prior to the General Meeting (rule 4.8.).

Pursuant to the Regulations of the General Meeting, the shareholders who intend to propose candidates for the members of the Supervisory Board should provide the Company with the justification of the candidates along with the professional CVs of the candidates and a complete set of materials related thereto, by the deadline that would enable the other shareholders to study them before the General Meeting is held and to make a decision on the appointment of a member of the Supervisory Board based on the adequate knowledge, but not later than 3 days prior to the General Meeting. The information received from the shareholders shall promptly be made available by the Company to the other shareholders in the manner specified in the announcement (notice) on the General Meeting for the provision of the documentation and the draft resolutions to be presented to the General Meeting. A shareholder proposing the candidates for the members of the Supervisory Board shall submit to the Company, along with the justification for the candidate, a statement of the candidate on the candidate's compliance or non-compliance with the independence criteria specified in the *Act of May 11, 2017 on certified auditors, audit firms and public oversight*, as well as on the existence or non-existence of the actual and material ties between this candidate and a shareholder holding at least 5% of the total number of votes in the Company (rule 4.9.).

The Members of the Management Board and of the Supervisory Board shall participate in the sessions of the General Meeting in a group of its representatives that would enable them to provide substantive answers to the questions asked during the General Meeting. The Members of the Management Board and of the Supervisory Board as well as the certified auditor of the Company shall, within the limits of their competences and to the extent required to evaluate the matter included in the agenda of the General Meeting, provide the participants of the Meeting with the explanations and information regarding the Company. The Management Board shall present to the participants of the Ordinary General Meeting the financial results of the Company and other material information contained in the financial statements subject to the approval by the General Meeting (rule 4.11.).

In accordance with the Regulations of the General Meeting, a resolution of the General Meeting on the issue of the shares with the subscription rights (rights issue) shall specify in detail the issue price or the mechanism for the determination thereof, or shall oblige the authorized body to determine it prior to the subscription right date, within the time that would enable making of the investment decision. Since the date of the Best Practices 2021 coming into force, there have been no resolutions of the General Meeting on the issue of shares with the subscription rights (rights issue) (rule 4.12.).

In accordance with the Regulations of the General Meeting a resolution on a new issue of the shares with the exclusion of the subscription rights, which at the same time grants the pre-emptive right to take up the newly issued shares to the selected shareholders or other entities, may be adopted if at least the following conditions are met:

1. The Company has a rational, economically justified need to urgently raise capital or the issue of the shares is related to the rational, economically justified transactions, among others such deals as a merger with or an acquisition of another company, or the shares are to be taken up under the incentive program adopted by the Company,
2. people who will be entitled to the pre-emptive rights will be identified according to the objective general criteria,
3. the price of the shares to be taken up will be in a rational relation to the current price of the Company's shares or will be determined as a result of the market based book building process.

Since the date of the Best Practices 2021 coming into force, there have been no resolutions of the General Meeting on the new issue of shares with the exclusion of the subscription rights (rule 4.13.).

### **The rules on the conflict of interest and the related party transactions**

Section 5 of the Best Practice 2021 sets out the procedures for managing a conflict of interest and concluding transactions with the related entities under such conditions when there is a possibility of a conflict of interest arising.

In accordance with the Regulations of the Management Board and the Regulations of the Supervisory Board of TAURON Polska Energia S.A., the Members of the Management Board or of the Supervisory Board shall inform the Management Board or the Supervisory Board, respectively, of any conflict of interest or the possibility of the occurrence thereof and they shall not participate in the consideration of a matter in which a conflict of interest may arise with respect thereto (rule 5.1.).

In accordance with the Regulations of the Management Board of TAURON Polska Energia S.A., if a Member of the Management Board or of the Supervisory Board considers that a decision of the Management Board or of the Supervisory Board, respectively, is contrary to the interests of the Company, he/she should demand that his/her dissenting opinion on the matter be included in the minutes of the meeting of the Management Board or of the Supervisory Board (rule 5.2.).

In accordance with the procedures implemented in the Company, no shareholder shall be privileged over the other shareholders in relation to the transactions with the related entities. This shall also be applicable to the transactions between the Company's shareholders and the entities that are a part of the Company's group (rule 5.3.).

In accordance with the Company's Articles of Association a resolution of the General Meeting authorizing the Management Board of the Company to take steps aimed at acquiring the shares to be redeemed shall specify the conditions for the purchase of the shares by the Company (buy-back), while ensuring that the rights of all of the shareholders are respected (rule 5.4.).

In case a transaction of the Company with a related entity requires an approval of the Supervisory Board, prior to adopting a resolution on granting the approval, the Supervisory Board shall assess whether it is necessary to first consult an external entity that will carry out the valuation of the transaction and analyze its economic effects (rule 5.5.). On the other hand, if the conclusion of a transaction with a related entity requires an approval of the General Meeting, the Supervisory Board shall prepare an opinion on the legitimacy of concluding such a transaction and, in such a case, shall assess the need to consult an external entity referred to in the previous sentence (rule 5.6.).

In case the decision on the conclusion by the Company of a material transaction with a related entity is made by the General Meeting, prior to making such a decision, the Company shall provide all of the shareholders with access to the information required to assess the impact of this transaction on the Company's interest, including providing the opinion of the Supervisory Board referred to in rule 5.6. (rule 5.7.).

The Company publishes on its website a list of the material transactions with the related entities drawn up in accordance with Art. 90i of the *Act of July 29, 2005, on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies*: <https://www.tauron.pl/tauron/relacje-inwestorskie/wykaz-istotnych-transakcji>.

### **The rules related to the compensation**

Section 6 of the Best Practice 2021 sets out transparent, fair, consistent and non-discriminatory principles for the compensation of the management team.

The compensation of the Members of the Management Board of the Company and of the Supervisory Board of the Company as well of the key managers is sufficient to attract, retain and motivate people with the competencies required for the proper management and oversight of the Company. The amount of the compensation is adequate to the tasks and duties performed by the individuals and the responsibility related thereto (rule 6.1.). The amount of compensation of the Members of the Supervisory Board is not dependent on the Company's short term performance (rule 6.5.).

## **9.2 Set of abandoned rules of corporate governance**

The Company did not apply the following rules provided in the Best Practice 2021 in 2022:

1. 1.4.2. – the rule related to the presentation of the value of the ratio expressing the equal compensation paid out to its employees, calculated as a percentage difference between the average monthly compensation of women and men for the last year and the information on the actions taken in order to eliminate any potential inequalities in this respect, including the presentation of the risks related thereto and the time horizon over which achieving of equality is planned.

*This rule was not applied by the Company due to the fact that this ratio did not reflect the actual conditions for the possibility of employing women and men in the Company's selected lines of business.*

Regardless of this, the Company is guided by the principle of equal treatment of its employees and does not tolerate discrimination on any grounds, in particular, based on age, gender, race, nationality, religion, sexual orientation, appearance, fitness or difference of opinion. Measures are taken as well as procedures and mechanisms are implemented to protect the employees against discrimination and unequal treatment, and to ensure the detection and elimination of the cases of such unlawful practices. The above mentioned principles stem from TAURON Group's Corporate Social Responsibility Code of Conduct (<https://www.tauron.pl/tauron/o-tauronie/kodeks-odpowiedzialnego-biznesu>) and TAURON Group's Respect for Human Rights Policy.

2. 2.1. – the rule related to having a diversity policy in place with respect to the Management Board and the Supervisory Board, adopted by the Management Board or the Supervisory Board, respectively, defining the diversity goals and criteria, among others in terms of gender, education background, specialist knowledge, age and professional experience, as well as indicating the date and method of monitoring the achievement of such goals. In terms of the diversity with respect to gender the prerequisite for ensuring the diversity of the Company's authorities is the participation rate (share) of the minority in the given authority at a level of not less than 30%.

*The Company has implemented TAURON Group's Diversity Policy, on the basis of which TAURON Capital Group applies the policy of equal treatment and strives to ensure diversity in terms of gender, education, age and professional experience for all employees. However, the Company does not have a diversity policy with respect to the Management Board and the Supervisory Board in terms of the minority share in the given authority at a level of not less than 30%, due to the adoption by the Company of the solutions in accordance with the Act of December 16, 2016, on the principles of state assets management regarding the appointment of the members of the Management Board following the conducting of the recruitment procedure aimed at checking and assessing the qualifications of the candidates and selecting the best candidate to be a member of the Management Board. In the case of appointing the members of the Supervisory Board, the minister competent to exercise the rights related to the rights attached to the shares of the State Treasury has the statutory power to appoint the majority of the members of the Supervisory Board.*

3. 2.2. – the rule stating that the persons making the decisions on the appointment of the members of the Management Board or the Supervisory Board should ensure the versatility of these authorities by selecting as the members thereof the persons that would ensure the diversity, enabling, inter alia, achieving of the target minimum minority participation rate (share), set at a level of not less than 30%, in line with the goals set out in the adopted diversity policy referred to in rule 2.1.

*The Company currently does not ensure a 30% diversity level with respect to the share of women in the membership of the Management Board and of the Supervisory Board. The General Meeting, having in mind the goal of ensuring the diversity with respect to the shares of women and men in the membership of the Supervisory Board, on May 24, 2021, adopted the amendments to the Regulations of the General Meeting of the Company, inter alia, by adding in § 24, section 5 with the following wording: "Persons making the decisions on the appointment of the members of the Supervisory Board should ensure the versatility of the authority by selecting as the members thereof the persons that would ensure the diversity, enabling, inter alia, achieving of the target minimum minority participation share, set at a level of not less than 30%, in line with the goals set out in the diversity policy adopted by the Company". With regard to appointment of the Members of the Management Board, the Company applies the provisions of the Act of December 16, 2016, on the principles of state assets management, in line with which the members of the Management Board shall be appointed following the conducting of the recruitment procedure aimed at verifying and assessing the qualifications of the candidates and selecting the best candidate to be a Member of the Management Board.*

4. 3.6. – the rule stating that the Head of the Internal Audit reports organizationally to the President of the Management Board, and functionally to the chairperson of the audit committee or the chairperson of the supervisory board, if the supervisory board performs the function of the audit committee.

*The internal audit unit, headed by the Executive Director for Audit and Internal Control, is placed in the organizational structure of the Company under the direct authority of the President of the Management Board. Functionally, the Head of the Internal Audit does not report to the Chairperson of the Audit Committee, however, in order to maintain the independence, objectivity and proper performance of the audit and control functions, the Executive Director for Audit and Internal Control is provided with the option of the periodic reporting to the Audit Committee and the Supervisory Board of the Company.*

5. 3.7. – the rule stating that that rules 3.4. - 3.6. shall also apply to those entities from the company's group that are of material importance to the operations thereof, in case they have designated (appointed) persons to perform these tasks.

*The Risk Management Coordinators and the Compliance Coordinators, who do not always report directly to the president or another member of the subsidiary's management board, have been appointed at TAURON Capital Group's subsidiaries that are of material importance to the operations thereof. The solutions adopted at these subsidiaries in terms of the organizational structure, in spite of the fact that they do not always ensure the direct reporting to a member of the company's management board, do not restrict the possibility of the*



direct reporting to the members of the company's management board. In December 2021, TAURON Group's Compliance Policy was updated, where it was indicated that the Compliance Coordinator should report directly to the President of the Management Board or another Member of the Management Board of the Company. Accordingly, actions have been initiated to implement the above mentioned provision. With regard to the Audit and Internal Control Area, the audit function is centralized, and no persons have been designated (appointed) to perform the audit tasks at the subsidiaries.

6. 4.1. – the rule related to allowing the shareholders to take part in a general meeting by means of electronic communication, if it is justified due to the shareholders' expectations reported to the company, provided that it is able to provide the technical infrastructure required to conduct such a general meeting.

*The Company monitors, on an ongoing basis, the changes in the shareholding structure that could affect the way the communication is conducted during the general meeting. In addition, in the event that the Company receives requests from the shareholders to conduct a general meeting using the electronic means of communication, the Company will verify the technical possibilities that would ensure the safe conduct of the general meeting for the shareholders and the Company, and in the absence of any contraindications, the Company will take actions in accordance with this recommendation.*

7. 4.14. – the rule stating that the company should strive to distribute the profit by paying out a dividend, while retaining of the entire profit in the company is possible if any of the following reasons occur:

- 1) the amount of this profit is minimal, and as a consequence the dividend would be insignificant in relation to the value of the shares
- 2) the company reports uncovered losses from the previous years, and the profit is to be used to reduce such losses,
- 3) the company justifies that the allocation of the profit to the investments will bring tangible benefits to the shareholders,
- 4) the company has failed to generate cash that would enable the payout of the dividend,
- 5) the payout of the dividend would significantly increase the risk of a breach of the covenants included in the credit agreements that are binding for the company or the terms of the bond issue,
- 6) leaving the profit in the company is in line with the recommendation of the institution exercising the supervision over the company due to its specific type of operations.

*In accordance with the adopted Dividend Policy, the Company is planning, in the long term, to pay out a dividend in the amount of at least 40% of the consolidated net profit. The intention of the Company is to ensure a dividend yield at a competitive level in relation to the long term debt instruments issued on the Polish market by companies with the investment grade ratings.*

*Over the time frame covered by the Strategy, i.e. until 2030, due to the high level of the planned capital expenditures associated with the implementation of the strategic projects, the dividend policy assumes that the Management Board of the Company will not be recommending to the General Meeting of the Company the payout of the dividends, provided that, in the opinion of the Management Board, such a retention of the funds by TAURON Group will contribute to an increase in the value of its assets*

*The decision with respect to the payout of the dividend is made by the General Meeting of the Company having obtained the recommendation of the Management Board of the Company, which takes into account, in particular, the following factors: the legal requirements and the provisions of the financial agreements, in particular with respect to not exceeding a certain level of the leverage ratio, ensuring an investment grade rating, the implementation of the investment policy, the Group's liquidity position and the cost and options for obtaining of the financing.*

*The Company's Dividend Policy is largely in line with rule 4.14. of the Best Practice 2021, although it also provides for a broader range of the events or circumstances justifying the lack of the dividend payout, and thus the Company's decision may be made on the basis of the premises that are not referred to in the catalog specified under rule 4.14. of the Best Practice 2021.*

8. 6.2. – the rule regarding such a structuring (design) of the incentive programs that, inter alia, the level of the compensation of the members of the management board of the company and that of the key managers thereof would be made dependent on the actual, long term situation of the company in terms of the financial and non-financial results as well as the long term increase in the shareholder value and the sustainable development, as well as the stability of the company's operations.

*The level of the variable compensation of the Members of the Management Board and the key managers of the Company is dependent on the annual consolidated financial results of the Company and the long term standing of the Capital Group in terms of the non-financial results. The principles of compensating the Members of the Management Board, that would assume, inter alia, that the variable compensation should be dependent on the annual results, were adopted by the General Meeting of the Company at the request of a shareholder State Treasury. Changing of the above mentioned principles shall require a decision of the Shareholders*

9. 6.3. – the rule stating that if one of the company's incentive programs is a management options program, then the implementation of the options program should be conditional on the eligible persons achieving, for at least 3 years, the predetermined, realistic and adequate financial and non-financial, as well as the sustainable development goals, and the established price at which the eligible persons would purchase the shares or settle the options may not differ from the value of the shares from the period when the program was adopted.

*The compensation and bonus system for the Members of the Management Board of the Company and the key managers thereof in force does not provide for linking the compensation with the instruments tied to the Company's shares.*

10. 6.4. – the rule stating that the supervisory board shall perform its tasks on a continuous basis, therefore the compensation of the members of the supervisory board may not depend on the number of the meetings held. The compensation of the members of the committees, in particular the audit committee, should take into account the additional workload related to the work in such committees.

*Members of the Supervisory Board receive a fixed monthly compensation, regardless of the number of the convened meetings and regardless of the participation of the Members of the Supervisory Board in the works of the committees, including the Audit Committee.*

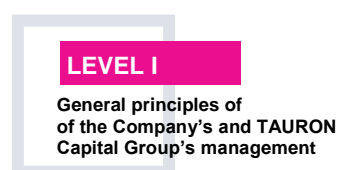
The other rules included in the Best Practice 2021 were applied by the Company in 2022.

### **Information on the change of the scope of the application by the Company of the rules included in the Best Practice 2021 in 2022**

In an effort to apply the broadest possible scope of the Best Practice 2021, the Company in 2022 began applying rule 3.4. and rule 3.5. in 2022.

## **9.3. Main characteristics of the internal controls and risk management systems in relation to the process of drawing up the financial statements and the consolidated financial statements**

The internal control (audit) and risk management system with respect to the process of drawing up the financial statements and the consolidated financial statements is implemented on 3 levels:



Pursuant to the adopted internal regulations TAURON Capital Group's subsidiaries operate based on the organizational regulations and have defined organizational structures in place, where the applicable business units are assigned the responsibility for drawing up the financial statements and the consolidated financial statements. Such units are obliged to perform the ongoing control that is built into the tasks performed and the functional control of their activities. Based on TAURON Capital Group's Business

Model put in place the Process Documentation of Mega-process 3.4 *Accounting* was implemented, containing, among others, processes associated with the financial reporting of the Company and TAURON Capital Group. The process documentation defines the responsibilities of the business units within the reporting processes.



TAURON Capital Group has put the Risk Area in place, whose role is to oversee and establish TAURON Capital Group's risk management system. These functions are implemented within the Company by the Corporate, Market and Credit Risk Management Teams as well as by the Autonomous (Independent) Specialist for the Transaction Control (Audit) Positions. The purpose of the risk management is to ensure the improvement of the predictability of attaining of the strategic objectives by TAURON Capital Group, including the stable creation of the financial result through adequately early identification of threats allowing the preventive activities to be undertaken. Risk management standards applicable at TAURON Capital Group have been defined in *TAURON Group's Corporate Risk Management Strategy* and in the policies for managing the specific risks. The ERM system encompasses all of TAURON Capital Group's lines of business and the business processes carried out within TAURON Capital Group, including the process of drawing up the financial statements. The risks associated with this process are managed, monitored and reported within the ERM System. The goal of the standardization is to ensure consistency in managing the individual risk categories, by defining the general principles, standards and tools of the system's architecture. The oversight of the ERM system at TAURON Capital Group is performed by the Risk Committee, which as an expert team, on a permanent basis and continuously, initiates, analyzes, monitors, controls (audits) and supports the functioning of TAURON Capital Group's risk management system.

*The detailed information on the risk management system is provided in section 3.1. of this report.*

### LEVEL III

#### Internal audit

The Audit and Internal Control Area is functioning within TAURON Capital Group, with the goal to plan and implement, within TAURON Group, the audit and control tasks, developing and coordinating the principles of audit and internal control within TAURON Group and supporting the organization in maintaining an effective internal control system.

The audit activities are conducted by the audit teams composed of the employees holding the Autonomous (Independent) Specialist for the Transaction Control (Audit) Positions as part of TAURON's Audit and Internal Control Area, carrying out the scheduled and ad hoc audit tasks both at TAURON as well as at TAURON Capital Group's subsidiaries. The audit teams, based on the Audit Plan for the given calendar year, by performing the process based audit tasks, make an assessment of the current level of the individual risks and the effectiveness of the management thereof. As part of the audit activities the correctness of the audited processes is also verified, as well as the adequacy and implementation of the control mechanisms in the audited processes. If any irregularities are identified, the auditors recommend taking adequate corrective actions. The implementation of the recommendations is the responsibility of the management of the audited entities, and the degree of the implementation of the audit recommendations is monitored on an ongoing basis using the dedicated MRA application.

The internal (conducted by the owner) control, understood as a set of activities of a detective (detection control), preventive (preventive control) and corrective (correction of irregularities and deficiencies) nature, as part of the functioning internal control system, is carried out at the level of TAURON Capital Group by the control teams composed of the employees holding the Autonomous (Independent) Specialist for the Transaction Control (Audit) Positions as part of TAURON's Audit and Internal Control Area, as well as by the organizational units competent for the internal control, operating at some of the subsidiaries. The control tasks are performed in the form of the ad hoc and the scheduled controls.

A new Model for Periodic Evaluation of the Internal Control System has also been implemented to provide the Company's Management Board and the Audit Committee of the Company's Supervisory Board with the independent and objective information on the operation of the control mechanisms in the business processes. As part of the above mentioned model, the assessment of the adequacy, implementation and effectiveness of the selected control mechanisms related to the risks assessed as significant for the Internal Control System was initiated, for the first time, in 2022.

The goal of the organization of the Audit and Internal Control Area is to enable the scope of audits and controls to cover the entire operations of the organization, both from the perspective of the needs of TAURON Capital Group as well as those of the individual subsidiaries. The direct organizational reporting to the President of the Management Board allows the Area to maintain the necessary independence and objectivity needed to perform its duties effectively. The Executive Director for Audit and Internal Control has also been provided with the ability to periodically report directly to the Audit Committee, as a standing committee established within the Supervisory Board of the Company. This empowerment is implemented in the Company's Organizational Regulations currently in force.

## Most important aspects related to the internal controls and risk management with respect to the process of drawing up the financial statements and the consolidated financial statements

Supervision over the application of consistent (uniform) accounting rules by TAURON Capital Group's subsidiaries when developing reporting packages for the purpose of drawing up TAURON Capital Group's consolidated financial statements

In order to ensure consistent accounting principles based on International Financial Reporting Standards (IFRS), approved by the European Union, the *Accounting Policy of TAURON Polska Energia S.A. Capital Group* (Accounting Policy) was developed and implemented by TAURON Capital Group. This document shall be accordingly updated in case there are changes to the regulations. The rules defined in the Accounting Policy shall be applicable to TAURON's standalone financial statements and TAURON Capital Group's consolidated financial statements. TAURON Capital Group's subsidiaries shall be obligated to apply the Accounting Policy when preparing the reporting packages that provide the basis for preparing TAURON Capital Group's consolidated financial statements.

In addition, TAURON Capital Group developed and implemented an intra-group regulation that comprehensively regulates issues related to the rules and deadlines for preparing the reporting packages for the purpose of consolidated financial statements. The reporting packages shall be validated by the holding company's Consolidation and Reporting Team and by an independent certified auditor during an audit or review of TAURON Capital Group's consolidated financial statements.

Procedures used to authorize and provide opinions on the Company's financial statements and TAURON Capital Group's consolidated financial statements.

The Company has implemented financial statements' authorization procedures. Quarterly, half year and full year financial statements of the Company and TAURON Capital Group's consolidated financial statements shall be approved by the Company's Management Board before being published. Full year financial statements of TAURON and TAURON Capital Group's consolidated financial statements shall be additionally presented for evaluation to the Company's Supervisory Board before being published. The Company's Vice President of the Management Board for Finance (Chief Financial Officer) shall oversee the preparation of financial statements, while the Management Boards of the subsidiaries included in the consolidation shall be responsible for preparing the reporting packages for TAURON Capital Group's consolidated financial statements.

The Supervisory Board's structure includes the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.

*The detailed information on the composition, competences and description of the operations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. is presented in section 9.11. of this report.*

IT systems as well as financial and accounting processes

TAURON Capital Group's subsidiaries maintain accounting books (ledgers) which constitute the basis for preparing financial statements using ERP grade financial and accounting computer systems, enabling system audits of the correctness of the document flow and classifying of the business events. Consolidated financial statements are prepared using an IT tool used to consolidate financial statements, providing system control with respect to the consistency (integrity) and timeliness of preparing the consolidation data.

TAURON Capital Group's subsidiaries have implemented IT and organizational solutions that provide control of access to the financial and accounting system and ensure adequate protection and archiving of the accounting books. Access to IT systems is restricted based on applicable access rights assigned to authorized personnel. Control mechanisms are applied in the process of granting and changing access rights to the financial and accounting systems. The rights granted are also subject to periodic verification.

The accounting functions at TAURON Group's subsidiaries are to a significant degree integrated - TAURON Capital Group's material subsidiaries' financial and accounting services are performed by CUW-R (Shared Services Center – Accounting) and as a result of that TAURON Capital Group's financial and accounting processes are to a large degree unified. The subsidiaries adjusted their own procedures to the flow of the financial and accounting processes, taking into account the specifics of the individual segments. In 2022, as part of the implementation of the government's program of Poland's electricity sector's transition, which envisages the spinning off of the coal assets from power companies that the State Treasury is a shareholder of to the National Energy Security Agency, the reorganization works were carried out to integrate the assets intended to be spun off into a single entity (i.e. TAURON Wytwarzanie S.A. subsidiary), which also included the transfer of the accounting services for the assets to be spun off to TAURON Wytwarzanie S.A.

TAURON Capital Group's Business Model clearly distributes responsibilities with respect to the financial and accounting processes between the Company (indicated as the Corporate Centre) and the subsidiaries and CUW R, indicating that the Corporate Centre is the owner of processes associated with accounting and reporting of TAURON Capital Group. With respect to the tasks of the Corporate Centre, strategic functions associated with the development of the model of operations and standards of TAURON Capital Group were indicated in the area of accounting and supervision of the implementation of standards in the accounting area in the subsidiaries and CUW R. Moreover, it was indicated that the Company as the Corporate Centre is responsible for drawing up the Company's financial statements and the consolidated financial statements of TAURON Capital Group. A clear split of responsibilities and strong emphasis on the fulfillment of the supervisory functions by the Corporate Centre in relation to CUW R and the subsidiaries is, inter alia, aimed at improving the process of preparing the financial statements.

Subjecting the Company's financial statements and TAURON Capital Group's consolidated financial statements to an audit and reviews by an independent certified auditor

The Company's full year financial statements and TAURON Capital Group's full year consolidated financial statements are subject to an audit by a certified auditor. In November 2021, the Company selected an entity authorized to audit and review the financial statements as well as the consolidated financial statements of the Company and to audit the financial statements of selected TAURON Capital Group's subsidiaries. The contract with the entity authorized to audit financial statements was concluded for the audit of the financial statements and the consolidated financial statements for the years 2022-2024, as well as for the review (audit) of the interim financial statements and the interim consolidated financial statements for the 6-month periods ending on June 30, 2022, June 30, 2023 and June 30, 2024.

The rule related to changing the audit firm of the Company and TAURON Capital Group

The Company has in place the *Policy for selecting an audit firm to conduct an audit and review of the financial statements and the consolidated financial statements of TAURON Polska Energia S.A.*, adopted by the Audit Committee of the Company's Supervisory Board, which includes the following rule:

1. maximum duration of continuous audit engagements (mandates) carried out by the same audit company or an entity related to that audit company or any member of the network operating in the EU countries that such audit companies are members of, shall not exceed 10 years,
2. after the 10-year duration of the mandate (engagement) neither the audit company, nor any member of its network operating within the European Union shall conduct an audit of the Company for the subsequent 4 years,
3. a key certified auditor shall not conduct an audit of the Company for a period longer than 5 years,
4. a key certified auditor may again conduct an audit of the Company after at least 3 years have elapsed from the completion of the last audit.

## 9.4. Shareholders holding substantial blocks of shares

The below table presents shareholders holding, as of December 31, 2021, and as of the date of drawing up this report, directly or indirectly via subsidiaries, substantial blocks of the Company's shares.

**Table no. 53. Shareholders holding, directly or indirectly, substantial blocks of shares as of December 31, 2022, and as of the date of drawing up this report**

Shareholders	Number of shares held	Percentage share in share capital	Number of votes held	Percentage share in the total number of votes
1. State Treasury	526 848 384	30.06%	526 848 384	30.06%
2. KGHM Polska Miedź (Polish Copper)	182 110 566	10.39%	182 110 566	10.39%
3. Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open Pension Fund)	88 742 929	5.06%	88 742 929	5.06%

There had been no changes in the holdings of the substantial blocks of TAURON shares in 2022.

## 9.5. Holders of securities providing special control rights

The Company did not issue securities that would grant special control rights with respect to the Company.

## 9.6. Restrictions on exercising the voting right

Restrictions on exercising the right to vote are included in § 10 of the Company's Articles of Association which are available on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/dokumenty-spolki>.

The above mentioned restrictions on exercising the voting right are formulated in the following way:

1. The voting right of shareholders holding over 10% of total votes in the company shall be limited so that none of them can exercise more than 10% of the total votes in the company at the General Meeting of Shareholders.
2. The restriction on exercising the voting right mentioned in clause 1 above shall not apply to the State Treasury and entities controlled thereby in the period during which the State Treasury, together with entities controlled thereby, hold a number of the company's shares that entitle them to exercise at least 25% of the total votes in the company.
3. Votes of shareholders who have a parent / subsidiary relationship within the meaning of § 10 of the Articles of Association (Shareholder Cluster) shall be aggregated; in case the aggregate number of their votes exceeds 10% of total votes in the company it shall be subject to reduction. Rules of votes' aggregation and reduction are defined in clauses 6 and 7 below.
4. A shareholder, within the meaning of § 10 of the Articles of Associations, shall be any party (entity, person), including its parent and subsidiary company, entitled directly or indirectly to a voting right at the General Meeting of Shareholders on the basis of any legal title; it shall also be applicable to a party (entity, person) that does not hold the company's shares, and in particular to a user, lien holder, party (entity, person) entitled on the basis of a depositary receipt under regulations of the Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies, as well as a party (entity, person) entitled to take part in the General Meeting of Shareholders in spite of disposing of its shares after the date of establishing (registering) the right to take part in the General Meeting of Shareholders.
5. A parent company and subsidiary company, for the purposes of § 10 of the Company's Articles of Association, shall be understood, accordingly, as a party (entity, person):
  - 1) with a status of a controlling undertaking, controlled undertaking or, at the same time, both the status of a controlling undertaking and controlled undertaking in the understanding of the *Act of February 16, 2007, on the protection of competition and consumers*, or
  - 2) with a status of a parent company, higher level parent company, subsidiary company, lower level subsidiary company, co-controlled company or one that has both the status of a parent company (including a higher level parent company) and the status of a subsidiary (including a lower level subsidiary company and a co-controlled company) in the understanding of the *Act of September 29, 1994 on accounting*, or
  - 3) which has (parent company) or one which is under (subsidiary company) controlling influence in the understanding of the *Act of September 22, 2006, on transparency of financial relationships between public bodies and public undertakings and on financial transparency of some undertakings*, or
  - 4) whose votes due to the company's shares owned directly or indirectly are subject to aggregation with votes of another party (entity, person) or other parties (entities, persons) on conditions defined in the *Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies* in connection with holding, disposing of or acquiring substantial blocks of the Company's shares.
6. Aggregation of votes is based on totaling the number of votes held by individual shareholders that are members of the Shareholders' Cluster
7. Reduction of the votes involves decreasing the total number of votes in the Company that shareholders that are members of the Shareholders' Cluster, are entitled to exercise at the General Meeting of Shareholders to the level of 10% of total votes in the Company. Reduction of the votes shall take place in accordance with the following rules:
  - 1) number of votes of a shareholder who holds the largest number of votes in the company among all shareholders that are members of the Shareholders' Cluster shall be reduced by a number of votes equal to a surplus above 10% of total votes in the company held by all shareholders that are members of the Shareholders' Cluster,
  - 2) if, despite the reduction mentioned in 1) above, the total number of votes that shareholders that are members of the Shareholders' Cluster are entitled to exceeds 10% of the total votes in the company, a further reduction of votes held by other shareholders that are members of the Shareholders' Cluster shall be made. The further reduction of individual shareholders' votes shall take place in an order established on the basis of the number of votes that individual shareholders that are members of the Shareholders' Cluster hold (from the highest to the lowest one). The further reduction shall take place until the total number of votes held by shareholders that are members of the Shareholders' Cluster does not exceed 10% of the total votes in the Company,
  - 3) in any case a shareholder whose voting rights have been reduced shall have the right to exercise at least one vote,
  - 4) restriction on exercising the voting right shall also apply to a shareholder absent at the General Meeting of Shareholders.

8. Each shareholder who is going to take part in the General Meeting of Shareholders, in person or through a proxy, shall be obliged to, without a separate notice mentioned in clause 9 below, notify the Management Board or the Chairperson of the General Meeting of Shareholders that she/he holds, directly or indirectly, more than 10% of the total votes in the Company.
9. Notwithstanding the provisions of clause 8 above, in order to establish the basis for aggregating and reducing the votes, a Company's shareholder, Management Board, Supervisory Board and individual members of such bodies shall have the right to demand that a shareholder of the Company provide information whether she/he is a party (entity, person) having the status of a parent or subsidiary company towards another shareholder in the understanding of § 10 of the Company's Articles of Association. The entitlement mentioned in the preceding sentence shall also include the right to demand the revealing of the number of votes that the company's shareholder holds on its own or jointly with other shareholders of the Company.
10. A party (entity, person) that has failed to fulfill or has fulfilled the information obligation mentioned in clauses 8 and 9 above improperly, shall, until the failure to fulfill the information obligation has been remedied, be able to exercise its voting right with respect to one share only; exercising voting rights with respect to other shares by such party (entity, person) shall be null and void.

## 9.7. Restrictions on the transfer of the ownership right to securities

As of December 31, 2022, and as of the date of drawing up this report the Company's Articles of Association do not envisage restrictions on the transfer of the ownership right to the Company's securities.

However, in accordance with the *Act of July 24, 2015 on the control of certain investments* (Journal of Laws of 2022, item 1137), an entity intending to purchase or achieve a material shareholding or purchase the dominating control over TAURON, which is, in accordance with the *Regulation of the Council of Ministers of December 16, 2022, on the list of entities subject to protection and their competent control bodies* (Journal of Laws of 2022, item 2838), an entity subject to protection, shall, each time, be obligated to submit a notification to the control body – the competent Minister of the State Assets of its intention to do so, unless such obligation rests on other entities.

## 9.8. Rules on appointing and dismissing the Members of the Management Board and of the Supervisory Board of TAURON Polska Energia S.A., and the empowerments thereof

### Management Board of TAURON Polska Energia S.A.

#### Rules on appointing and dismissing the Members of the Company's Management Board

The Management Board of the Company shall be composed of 1 to 6 persons, including the President and Vice Presidents. The Members of the Management Board shall be appointed and dismissed by the Company's Supervisory Board for a common term of office lasting 3 years, except for the 1st term that lasted 2 years. The term of office of a Member of the Management Board shall expire, at the latest, as of the date of the General Meeting which approves the financial statements for the last full financial year of the Member of the Management Board's term of office. In accordance with the Company's Articles of Association, each of the Members of the Management Board can be dismissed or suspended from office by the Company's Supervisory Board or the General Meeting of the Company.

In order to recruit a person with whom an agreement for providing the management services at the Company will be concluded, the Company's Supervisory Board shall announce a competition and conduct a recruitment procedure for the position of the President or Vice President aimed at verifying and assessing the candidates' qualifications and selecting the best candidate. A candidate for a Member of the Company's Management Board must meet the requirements set forth in § 16, clauses 3 and 4 of the Company's Articles of Association. The announcement of the recruitment process is published on the Company's web site at the address: <https://www.tauron.pl> and in the Public Information Bulletin of the Minister competent to exercise the rights related to the State Treasury's shares. The Company notifies the shareholders of the results of the recruitment procedure.

### Supervisory Board of TAURON Polska Energia S.A.

#### Rules on appointing and dismissing the Members of the Company's Supervisory Board

The Supervisory Board of the Company shall be composed of 5 to 9 persons, appointed for a common term of office lasting 3 years, except for the first term that lasted 1 year. The term of office of a Member of the Supervisory Board shall expire, at the latest, as of the date of the General Meeting which approves the financial statements for the last full financial year of the Member of the Supervisory Board's term of office. In accordance with the Company's Articles of Association, the Members of the Company's Supervisory Board shall be appointed and dismissed by the General Meeting, subject to the following:

1. during the time when the State Treasury, together with the State Treasury controlled entities within the meaning of § 10, clause 5 of Company's Articles of Association, hold a number of the Company's shares that entitle them to exercise at least 25% of the total votes in the Company, the State Treasury shall be entitled to appoint and

dismiss Members of the Company's Supervisory Board in the number equal to half of the maximum number of members of the Company's Supervisory Board defined in the Company's Articles of Association (in case such number is not integral it shall be rounded down to an integral number, for example 4.5 shall be rounded down to 4) and increased by 1, provided that the State Treasury:

- 1) shall be obliged to vote at the General Meeting of Shareholders on establishing the number of Members of the Company's Supervisory Board that would correspond to the maximum number of Members of the Company's Supervisory Board defined in the Company's Articles of Association in case such a motion is submitted to the Company's Management Board by a shareholder or shareholders who hold a number of votes that entitle them to exercise at least 5% of the total number of votes in the Company,
- 2) shall be excluded from the voting at the General Meeting of Shareholders on appointing and dismissing of the other members of the Company's Supervisory Board, including independent members of the Company's Supervisory Board; this shall not, however, apply to the case when the Company's Supervisory Board cannot act due to its membership being smaller than required by the Company's Articles of Association, and the shareholders present at the General Meeting of Shareholders, other than the State Treasury, do not supplement the membership of the Company's Supervisory Board in accordance with the distribution of seats in the Company's Supervisory Board defined in this section,
2. during the time when the State Treasury, together with the State Treasury controlled entities within the meaning of § 10, clause 5 of the Company's Articles of Association, hold a number of the Company's shares that entitle them to exercise less than 25% of the total number of votes in the Company, the State Treasury, represented by the minister competent to exercise the rights related to the State Treasury's shares, shall be entitled to appoint and dismiss one member of the Company's Supervisory Board,
3. appointing and dismissing members of the Company's Supervisory Board by the State Treasury pursuant to the above mentioned clause 1 or 2 shall take place by means of a statement submitted to the Company.

In accordance with the Company's Articles of Association at least two members of the Company's Supervisory Board shall meet the criteria of independence listed in the *Act of May 11, 2017 on certified auditors, audit firms and public oversight*, and shall not to have the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company.

Independent Members of the Company's Supervisory Board shall submit to the Company, prior to their appointment as members of the Company's Supervisory Board, a written statement on the compliance with the independence criteria.

*The detailed information on the independence of the Members of the Company's Supervisory Board is presented in section 9.11. of this report.*

## **9.9. Procedure of amending TAURON Polska Energia S.A.'s Articles of Association**

Amendments to the Company's Articles of Association shall be made in accordance with the provisions of the Code of Commercial Companies, in particular: an amendment to the Company's Articles of Association shall take place by way of a resolution of the GM, passed by the majority of three fourths of the votes, and shall, subsequently, require issuing of a decision by a competent court on entering the amendment into the register of entrepreneurs (business register). The consolidated text of the Company's Articles of Association, including the amendments passed by the General Meeting, shall be adopted by the Supervisory Board of the Company by way of a resolution.

In accordance with the Company's Articles of Association, a material amendment to the subject of the Company's operations shall require the majority of two thirds of the votes in the presence of persons representing at least half of the share capital.

### **Information on the amendment of the Company's Articles of Association in 2022.**

On July 18, 2022, the Katowice-Wschód District Court in Katowice, the 8th Commercial Division of the National Court Register entered into the Register of Entrepreneurs of the National Court Register the amendments to § 16, clause 2 and § 22, clause 2 of the Company's Articles of Association passed by the Extraordinary General Meeting of the Company on July 13, 2022.

In accordance with the new wording of the Company's Articles of Association, the Members of the Management Board and, respectively, the Members of the Supervisory Board of the Company shall be appointed for a common term of office lasting three full financial years, while a term of office of a Member of the Management Board and, respectively, of a Member of the Supervisory Board shall expire no later than as of the date of the General Meeting which approves the financial statements for the last full financial year of, respectively, the Member of the Management Board's terms of office or the Member of the Supervisory Board's term of office.

On July 29, 2022, the Company's Supervisory Board adopted the consolidated text of the Company's Articles of Association incorporating the amendments passed by the Company's Extraordinary General Meeting on July 13, 2022.

## 9.10. General Meeting of TAURON Polska Energia S.A. and the shareholders' rights

### General Meeting of TAURON Polska Energia S.A.

The Company's General Meeting of Shareholders' procedures and its empowerments are defined in the Company's Articles of Association and in the *Regulations of the General Meeting of the Shareholders of TAURON Polska Energia S.A.* (GM Regulations) which are available on the Company's website at the address: <http://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/dokumenty-spolki>.

#### Procedures of the General Meeting of the Company

General Meeting (GM) shall be convened by way of a notice published on the Company's website and in a manner defined for providing the current information (regulatory filings) by the public companies. In case the General Meeting (GM) is convened by an entity or a body other than the Management Board pursuant to the regulations of the Code of Commercial Companies, as convening a General Meeting requires the Management Board's cooperation, the Management Board shall be obliged to perform any activities required by law in order to convene, organize and conduct the General Meetings (GMs) that take place either at the Company's registered office or in Warsaw.

General Meeting shall be opened by the Chairperson of the Company's Supervisory Board, and in case he/she is absent, the following persons shall be entitled to open the General Meeting in the given order: Vice Chairperson of the Company's Supervisory Board, President of the Company's Management Board, a person designated by the Company's Management Board or the shareholder who registered at the General Meeting such a number of shares that grant the right to exercise the highest number of votes. Subsequently, the chairperson of the General Meeting shall be elected from among the persons entitled to participate in the General Meeting.

General Meeting shall pass resolutions irrespective of the number of shares represented at the General Meeting, unless the regulations of the Code of Commercial Companies, as well as the provisions of the Company's Articles of Association state otherwise.

A General Meeting may order a break in the meeting by the majority of two thirds of the votes. The breaks shall not last longer than 30 days in total. A break in the GM session may take place only in exceptional situations, every time indicated on a case-by-case basis in the justification to the resolution, prepared based on the reasons presented by a shareholder requesting the break to be ordered. A GM resolution related to the ordering of a break shall clearly indicate the date (time) of the resumption of the session, however, such a date (time) must not create a barrier for the participation of the majority of the shareholders in the resumed meeting, including the minority shareholders.

#### Competence of the General Meeting of the Company

In accordance with the Company's Articles of Association the matters listed in the below table shall require a resolution of the General Meeting (GM) of the Company as of December 31, 2022, and as of the date of drawing up this report.

**Table no. 54. Competence of the General Meeting of the Company as of December 31, 2022, and as of the date of drawing up this report**

Matters that require a resolution of the General Meeting of the Company	
1.	reviewing and approving the financial statements of the Company and the consolidated financial statements of the Capital Group for the previous financial year as well as the Management Board's report on the Company's operations (Directors' Report) and the Management Board's report on the operations of the Capital Group
2.	granting the acknowledgement of the fulfillment of the duties to the members of the Company's corporate bodies (authorities),
3.	distribution of the profit and covering of the loss,
4.	appointing and dismissing the Members of the Company's Supervisory Board,
5.	suspending the Members of the Company's Management Board in the performance of their duties,
6.	establishing the amount of compensation for the Members of the Company's Supervisory Board, subject to § 29, clause 4 of the Company's Articles of Association,
7.	establishing the principles of determining compensation and the amount of compensation of the Members of the Company's Management Board taking into account the provisions of the <i>Act of June 9, 2016, on the principles of determining compensation of the management personnel of certain companies</i> ,
8.	adopting, not less often than every four years, the compensation policy for the Members of the Management Board and the Supervisory Board of the Company, taking into account the requirements of the <i>Act of July 29, 2005, on the public offering and the conditions for introducing financial instruments to an organized trading system and on public companies</i> ,
9.	selling and leasing out the Company's enterprise or its organized part as well as establishing a limited pledge (property right) thereupon,
10.	concluding a credit, loan, surety agreement or any other similar agreement by the Company with a member of the Management Board, Supervisory Board, proxy, liquidator (receiver) or for the benefit of any such person. Concluding a credit, loan, surety or any other similar agreement by a subsidiary with a member of the Management Board, Supervisory Board, proxy, liquidator (receiver) or for the benefit of any such person,
11.	increasing and decreasing the Company's share capital,
12.	issuing convertible bonds or senior bonds as well as registered securities or bearer securities entitling the holder thereof to subscribe or take up the shares,
13.	purchasing (buyback) of own shares in the cases required by the regulations of the Code of Commercial Companies,
14.	mandatory buyback of shares (squeeze-out) in accordance with the provisions of art. 418 of the Code of Commercial Companies,



#### Matters that require a resolution of the General Meeting of the Company

15. setting up, using and liquidating reserve capitals,
16. using supplementary capital,
17. provisions related to the claims to repair damage caused while establishing the Company or performing the management or supervision functions,
18. merger, transformation and division of the Company,
19. redemptions (retirements) of the shares,
20. amendment to the Company's Articles of Association and change of the subject of the Company's operations,
21. dissolving and liquidating the Company.
22. providing an opinion on the report on the compensation of the Members of the Management Board and the Supervisory Board, referred to in § 20, clause 1, item 19 of the Company's Articles of Association,
23. approving of the report on the activities of the Supervisory Board, referred to in § 20, clause 1, item 4 of the Company's Articles of Association.

In accordance with the provisions of the Code of Commercial Companies the decision on the issue and repurchase of the shares shall be included within the competence of the General Meeting.

#### General Meeting of the Company in 2022

The General Meeting of the Company was held two times in 2022.

The Ordinary General Meeting of the Company was held on May 24, 2022, and it adopted the resolutions related to, inter alia: the approval of the *Financial Statements of TAURON Polska Energia S.A. for the year ended on December 31, 2021, in accordance with the International Financial Reporting Standards approved by the European Union*, the approval of the *Consolidated Financial Statements of TAURON Polska Energia S.A. Capital Group for the year ended on December 31, 2021, in accordance with the International Financial Reporting Standards approved by the European Union*, the approval of the *Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2021*, the distribution of the net profit for the financial year 2021, the providing of the opinion on the *Report on the compensation of the Members of the Management Board and of the Supervisory Board of TAURON Polska Energia S.A. for 2021*, the change of *Policy for the Compensation of the Members of the Management Board and of the Supervisory Board of TAURON Polska Energia S.A.* the acknowledgement of the fulfillment of duties by the Members of the Company's Management Board and of the Company's Supervisory Board, the establishing of the number of the Members of the Company's Supervisory Board and the appointment of a Member of the Company's Supervisory Board of the 6<sup>th</sup> common term of office.

The Extraordinary General Meeting of the Company was held on July 13, 2022, and it adopted the resolutions related to, inter alia: the amendment of the Company's Articles of Association and the acknowledgement of the fulfillment of duties by the Members of the Company's Management Board for the years 2019 and 2020.

#### Shareholders' rights and the manner of exercising thereof

The below table presents the description of the Company's shareholders' rights related to the General Meeting in accordance with the Company's Articles of Association, Code of Commercial Companies and the Regulations of the General Meeting.

**Table no. 55. Description of the Company's shareholders' rights related to the General Meeting of the Company**

Shareholders' rights	Description of shareholders' rights
1 Convene a General Meeting (GM)	Shareholders representing at least 1/20 of the share capital, may request convening of an Extraordinary General Meeting. Such a request should include a concise justification. It may be submitted to the Company's Management Board in writing or in an electronic form, to the Company's e-mail address, provided by the Company on its website under the <i>Investor Relations</i> tab. Shareholders representing at least a half of the share capital or at least half of all of the votes in the Company may convene an Extraordinary General Meeting (GM) and appoint a chairperson of such General Meeting.
2 Include matters (items) in the agenda of the General Meeting	Shareholders representing at least 1/20 of the share capital, may request that certain matters (items) be included in the agenda of the forthcoming General Meeting. Such a request, including a justification or a draft resolution related to the proposed item of the agenda, should be submitted to the Company's Management Board not later than 21 days prior to the set date of the General Meeting in electronic form to the Company's e-mail address or in writing to the Company's address.
3 Become acquainted with the list of shareholders	Shareholders may become acquainted with the shareholders' list at the Company's Management Board's seat for 3 weekdays preceding directly the General Meeting's date. Shareholders may also request that the list of shareholders be sent to them free of charge to the address for electronic deliveries or by electronic mail, providing the address to which the list should be sent.
4 Participate in the General Meeting	Only persons who are the Shareholders 16 days before the date of the General Meeting (date of registering to participate in the General Meeting) shall have the right to take part in the General Meeting. In order to participate in the General Meeting the shareholders should submit a request to issue a name bearing affidavit on the right to take part in the General Meeting to an investment

Shareholders' rights	Description of shareholders' rights
	(brokerage) company maintaining their securities account. Such a request should be submitted not earlier than following the announcement (notice) on the convening of the General Meeting and not later than on the first weekday following the day of registering to participate in the General Meeting.
5 Represent a shareholder by a proxy (power of attorney)	Shareholders may take part in the General Meeting as well as exercise the voting right in person or through a proxy (power of attorney). Shares' co-owners may take part in the General Meeting and exercise the voting right only through a joint representative (proxy). A proxy (power of attorney) may represent more than one shareholder and vote differently based on the shares of each shareholder.
6 Elect the Chairperson of the General Meeting	Shareholders shall elect the Chairperson of the General Meeting from among the persons entitled to take part in the General Meeting. Each of the participants of the General Meeting shall have the right to propose one candidate. The Chairperson shall be elected by a secret ballot, by an absolute majority of the votes. In case there is just one candidate for the Chairperson, the election can take place by acclamation.
7 Elect the Returning Committee	Each shareholder may propose no more than 3 candidates for the members of the Returning Committee to be elected by the General Meeting, and vote for maximum 3 candidates.
8 Submit a draft resolution	During the General Meeting shareholders shall have the right, until the discussion on a certain item of the agenda is closed, to submit a proposal of changes to the content of a draft resolution proposed for adoption by the General Meeting, as part of the given item of the agenda.
9 Raise an objection	Shareholders who have voted against a resolution and, after the General Meeting has adopted it, want to raise their objection, should, immediately after the results of the voting have been announced, raise their objection and request it be included in the minutes of the meetings before proceeding to the next item of the agenda. In case such an objection is raised later, which however shall not take place later than by the time the General Meeting is closed, the shareholders shall indicate against which resolution passed by the General Meeting they are raising their objection. The shareholders raising their objection against a resolution of the General Meeting may request their concise justification of the objection be recorded in the minutes of the meeting.

## 9.11. Management Board and Supervisory Board of TAURON Polska Energia S.A. and the committees thereof

### Management Board of TAURON Polska Energia S.A.

The current, sixth term of office of the Company's Management Board began its run on July 15, 2020.

In accordance with the Company's Articles of Association the common term of office shall last 3 financial years.

The Management Board of the Company held a total of 53 meetings and passed 501 resolutions during the period covered by this report.

#### The composition of the Company's Management Board as of December 31, 2022, and as of the date of drawing up this report

1. Paweł Szczeszek - President of the Management Board (CEO),
2. Patryk Demski - Vice President of the Management Board for Strategy and Development,
3. Bogusław Rybacki - Vice President of the Management Board for Asset Management,
4. Krzysztof Surma - Vice President of the Management Board for Finance (CFO),
5. Tomasz Szczegiński - Vice President of the Management Board for Trading,
6. Artur Warzocha - Vice President of the Management Board for Corporate Affairs.

#### The changes to the composition of the Company's Management Board in 2022 and by the date of drawing up this report

As of January 1, 2022, the Company's Management Board was composed of the following persons: Artur Michałowski (Vice President of the Management Board for Trading and acting as the President of the Management Board), Patryk Demski (Vice President of the Management Board for Strategy and Development), Krzysztof Surma (Vice President of the Management Board for Finance) and Jerzy Topolski (Vice President of the Management Board for Asset Management).

On January 20, 2022, the Company's Supervisory Board appointed Artur Warzocha to be a member of the Company's Management Board, effective as of January 21, 2022, entrusting him with the function of the Vice President of the Management Board for Corporate Affairs.

On April 8, 2022, the Company's Supervisory Board appointed Paweł Szczeszek to be a member of the Company's Management Board, effective as of April 11, 2022, entrusting him with the function of the President of the Management Board.

On August 12, 2022, the Company's Supervisory Board dismissed Artur Michałowski and Jerzy Topolski from the Company's Management Board, effective as of the end of the day on August 12, 2022.

On September 5, 2022, the Company's Supervisory Board appointed Tomasz Szczegieliński to be a member of the Company's Management Board, effective as of September 6, 2022, entrusting him with the position of the Vice President of the Management Board for Trading. On the same day, the Company's Supervisory Board appointed Bogusław Rybacki to be a member of the Company's Management Board, effective as of September 9, 2022, entrusting him with the position of the Vice President for Asset Management.

There had been no other changes to the composition of the Company's Management Board by the date of drawing up this report.

### **Experience and competences of the Members of the Company's Management Board who continue to hold their positions in the Company's Management Board as of the date of drawing up this report**

#### **Paweł Szczeszek – President of the Management Board**



A graduate of the Faculty of Mechanical Engineering and Computer Science and the Faculty of Management of the Częstochowa University of Technology.

From June 30, 2020, to April 10, 2022, Paweł Szczeszek had been the President of the Management Board of Enea S.A. In the period from December 2018 to June 2020 he had been the President of the Management Board of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.

In the years 2017-2018 Paweł Szczeszek had held the position of the Vice President of the Management Board of PGNiG TERMIKA Energetyka Przemysłowa S.A., and in the years 2016-2017 he had been the President of the Management Board of Przedsiębiorstwo Energetyki Ciepłej PEC S.A. in Jastrzębie-Zdrój.

Paweł Szczeszek was a member of the Supervisory Boards of the following companies: Górnośląskie Towarzystwo Lotnicze S.A., Jelcz Sp. z o.o., Przedsiębiorstwo Energetyki Ciepłej – Geotermia Podhalańska S.A., Radomskie Przedsiębiorstwo Energetyki Ciepłej "RADPEC" S.A., Wojewódzkie Przedsiębiorstwo Robót Drogowych w Katowicach Sp. z o.o., Agencja Rozwoju Regionalnego w Częstochowie S.A.

#### **Patryk Demski – Vice President of the Management Board for Strategy and Development**



A graduate of the Faculty of Law at the Nicolaus Copernicus University (Uniwersytet Mikołaja Kopernika) in Toruń, Executive Master of Business Administration studies at the University of Commerce and Services (Wyższa Szkoła Handlu i Usług) in Poznań and postgraduate studies in Tax Law at the Nicolaus Copernicus University (Uniwersytet Mikołaja Kopernika) in Toruń

In the years 2020-2021 Patryk Demski had been a Member of the Management Board of Centralny Port Komunikacyjny Sp. z o.o., and from February 2020 to April 2020 he had been the Chair of the Supervisory Board of Centralny Port Komunikacyjny Sp. z o.o. In 2018-2019, he had held the position of the Vice President of the Management Board for Investments and Innovation of Grupa Lotos S.A. He had also been the Mayor of the City and Municipality of Pelplin (2014-2018), Deputy Director of the Branch / acting Branch Director / Chief Specialist at the Agricultural Real Estate Agency (Agencja Nieruchomości Rolnych) in Gdańsk (2006-2014). In 2006, he had been the Deputy Director of the Cabinet of the Pomeranian Province Governor.

#### **Bogusław Rybacki – Vice President of the Management Board for Asset Management**



A graduate of the Faculty of Mechanical Engineering of the Wrocław University of Science and Technology. He also completed several postgraduate courses in the following fields: enterprise management in the context of European integration at the SGH Warsaw School of Economics, economic issues of the power sector transformation at the SGH Warsaw School of Economics, management of business entities at the University of Wrocław, economic analysis and assessment of business organizations at the Wrocław University of Economics and Business, nuclear power plants at the Poznań University of Technology.

From July 2020 to September 2022, Bogusław Rybacki had held the position of the President of the Management Board of Enea Elektrownia Połaniec S.A.

From 1982 to 2020 Bogusław Rybacki had worked at Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A., where he held a number of management positions, including: Director of Elektrociepłownia Czechnica, Trade and Development Director, Production Director's Deputy, Director of Economic and Trade Affairs.

In 2009 Bogusław Rybacki had held the position of the President of the Management Board of TermHydral sp. z o.o. – a subsidiary of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.

### **Krzysztof Surma – Vice President of the Management Board for Finance (CFO)**



A graduate of the Cracow University of Economics (Akademia Ekonomiczna w Krakowie), with the major in finance and banking, specialization: corporate finance. He also completed the Master of Business Administration studies for Financiers at Kozminski University (Akademia Leona Koźmińskiego), postgraduate studies in the Practical Application of International Financial Reporting Standards at the Warsaw School of Economics (Szkoła Główna Handlowa w Warszawie) and the Manager Development Program organized by the ICAN Institute. He is a member of the Association of Chartered Certified Accountants (ACCA). Krzysztof Surma has been associated with TAURON since 2009, holding the position of the Executive Director for Finance Management, and from May 2021 to August 4, 2021, he had been the Director of the Finance Division. While performing the above functions within the Issuer's Group, he was holding, among others, the following positions: Vice President of the Management Board of TEC1, TEC2, TEC3 (2019), President of the Management Board of Finanse Grupa TAURON sp. z o.o. (2019), President of the Management Board of PKE Broker Sp. z o.o. (2008-2009), General Director of TAURON Sweden Energy AB (2014-2019).

In the years 2001-2009 he had worked at Południowy Koncern Energetyczny S.A., including, among others, as the Head of the Risk and Insurance Department (2005-2009).

### **Tomasz Szczegieliak – Vice President of the Management Board for Trading**



A graduate of the Faculty of Law and Administration of the University of Lodz. He also completed Executive Master of Business Administration course at the Warsaw Management University/ Fachhochschule Des Mittelstands (FHM) and postgraduate course in the field of financial and economic law at the University of Lodz.

From August 2020 to June 2022 he had been the Vice President of the Management Board for Corporate Affairs at Enea S.A.

From November 2019 to June 2020 he had been an undersecretary of state at the Ministry of State Assets and also a member of the Standing Committee of the Council of Ministers.

From July to November 2019 he had been an undersecretary of state at the Chancellery of the Prime Minister. During that period he had also been a secretary of the Council of Ministers, a deputy chair of the Standing Committee of the Council of Ministers and a member of the Social Committee of the Council of Ministers.

He had worked at the Chancellery of the President of the Republic of Poland and had held management positions in self-government administration. He had gained his experience also in the Polish Chamber of Liquid Fuels, Chancellery of the Sejm of the Republic of Poland and the Patent Office of the Republic of Poland.

Mr. Tomasz Szczegieliak had been a member of the Supervisory Boards of Enea Trading Sp. z o.o. and Grupa Azoty ZAK S.A.

### **Artur Warzocha – Vice President of the Management Board for Corporate Affairs**



A graduate of the College of Education (currently Jan Długosz University) in Częstochowa and the postgraduate studies in the European financial, economic and legal relations at the SGH Warsaw School of Economics.

From September 2020 to January 2022 Artur Warzocha had been the President of the Management Board of TAURON Nowe Technologie S.A. (TAURON's wholly owned subsidiary), where he supervised strategic projects related to the cogeneration, renewable energy sources and electromobility. From November 2019 to September 2020 he had been the Vice President of the Agricultural Social Insurance Fund. In the years 2015-2019 he had been a senator of the Republic of Poland of the 9th term of office. In the years 2008-2015 he had worked at the Supreme Audit Office where he had been the chief state audit expert. From 2010 to 2014 he had held a councilor's seat in the Silesian Regional Assembly of the 4th term of office. From 2008 to 2016 he had been a research assistant at the Institute of Political Sciences and National Security at the Jan Długosz University in Częstochowa. From 2006 to 2007 he had been the 1st Vice Governor of the Silesia province.

In addition, he had been, inter alia, the deputy director at the Agricultural Advisory Center in Częstochowa, a political assistant to the Head of the Chancellery of the Prime Minister, a town councilor in Częstochowa, the press spokesman for the Governor of the Częstochowa province and a journalist.

### **Description of the procedures of the Company's Management Board**

The Management Board of the Company shall act on the basis of the Code of Commercial Companies and other legal regulations, the provisions of the Company's Articles of Association and the provisions of the *Regulations of*

the Management Board of TAURON Polska Energia Spółka Akcyjna with its registered office in Katowice which are available on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/dokumenty-spolki>. When performing their duties the Members of the Company's Management Board shall be acting in accordance with the principles provided in the Best Practice 2021.

Two Members of the Management Board or one Member of the Management Board together with a proxy shall be entitled to make valid statements on behalf of the Company. In case the Management Board includes one person, one Member of the Management Board or a proxy shall be entitled to make valid statements on behalf of the Company.

The meetings of the Management Board shall be convened by the President of the Management Board or a Vice President of the Management Board designated thereby. The meetings of the Management Board shall also be convened on the motion of the majority of the Vice Presidents of the Management Board as well as on the motion of the Chairperson of the Supervisory Board. The meetings shall be held at the Company's registered office on the date set by the person that has convened the meeting. In justified cases the meetings of the Management Board may be held outside the Company's registered office. The President of the Management Board or a Vice President of the Management Board designated thereby shall chair the meetings of the Management Board

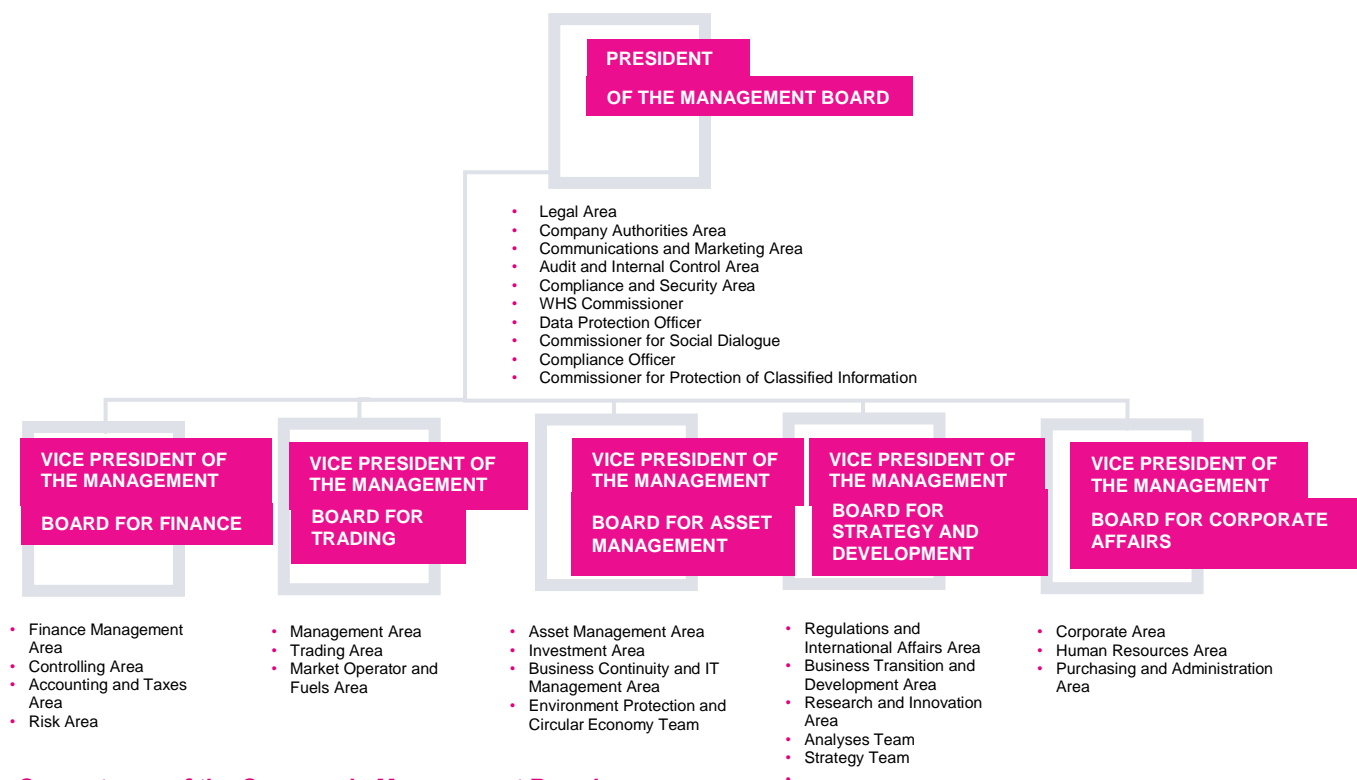
The Management Board shall vote in an open ballot, unless otherwise provided for in the legal regulations. The result of the ballot shall be recorded in the minutes of the meeting.

The resolutions of the Management Board shall be passed by an absolute majority of the votes in the presence of at least the majority of the Members of the Management Board. In case of an equal number of the votes the President of the Management Board shall have a casting vote. A Member of the Management Board shall inform the Management Board of any conflict of interest that has arisen or the possibility of the arising thereof and shall not participate in the reviewing of the matter or the voting on a resolution in a matter in which a conflict of interest may arise in relation thereto. The Management Board may pass resolutions by voting in writing or using the means of direct remote communications. The resolution shall be valid when all of the Members of the Management Board have been notified of the content of the draft resolution and at least the majority of the Members of the Management Board participated in adopting the resolution. The voting in accordance with the above procedures shall be ordered by the President of the Management Board or a Member of the Management Board designated thereby, including setting the final deadline for casting of the votes by the Members of the Management Board. The Members of the Management Board voting against the resolution may submit a dissenting opinion to the minutes, which shall be recorded in the minutes along with the justification thereof. The decisions of the Management Board which are the decisions on the ongoing matters (daily business) that do not require a resolution shall be recorded only in the minutes.

The internal division, among the Members of the Management Board, of the tasks and responsibilities for the individual business areas of the Company's operations, as defined in the Organizational Regulations and including the independent (autonomous) work positions, as well as the organizational units reporting directly to the Executive Directors, whose work is managed (supervised) by the Members of the Company's Management Board, is defined by the Company's Management Board Resolution No. 366/VI/2022 of September 15, 2022 *regarding the assignment of individual organizational units of the Company and independent work positions directly reporting to the Members of the Management Board of TAURON Polska Energia S.A.* The structure of the Company's business areas reporting to the individual Members of the Company's Management Board is posted on the Company's web site at the address: <https://www.tauron.pl/tauron/o-tauronie/wladze-spolki>.

The below figure presents the diagram (flowchart) showing the division of the responsibilities of the Members of the Company's Management Board, as of the date of drawing up this report.

Figure no. 70. Diagram (flowchart) showing the division of the responsibilities of the Members of the Company's Management Board, as of the date of drawing up this report



### Competence of the Company's Management Board

The Management Board shall conduct the Company's affairs and represent the Company in all court and out of court proceedings. Any matters related to conducting the Company's affairs, not assigned, based on the legal regulations or the provisions of the Company's Articles of Association, to the scope of competence of the General Meeting (GM) or the Supervisory Board, shall be within the scope of competence of the Company's Management Board.

In accordance with the Company's Articles of Association, all issues which go beyond the regular scope of the Company's activities shall require a resolution of the Company's Management Board, in particular, the following issues listed in the below table, as of December 31, 2022, and as of the date of drawing up this report.

Table no. 56. Competence of the Company's Management Board as of December 31, 2022, and as of the date of drawing up this report

Matters that require a resolution of the Company's Management Board	
1.	Regulations of the Company's Management Board,
2.	Company's enterprise organizational regulations,
3.	establishment and liquidation of branches,
4.	appointment of a proxy,
5.	taking on credits and loans,
6.	approving annual material and financial plans of the Company and of the Capital Group as well as the Capital Group's Corporate Strategy,
7.	assuming contingent liabilities within the meaning of the <i>Act of September 29, 1994 on accounting</i> , including granting guaranties and sureties by the Company as well as issuing bills of exchange, subject to § 20 clause 2 items 3 and 4 of the Company's Articles of Association,
8.	making donations, cancelling interest or releasing from debt, subject to § 20 clause 2 items 11 and 12 of the Company's Articles of Association,
9.	purchase of real estate, perpetual usufruct or shares in real estate or in perpetual usufruct, subject to § 20 clause 2 item 1 of the Company's Articles of Association,
10.	purchase of fixed assets excluding real estate, perpetual usufruct or share in real estate or perpetual usufruct with the value equal to or exceeding PLN 40 000, subject to the provisions of § 20 clause 2 item 1 of the Company's Articles of Association,
11.	disposal (control) of fixed assets including real estate, perpetual usufruct or share in real estate or perpetual usufruct with the value equal to or exceeding PLN 40 000, subject to the provisions of § 20 clause 2 item 2 of the Company's Articles of Association,
12.	defining the way the voting right will be exercised at the General Meeting of Shareholders or the Meeting of Shareholders of companies in which the company holds shares, on matters within the scope of competence of the General Meeting of Shareholders or the Meeting of Shareholders of such companies, subject to the provisions of § 20 clause 4 items 9 and 10 of the Company's Articles of Association,
13.	rules of conducting sponsoring activities,
14.	adoption of the annual plan of sponsoring activities,
15.	matters which the Company's Management Board refers to the Company's Supervisory Board or the General Meeting of the Company for review

### Supervisory Board of TAURON Polska Energia S.A.

The current, sixth term of office of the Company's Supervisory Board, began its run on July 15, 2020,

In accordance with the Company's Articles of Association it is a common term of office and it shall last 3 full financial years.

The Company's Supervisory Board held a total of 16 meetings and passed 127 resolutions during the period covered by this report.

All of the Members of the Supervisory Board of the Company were present During 9 meetings. 1 Member of the Supervisory Board of the Company was absent during 5 meetings, while 2 Members of the Supervisory Board of the Company were absent during 2 meetings. The absences of the Members of the Supervisory Board of the Company were excused by way of the relevant resolutions of the Supervisory Board of the Company.

### **The composition of the Company's Supervisory Board as of December 31, 2022, and as of the day of drawing up this report**

1. Piotr Tutak - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Marcin Wawrzyniak - Secretary of the Supervisory Board,
4. Stanisław Borkowski - Member of the Supervisory Board,
5. Dariusz Hryniów - Member of the Supervisory Board,
6. Leszek Koziarowski - Member of the Supervisory Board,
7. Ryszard Madziar - Member of the Supervisory Board,
8. Grzegorz Peczkis - Member of the Supervisory Board.

### **The changes to the composition of the Company's Supervisory Board in 2022 and by the date of drawing up this report**

As of January 1, 2022, the Company's Supervisory Board was composed of the following members: Piotr Tutak (Chair of the Supervisory Board), Teresa Famulska (Vice Chair of the Supervisory Board), Katarzyna Taczanowska (Secretary of the Supervisory Board), Stanisław Borkowski (Member of the Supervisory Board), Leszek Koziarowski (Member of the Supervisory Board), Ryszard Madziar (Member of the Supervisory Board), Grzegorz Peczkis (Member of the Supervisory Board) and Marcin Wawrzyniak (Member of the Supervisory Board).

On January 26, 2022, the Minister of State Assets, acting pursuant to § 23, section 1, clause 3) of the Company's Articles of Association, appointed Dariusz Hryniów to be a Member of the Company's Supervisory Board.

On May 23, 2022, Katarzyna Taczanowska submitted a statement on her resignation, as of May 24, 2022, from the membership of the Company's Supervisory Board, and thus from holding the position of the Secretary of the Supervisory Board of the Company.

On May 24, 2022, the Ordinary General Meeting of the Company passed a resolution to appoint Marcin Chludziński to be a member of the Supervisory Board of the Company as of May 25, 2022.

On June 10, 2022, the Supervisory Board of the Company elected Marcin Wawrzyniak to be the Secretary of the Supervisory Board of the Company.

On November 30, 2022, Marcin Chludziński submitted a statement on his resignation, as of the same day, from the function of the Member of the Company's Supervisory Board,.

There had been no other changes to the composition of the Company's Supervisory Board by the date of drawing up this report.

### **Information on the independence of the Members of the Company's Supervisory Board**

In accordance with the Company's Articles of Association at least two Members of the Company's Supervisory Board should meet the criteria of independence listed in the *Act of May 11, 2017 on certified auditors, audit firms and public oversight*, and also should not have the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company.

The Members of the Company's Supervisory Board shall submit to the Company, prior to their appointment as members of the Company's Supervisory Board, a written statement on compliance with the independence criteria listed in the above mentioned act as well as on the existence or non-existence of the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company. In case a situation occurs where the independence criteria are not complied with, a Member of the Supervisory Board shall be obliged to inform the Company promptly thereof.

Information on the compliance of the Members of the Supervisory Board of the Company with the independence criteria is posted on the Company's website at the address: <https://www.tauron.pl>.

The below table presents the information on the compliance or non-compliance of the Members of the Company's Supervisory Board with the independence criteria as well as on the existence or non-existence of the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company as of December 31,

2022. The information has been prepared based on the statements made by the individual Members of the Supervisory Board of the Company.

**Table no. 57. Compliance of the Members of the Company's Supervisory Board with the independence requirements and the actual ties to a shareholder holding at least 5% of the total number of votes in the Company, as of December 31, 2022, and as of the date of drawing up this report**

First and last name	Compliance with the independence requirements		Actual ties to a shareholder	
	as of December 31, 2022	as of the date of drawing up this report	as of December 31, 2022	as of the date of drawing up this report
1. Piotr Tutak	Independent	Independent	Did not exist	Do not exist
2. Teresa Famulska	Independent	Independent	Did not exist	Do not exist
3. Marcin Wawrzyniak	Independent	Independent	Did not exist	Do not exist
4. Stanisław Borkowski	Independent	Independent	Did not exist	Do not exist
5. Dariusz Hryniów	Independent	Independent	Did not exist	Do not exist
6. Leszek Koziowski	Independent	Independent	Did not exist	Do not exist
7. Ryszard Madziar	Independent	Independent	Did not exist	Do not exist
8. Grzegorz Peczkis	Independent	Independent	Did not exist	Do not exist

### **Experience and competences of the Members of the Supervisory Board who continue to hold their seats on the Company's Supervisory Board as of the date of drawing up this report**

#### **Piotr Tutak - Chair of the Supervisory Board**

A graduate of the political science faculty at the Institute of Social Sciences of the Pedagogical University in Cracow. He completed post-graduate studies in management at the SGH Warsaw School of Economics, public administration at the Jagiellonian University and the regional development at the University of Warsaw.

Piotr Tutak has extensive experience in public administration, including in the Chancellery Office of the Prime Minister, among others as an advisor to the Prime Minister, the Secretary of State and the Deputy Head of the Chancellery Office of the Prime Minister and the President of the Government Center for Strategic Studies. He also gained professional experience working in management and control (supervision, oversight) authorities of the commercial law companies, among others in the finance, energy and real estate sectors. He participated in professional internships in the US and Japan. A Member of the Consultative Council of the Faculty of Building Services, Hydro and Environmental Engineering of the Warsaw University of Technology. He completed a course for the candidates for members of the supervisory boards of the State Treasury companies. He has been the President of the Management Board of EuRoPol Gaz S.A. since 2016.

He has been a Member of the Company's Supervisory Board since November 16, 2021.

In the Company's Supervisory Board of the 6th common term of office he is the Chair of the Company's Supervisory Board and the Head of the Nominations and Compensation Committee of the Company's Supervisory Board and is a Member of the Strategy Committee of the Company's Supervisory Board.

#### **Teresa Famulska - Vice Chair of the Supervisory Board**

A graduate of the Academy of Economics in Katowice (currently the University of Economics in Katowice). She holds a title of a Professor of economics appointed by the President of the Republic of Poland at the request of the Board of the Faculty of Finance and Insurance of the University of Economics in Katowice. She is a professional tax advisor.

Since graduation she has been associated with the University of Economics in Katowice. She is currently the Head of the Public Finance Department holding the full Professor's position. In 1998 - 2013 she had been working at the School of Banking and Finance, recently as a dean, holding the full Professor's position.

An author of more than 150 domestic and foreign publications in the field of finance, mainly public finance and corporate finance. Apart from academic work she is continuously involved in business practice, participating, among others, in several dozen science and research projects. She conducted numerous lectures and training courses for the finance and management personnel of enterprises and for the tax authorities staff. In 2007 - 2018 she had worked for three consecutive terms at the State Examination Commission on Tax Advisory Services, where, since 2010, for two consecutive terms based on the Minister of Finance's appointment, she was the Head of the Commission. In 2007 - 2019 a member of the Financial Education Committee of the Polish Academy of Science, where, in 2011 - 2015, she was a member of the Board of the Committee. Furthermore, she is a member of the Polish Finance and Banking Association (since 2004, a member of the Board), International Fiscal Association, Center for Information and Organization of Public Finance and Tax Law Research of Central and Eastern European Countries and the Polish Economic Society.



In the period from May 29, 2017, until July 14, 2020, she had been a member of the Supervisory Board of TAURON Polska Energia S.A., holding the position of the Vice Chair of the Supervisory Board and the Head of the Audit Committee of the Supervisory Board.

She was awarded the following orders and accolades: Silver Cross of Merit, Silver Medal for Long Term Service, Medal of the Commission of National Education, awards of the Minister of National Education and of the President of the University of Economics in Katowice.

She has been a Member of the Supervisory Board of TAURON Polska Energia S.A. of the 6<sup>th</sup> common term of office since August 3, 2020, holding the position of the Vice Chair of the Company's Supervisory Board and the Head of the Audit Committee of the Company's Supervisory Board.

#### **Marcin Wawrzyniak - Secretary of the Supervisory Board**

A graduate of the Faculty of Law and Administration of the Cardinal Stefan Wyszyński University in Warsaw (Uniwersytet Kardynała Stefana Wyszyńskiego w Warszawie). Entered on the list of legal counsels (attorneys-at-law) at the District Chamber of the Legal Counsels (Attorneys-at-law) in Warsaw (Warsaw Bar Association). An attorney-at-law (barrister), a member of the Warsaw Bar Association. A Member of the Tribunal of State.

He has had many years of professional experience with respect to providing legal services and consultancy for business entities, including the energy sector companies. A legal advisor to the central and local government administration bodies (authorities) with respect to investment processes. A partner at the law firm Wawrzyniak i Partnerzy Radcowie Prawni sp. p. (Wawrzyniak and Partners Legal Counsels Limited Liability Partnership - LLP). He was a member of the supervisory boards and the management boards of public and private sector companies. An author of several dozen publications in the field of business law, including books and comments to an act of law.

He has been a Member of the Company's Supervisory Board since April 21, 2021.

In the Company's Supervisory Board of the 6<sup>th</sup> common term of office he is a Member of the Nominations and Compensation Committee of the Company's Supervisory Board and a Member of the Strategy Committee of the Company's Supervisory Board.

#### **Stanisław Borkowski - Member of the Supervisory Board**

A graduate of the Executive MBA studies at the University of Quebec in Montreal and a graduate of the Master of Business Administration studies at the SGH Warsaw School of Economics (Szkoła Główna Handlowa w Warszawie). In addition, a graduate of the Faculty of Medicine at the University of Oslo.

He gained professional experience in the insurance sector, holding the position of the director of the health insurance department and a member of the management board at insurance companies, including, among others, at PZU S.A., Allianz Bank Polska S.A., Credit Agricole Ubezpieczenia, in the years 2001-2015. He had been a partner at Mangogross Sp. z o.o., responsible for consulting and investments, in the years 2015-2017. He had also been the President of the Management Board of Uzdrowisko Konstancin Zdrój S.A. and the Medical Institution (Zakład Lecznicy) Uzdrowisko Nałęczów S.A. in the years 2016-2017.

Currently, since 2017, he has been the President of the Management Board of Colbird Sp. z o.o. (Ltd), and he has been acting as the financial director at Voico Inc. in Laval (Canada) since 2020.

He was a member of the supervisory boards of joint stock companies, where he was the chair of the supervisory board, as well as the head of the audit committees. Currently, he is a Member of the Supervisory Board and at the same time the Head of the Audit Committee of UNUM Polska S.A., as well as the Head of the Audit Committee at the Polish-Canadian Chamber of Commerce.

Decorated with the Golden Cross of Merit.

He has been a Member of the Supervisory Board of the Company since May 24, 2021.

In the Company's Supervisory Board of the 6<sup>th</sup> common term of office he is a Member of the Audit Committee of the Company's Supervisory Board and a Member of the Strategy Committee of the Company's Supervisory Board.

#### **Dariusz Hryniów - Member of the Supervisory Board**

A graduate of the Faculty of Law and Administration of the University of Opole (master's degree in law) and the Executive Master of Business Administration (MBA) studies at Koźmiński University, ESCP Europe. He is a legal counsel. He also completed technical education in the field of energy.

From 2015 to 2020, he had been holding the position of the Director of the Corporate and Legal Services Department at Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG"). There he had been responsible, inter alia, for supervising the legal services provided for PGNiG Capital Group's subsidiaries, as well as the legal services related to the key projects, including the arbitration and acquisition processes, infrastructure investment projects, capital transactions as well as import contracts.

From 2016 to 2020, Dariusz Hryniów had been the Vice Chair and then the Chair of the Supervisory Board of PGNiG Termika S.A.

In the years 2017-2019 he had been the Chair of the Supervisory Board of PGNiG Supply & Trading GmbH, and in the period from 2016 to 2018 he had been a member of the Supervisory Board of Zakłady Wytwórcze Urządzeń Gazniczych "Intergaz" sp.z o.o.

From 2015 to 2016, he had been the Chair of the Supervisory Board of Opole TBS in Opole. In addition, he is the Managing Partner at Hryniów, Łebek i Partnerzy law firm.

He has been a Member of the Supervisory Board of the Company since January 26, 2021.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Strategy Committee of the Company's Supervisory Board.

#### **Leszek Koziowski - Member of the Supervisory Board**

A graduate of the Faculty of Law and Administration of the University of Warsaw (Uniwersytet Warszawski), Registered on the list of attorneys-at-law of the Warsaw Bar Association (Okręgowa Izba Radców Prawnych w Warszawie).

From the beginning of his professional career, he has been associated with the capital market. In the years 1994-1999 at the Securities Commission (Komisja Papierów Wartościowych - KPW), initially at the Office of Brokerage Houses and Trust Funds (Biuro Domów Maklerskich i Funduszy Powierniczych), subsequently as an advisor to the Chair of the Securities Commission (KPW).

During his work at the Securities Commission (KPW), he had also been holding the position of the Deputy Chairman of the Examination Committee for Investment Advisors.

Currently at GESSEL, KOZIOROWSKI Kancelaria Radców Prawnych i Adwokatów sp. p., where he has created and manages the capital market law department - employed since 1999, a partner since 2002.

He had been an arbitrator at the Stock Exchange Court at the Warsaw Stock Exchange (Sąd Giełdowy przy Giełdzie Papierów Wartościowych w Warszawie).

Since 2015, he has been a member of the Corporate Governance Committee at the Warsaw Stock Exchange (Komitet Ładu Korporacyjnego przy Giełdzie Papierów Wartościowych w Warszawie), where he was a co-author of the Best Practice of WSE Listed Companies 2016 and of the latest: the Best Practice of WSE Listed Companies 2021.

He had been holding the position of the chair and a member of the Supervisory Boards at a number of private and public joint stock companies, for example, IGLOTEX S.A. (the chair of the Supervisory Board), ESALIENS TFI S.A. (the chair of the Supervisory Board), Zakłady Odzieżowe BYTOM S.A., TETA S.A. (the chair of the Supervisory Board), TAURON Polska Energia S.A. (in the years 2010-2017).

An author of numerous publications in the field of the capital market law.

He has been a Member of the Supervisory Board of the Company since May 24, 2021.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Audit Committee of the Company's Supervisory Board. and a Member of the Nominations and Compensation Committee of the Company's Supervisory Board.

#### **Ryszard Madziar - Member of the Supervisory Board**

A graduate of the faculty of political science of the University of Warsaw. He holds an MBA degree obtained at the Warsaw Management University (Wyższa Szkoła Menedżerska w Warszawie).

He has an extensive experience in public administration. He has held the following positions: the Mayor of Wołomin, the Head of the Political Cabinet of the Vice Chairman of the Council of Ministers, and prior to that, the Deputy Director of the Mazovian Regional Office of the Agency for Restructuring and Modernization of Agriculture (Agencja Restrukturyzacji i Modernizacji Rolnictwa).

He is a member of the Supervisory Board of, among others, Totalizator Sportowy.

He had been the Head of the Political Cabinet of the Vice Chair of the Council of Ministers (Deputy Prime Minister) in the Chancellery of the Prime Minister until June 2021 and currently he is holding the position of an advisor to the Management Board of the Pekao S.A. bank.

He has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since July 15, 2020.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Nominations and Compensation Committee of the Company's Supervisory Board and a Member of the Strategy Committee of the Company's Supervisory Board.

## Grzegorz Peczkis - Member of the Supervisory Board

A graduate of the Faculty of Environment and Energy Engineering of the Silesian University of Technology, specializing in Machine Mechanics and Design. He holds a PhD degree in technical science in the field of machine design and operation. He also completed post-graduate studies in enterprise (business) management and pedagogical professional development studies for university lecturers.

Grzegorz Peczkis gained experience both in business, as a proxy at the Diapom sp. z o.o. company, as well as at academic institutions as an Assistant Lecturer and then an Assistant Professor at the Silesian University of Technology.

He is holding the position of the Vice Chair of the Supervisory Board of Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.

He is an author of several dozen scientific (research) and popular (journalistic) publications. He holds rights under ten patents granted by the Patent Office of the Republic of Poland.

He has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since December 6, 2019.

In the Company's Supervisory Board of the 6th common term of office he is the Head of the Strategy Committee of the Company's Supervisory Board and a Member of the Audit Committee of the Company's Supervisory Board.

### Description of the procedures of the Company's Supervisory Board

The Supervisory Board of the Company shall act on the basis of the Code of Commercial Companies and other legal regulations, the provisions of the Company's Articles of Association and the provisions of the *Regulations of the Supervisory Board of TAURON Polska Energia S.A. with its registered office in Katowice* which are available on the Company's website at the address: <http://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/dokumenty-spolki>. When performing their duties the Members of the Company's Supervisory Board shall be acting in accordance with the principles provided in the Best Practice 2021.

The Members of the Supervisory Board of the Company, when performing the functions and duties assigned, shall be guided in their conduct, including in making decisions, by the independence of their own opinions and judgments, acting in the interest of the Company.

The Supervisory Board of the Company shall work by way of a debate, analyzing the situation of the Company and the Group against the background of the industry and the market on the basis of the materials provided thereto by the Management Board of the Company and the internal systems and functions of the Company, as well as obtained from outside the Company, using the results of the works of its Committees.

The main form of the Supervisory Board performing the oversight of the Company's operations shall be the meetings of the Supervisory Board. The Supervisory Board shall perform its obligations collectively. The meetings of the Company's Supervisory Board shall be convened by the Chair of the Supervisory Board or the Vice Chair of the Supervisory Board by presenting a detailed agenda of the meeting:

1. in accordance with the decisions taken by the Supervisory Board,
2. of his/her own initiative,
3. at a request of each Member of the Supervisory Board,
4. at a request of the Management Board.

The meetings of the Supervisory Board shall be held at the Company's registered office. In justified cases a meeting may be convened at a different venue.

In order to convene a meeting all of the Members of the Company's Supervisory Board must be invited in writing at least 7 days before the date of the Supervisory Board's meeting. For important reasons the Chair of the Supervisory Board may shorten this period to 2 days, defining the way the invitations should be distributed. The notifications of the Supervisory Board's meeting shall be sent by electronic mail. In the notification of the Supervisory Board's meeting the Chair shall define the date of the meeting, the venue of the meeting and the detailed draft agenda. The Supervisory Board of the Company shall meet on as needed basis, however not less frequently than once every 2 months. The Supervisory Board may hold meetings without convening a formal meeting if all of the Members of the Supervisory Board are present and nobody objects against the fact of holding the meeting or against the agenda of the meeting.

A change of the proposed agenda of the meeting may occur when all of the Members of the Company's Supervisory Board are present at the meeting and no one raises an objection against the changed agenda of the meeting. An issue not included in the agenda of the meeting should be included in the agenda of the next meeting.

The participation in a meeting of the Supervisory Board shall be a Supervisory Board Member's duty. A Member of the Supervisory Board shall provide information on the reason for his/her absence in writing. Excusing an absence of a Member of the Supervisory Board shall require a resolution of the Company's Supervisory Board. The Members of the Company's Management Board may take part in the Supervisory Board's meetings unless the Supervisory

Board raises an objection. The participation of the Company's Management Board's members in the Supervisory Board meetings shall be mandatory if they have been invited by the person convening the meeting of the Supervisory Board. Other persons may also take part in the meetings if they have been invited in the above mentioned way.

The Supervisory Board may seek opinions of experts using the knowledge of the Company's employees, including in particular, the legal counsels who provide regular legal assistance for the Company.

The Supervisory Board may also appoint independent experts to obtain an opinion and make the appropriate decision, as well as invite them to the meetings of the Supervisory Board. In case a transaction of the Company with a related entity requires an approval of the Supervisory Board of the Company, before adopting a resolution on granting such a consent, the Supervisory Board shall assess whether it is necessary to first seek an opinion of an external entity that will carry out the valuation of the transaction and the analysis of its economic effects. If the conclusion of the transaction with a related entity requires the approval of the General Meeting, the Supervisory Board of the Company shall draw up an opinion on the legitimacy of concluding such a transaction and in such a case it shall assess the need for a prior seeking of an opinion of an external entity. In the cases referred to above, the Supervisory Board of the Company shall adopt a resolution to commission the selected expert to carry out the work, obliging the Management Board of the Company to conclude the applicable agreement.

The meetings of the Supervisory Board shall be chaired by the Chair of the Supervisory Board, and in case of his/her absence, by the Vice Chair of the Supervisory Board. For important reasons, with the consent of the majority of the Members of the Supervisory Board present at the meeting, the person chairing the meeting shall be obliged to subject to a vote a motion to interrupt the meeting and set the date of resuming the meeting of the Company's Supervisory Board. The Supervisory Board shall make its decisions in the form of resolutions. The Supervisory Board's resolutions shall be passed mainly during the meetings thereof. The Supervisory Board shall pass resolutions if at least half of its members are present at the meeting and all of its members have been invited in the appropriate manner defined in the Regulations of the Supervisory Board. Subject to the mandatory legal regulations in force, including the Code of Commercial Companies and the provisions of the Company's Articles of Association, the Supervisory Board shall pass resolutions by an absolute majority of votes of the persons present at the meeting where the absolute majority of votes shall be understood as more votes cast "for" than "against" and "abstain". Resolutions shall not be passed on matters not included in the agenda unless all of the Members of the Supervisory Board are present and nobody raises an objection. This shall not apply to the resolutions on excusing a Supervisory Board's Member's absence at the meeting. The resolutions shall be voted on in an open ballot. A secret ballot shall be ordered only in the cases stemming from the provisions of the law.

In accordance with the Company's Articles of Association, the Supervisory Board may pass resolutions in writing or using the means of direct remote communications. Passing a resolution in such a way shall require a prior notification of all of the Members of the Supervisory Board of the content of the draft resolution and the participation of at least half of the Members of the Supervisory Board in passing the resolution. The Company's Supervisory Board may pass resolutions this way as long as no Member of the Company's Supervisory Board raises an objection. When voting on a resolution in the above mentioned way a Member of the Company's Supervisory Board shall indicate his/her vote, i.e. "for", "against" or "abstain". A resolution with a note that it has been passed in writing or by voting using the means of direct remote communications shall be signed by the Chair of the Supervisory Board. The resolutions passed this way shall be presented at the forthcoming meeting of the Supervisory Board along with the result of the voting.

The participation in a meeting of the Company's Supervisory Board using the means of direct remote communications, i.e. a conference call or a video conference, shall be allowed. In case the Members of the Company's Supervisory Board take part in a meeting of the Company's Supervisory Board using the means of direct remote communications, the resolutions shall be passed if at least half of the Members of the Company's Supervisory Board participate in the voting.

The Members of the Supervisory Board shall take part in the meetings and exercise their rights and responsibilities (duties) in person, and while performing their duties they shall be obliged to act with due diligence. The Members of the Supervisory Board shall be obliged to keep confidential the information related to the Company's activities that they have acquired in connection with holding their seat or on another occasion.

The Supervisory Board may, for important reasons, delegate its individual members to perform certain supervision (oversight) activities on their own for a defined period of time. The Supervisory Board may delegate its members, for a period not longer than three months, to temporarily perform the duties of the Members of the Management Board who have been dismissed, submitted their resignation or if for other reasons they cannot perform their functions. The above mentioned delegation shall require obtaining a consent of the Member of the Supervisory Board who is to be delegated.

The Company's Supervisory Board may appoint from among its members permanent or temporary (ad hoc) working groups (teams), committees to perform specific actions. The standing committees of the Company's Supervisory Board shall be:

1. Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. (Audit Committee),
2. Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A. (Nominations and Compensation Committee),
3. Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. (Strategy Committee).

The composition, tasks and procedures of the operation of the above mentioned committees shall be defined in the regulations thereof passed by the Supervisory Board.

### Competence of the Company's Supervisory Board

Supervisory Board of the Company shall continuously oversee the Company's activities in all areas of its operations.

In accordance with the Company's Articles of Association, the Company's Supervisory Board's tasks and competences shall include in particular the matters listed in the below table, as of December 31, 2022, and as of the date of drawing up this report.

**Table no. 58. Competence of the Company's Supervisory Board as of December 31, 2022, and as of the date of drawing up this report**

Matters that require a resolution of the Company's Supervisory Board
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#### Competences related to providing opinions

1. evaluate the Company's Management Board's report on the Company's operations (Directors' Report) as well as the financial statements for the last financial year with respect to their compliance with the books, documents as well as with the actual status. This shall also apply to the Capital Group's consolidated financial statements,
2. evaluate the Company's Management Board's recommendations on the distribution of the profit or the covering of the loss,
3. submit a written report to the General Meeting of Shareholders on the outcome of the activities referred to in clauses 1 and 2 above,
4. draw up once a year and submit to the General Meeting a report on the activities of the Supervisory Board containing at least:
  - 1) information on: the composition of the Company's Supervisory Board and its Committees, including an indication which Members of the Supervisory Board comply with the criteria of independence listed in the *Act of May 11, 2017 on certified auditors, audit firms and public oversight*, as well as those that not to have the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company, and also the information on the composition (membership) of the Supervisory Board in the context of the diversity thereof,
  - 2) summary of the activities of the Supervisory Board and its Committees
  - 3) evaluation of the Company's situation on the consolidated basis, including the assessment of the internal controls, risk management, compliance systems and the internal audit functions, including the information on the steps that the Company's Supervisory Board took in order to perform such an evaluation, including all of the significant control mechanisms, in particular the ones related to the reporting and operations
  - 4) assessment of the application of the corporate governance principles and the method of fulfilment of the information (disclosure) obligations in relation to the application thereof, defined in the Regulations of the Exchange and the provisions related to the current and periodic information (disclosures, regulatory filings) filed by the issuers of securities. including the information on the steps that the Company's Supervisory Board took in order to perform such an assessment,
  - 5) assessment of the rationality (legitimacy) of the expenditures incurred by the Company and its group to support culture, sports, charity institutions, media, social organizations, trade unions, etc.,
  - 6) information on the degree of implementation of the diversity policy in relation to the Company's Management Board and the Supervisory Board of the Company, including the implementation of the objectives and criteria of diversity, including in such areas as gender, education background, specialist knowledge, age and professional experience
5. prepare, along with the report on the results of the Company's annual financial statements' evaluation, the Company's Supervisory Board's opinion on the financial viability of the Company's capital (equity) investments in other commercial law entities made in the given financial year,
6. draw up, once a year, a report on the compensation of the Members of the Company's Management Board and the Supervisory Board of the Company in accordance with the requirements defined in the *Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies*,
7. provide opinions on the Capital Group's Corporate Strategy,
8. provide opinions on the rules of conducting the sponsoring activities,
9. provide opinions on the annual plan of conducting the sponsoring activities as well as on the annual report on the implementation thereof,
10. provide opinions on the reports drawn up, by the Company's Management Board, on the entertainment expenses, the expenditures on the legal services, marketing services, public relations and social communications services as well as the advisory services related to management,
11. provide opinions on the Company's Management Board's motions regarding the matters referred to in § 35 of the Company's Articles of Association, excluding the motions regarding the Members of the Company's Supervisory Board,
12. provide opinions on the draft resolutions introduced by the Management Board of the Company to the agenda of the General Meeting,
13. provide opinions on the changes of the rules of divesting fixed assets, defined in § 38<sup>1</sup> of the Company's Articles of Association.

#### Competences that include

1. selecting a certified auditor to carry out an audit of the Company's financial statements and the Capital Group's consolidated financial statements,
2. defining the scope and deadlines for submitting the Company's and the Capital Group's annual material and financial plan by the Company's Management Board,
3. approving the Company's and the Capital Group's material and financial plan by the Company's Management Board
4. adopting the consolidated text of the Company's Articles of Association, drawn up by the Company's Management Board,
5. approving the Regulations of the Company's Management Board,
6. approving the organizational regulations of the Company's enterprise,
7. approving the capital group's compensation policy,
8. purchasing real estate asset components within the meaning of the *Act of September 29, 1994, on accounting*, with the value exceeding:
  - 1) PLN 20 000 000 or
  - 2) 5% of the total assets within the meaning of the *Act of September 29, 1994, on accounting*, determined on the basis of the last approved financial statements,
 subject to the provisions of § 20, clause 5 of the Company's Articles of Association,
9. disposing of fixed asset components, within the meaning of the *Act of September 29, 1994, on accounting*, classified as intangible and legal assets, tangible fixed assets or long term investments, including making a contribution to a company or cooperative if the market value of such

## Matters that require a resolution of the Company's Supervisory Board

components exceeds PLN 20 000 000 or 5% of the total assets within the meaning of the *Act of September 29, 1994, on accounting*, determined on the basis of the last approved financial statements, subject to the provisions of § 20, clause 5 of the Company's Articles of Association, as well as handing over these components for use to another entity for a period longer than 180 days in a calendar year, based on a legal transaction, if the market value of the subject of the legal transaction exceeds PLN 500 000 or 5% of the total assets, where the handing over of such components for use in case of:

- 1) lease, tenancy and other contracts for the transfer of an asset for use by other entities for a fee - market value of the subject of legal action shall be understood as the value of services for: one year - if the asset was transferred on the basis of an agreement concluded for an indefinite period, the entire duration of the agreement - in case of contracts concluded for a fixed period,
  - 2) loan contracts and other free contracts for the handing over of an asset for use by other entities - the market value of the subject of legal transaction shall be understood as the equivalent of benefits that would be due if the lease or tenancy agreement were concluded, for: one year - if the asset is handed over under the contract concluded for an indefinite period, the entire duration of the contract - in case of contracts concluded for a definite period,
10. assuming contingent liabilities, including granting guaranties and sureties by the Company with the value exceeding the equivalent of PLN 20 000 000,
  11. issuing bills of exchange with the value exceeding the equivalent of PLN 20 000 000,
  12. making an advance payment on account of the expected dividend,
  13. taking up or purchasing shares in another company with the value exceeding:
    - 1) PLN 20 000 000 or
    - 2) 5% of the total assets within the meaning of the *Act of 29 September 29, 1994 on accounting*, determined on the basis of the last approved financial statements,
  14. selling shares in another company with the value exceeding:
    - 1) PLN 20 000 000 or
    - 2) 10% of the total assets within the meaning of the *Accounting Act of 29 September 1994*, determined on the basis of the last approved financial statements,
  15. concluding an agreement for legal services, marketing services, public relations and social communications services as well as advisory services related to management, if the amount of the total net compensation for the services provided exceeds PLN 500 000, on a yearly basis,
  16. amending an agreement for legal services, marketing services, public relations and social communications services as well as advisory services related to management, increasing the compensation above the amount mentioned in section 15 above,
  17. concluding an agreement for legal services, marketing services, public relations and social communications services as well as advisory services related to management, under which the maximum compensation amount (cap) is not envisaged,
  18. concluding a donation agreement or another agreement with similar consequences of the value exceeding PLN 20 000 or 0.1% of the total assets within the meaning of the *Act of September 29, 1994, on accounting*, determined on the basis of the last approved financial statements,
  19. relieving from debt or from another agreement with similar consequences of the value exceeding PLN 50 000 or 0.1% of the total assets within the meaning of the *Act of September 29, 1994, on accounting*, determined on the basis of the last approved financial statements,
  20. concluding a material agreement with a related entity within the meaning of the *Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies*,
  21. granting a permission to establish the Company's branches abroad,
  22. defining the way of exercising the voting right at the General Meeting of Shareholders or at the Meeting of Shareholders (Partners) of companies in which the Company holds more than 50% of shares, with respect to the following matters:
    - 1) selling and leasing out the company's enterprise or its organized part as well as establishing a limited pledge (property right) thereupon them if their value exceeds the PLN equivalent of EUR 5 000 000,
    - 2) dissolving and liquidating the company
  23. defining the manner of exercising the voting right by a representative of TAURON during the GMs of companies (subsidiaries) with respect to which the Company is a dominating entrepreneur within the meaning of art. 4 section 3 of the *Act of February 16, 2007, on competition and consumer protection*, with respect to the following issues:
    - 1) a company setting up another company,
    - 2) a change to the Articles of Association or the shareholders agreement and the subject of the company's operations,
    - 3) merging, transforming, splitting, dissolving and liquidating the company,
    - 4) increasing or decreasing the company's share capital,
    - 5) selling and leasing out the company's enterprise or its organized part and establishing a limited pledge (property right) thereupon,
    - 6) redeeming (retiring) of shares,
    - 7) setting the compensation of members of the Management Boards and Supervisory Boards,
    - 8) provision related to the claims for remedying damage inflicted when setting up the company or performing the management or supervision,
    - 9) matters mentioned in art. 17 of the *Act of December 16, 2016, on the principles of state assets management*, subject to § 15, clause 5 of the Company's Articles of Association, with the exception of the matters relating to the legal transactions referred to in § 20. clause 5 of the Company's Articles of Association, and with the exception of matters regarding the acquisition or disposal of fixed assets constituting or intended to constitute assets necessary to conduct business operations with respect to the distribution of electricity by a company that is an operator of the power distribution system.

### Competences related to the Management Board

1. appoint and dismiss members of the Company's Management Board,
2. establish the rules of compensation and the amounts of compensation for the Members of the Company's Management Board, subject to § 18 of the Company's Articles of Association,
3. suspend members of the Company's Management Board from office for important reasons,
4. delegate members of the Company's Supervisory Board to temporarily perform duties of the Members of the Company's Management Board who cannot perform their duties and establish their compensation subject to the provision that the total compensation of the delegated person as a Member of the Company's Supervisory Board's as well as on account of being delegated to temporarily perform duties of a Member of the Company's Management Board shall not exceed the compensation established for the Member of the Company's Management Board to replace whom the Member of the Company's Supervisory Board was delegated,
5. conduct a recruitment process for the position of a Member of the Company's Management Board,
6. conduct a competition in order to select a person with whom an agreement to perform the management board functions (services) in the Company shall be concluded and conclude such agreement to perform the management board functions (services) in the Company,
7. grant a permission to the Members of the Company's Management Board to take positions in governing bodies (authorities) of other companies

### Other competences of the Company's Supervisory Board

1. approve the Company's Management Board's annual report on the supervision over the implementation of the investment projects

## Matters that require a resolution of the Company's Supervisory Board

- draw up reports on overseeing the implementation of investment projects by the Company's Management Board, including the fixed asset purchases, and in particular provide opinions on the correctness and effectiveness of the expenditures related thereto
- approve the reports drawn up by the Company's Management Board on :
  - entertainment expenses, expenditures on legal services, marketing services, public relations and social communications service as well as advisory services related to management,
  - applying good practices defined by the Chairman of the Council of Ministers (Prime Minister) on the basis of art. 7, clause 3 of the *Act on the principles of state assets management* with respect to corporate governance, corporate social responsibility and sponsorship,
- pass regulations describing in detail the Company's Supervisory Board's procedures.

The below table presents the main issues that the Company's Supervisory Board was dealing with during its meetings in 2022.

**Table no. 59. Main issues that the Company's Supervisory Board was dealing with during its meetings in 2022.**

Main issues that the Company's Supervisory Board was dealing with during its meetings in 2022

### With respect to its competences related to the providing of the opinions / assessments:

- completed an assessment of the *Financial Statements of TAURON Polska Energia S.A. for the year ended on December 31, 2021, prepared in accordance with the International Financial Reporting Standards approved by the European Union*, in terms of its consistency with the books and documents, as well as with the factual situation,
- completed an assessment of the *Consolidated Financial Statements of TAURON Polska Energia S.A. Capital Group for the year ended on December 31, 2021, prepared in accordance with the International Financial Reporting Standards approved by the European Union*, in terms of its consistency with the books and documents, as well as with the factual situation,
- completed an assessment of the Management Board's proposal (petition) submitted to the Company's General Meeting of Shareholders regarding the distribution of the net profit for the financial year 2021,
- completed an assessment of the *Report of the Management Board (Directors' Report) on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2021 and the Non-financial Report of TAURON Capital Group for the year 2021*,
- accepted the *Report of the Supervisory Board on the assessment of the Financial Statements of TAURON Polska Energia S.A., the Consolidated Financial Statements of TAURON Capital Group, the Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year ended on December 31, 2021, and the Management Board's proposal (petition) regarding the distribution of the net profit for the financial year 2021*,
- issued a positive opinion on the *Report of TAURON Polska Energia S.A. on the entertainment expenses, the expenditures on the legal services, marketing services, public relations and social communications services as well as the advisory services related to management incurred in 2021*,
- issued a positive opinion on the *Annual Report on the implementation of the Plan of conducting the sponsoring activities by TAURON Group in 2021, the Plan of conducting the sponsoring activities by TAURON Capital Group in 2023*, as well as on the changes to the *Principles of sponsoring activities at TAURON Group*,
- issued a positive opinion on the *TAURON Group's Strategy for the years 2022 – 2030 with an outlook until 2050*,
- issued a positive opinion on the proposal (petition) of the Management Board to the General Meeting of the Company regarding introducing amendments to the Articles of Association.

### With respect to its competences that include:

- adopted the *Report on the activities of the Supervisory Board of TAURON Polska Energia S.A. in the financial year 2021*, including in its content:
  - assessment of the Company's situation, including the assessment of the internal control system, risk management system, compliance system as well as of the internal audit function, including all of the significant control mechanisms, including in particular the ones related to the financial reporting and operations,
  - assessment of the method of fulfilment of the information (disclosure) obligations in relation to the application of the principles of corporate governance, defined in the Regulations of the Stock Exchange and the provisions related to the current and periodic information (disclosures, regulatory filings) filed by the issuers of securities,
  - assessment of the rationality (legitimacy) of the policy conducted by the Company with respect to the sponsoring activities, charity activities or other activities of similar nature,
  - assessment of the fulfillment of the independence criteria by the Members of the Supervisory Board,
- adopted the consolidated text of the *Articles of Association of TAURON Polska Energia S.A.*,
- adopted the *Report on the compensation of the Members of the Management Board and of the Supervisory Board of TAURON Polska Energia S.A. for the year 2021* and submitted it to the General Meeting in order to receive an opinion thereupon,
- approved the amended *Organizational Regulations of TAURON Polska Energia S.A.*,
- approved the *Material and financial plan of TAURON Group for the year 2022 and the Material and financial plan of TAURON Group Polska Energia S.A. for the year 2022*,
- expressed a consent for the concluding of the agreements for the legal services, marketing services, public relations and social communications services as well as the advisory services related to the management, if the amount of the net total compensation envisaged for the services provided under the given agreement or under other agreements concluded with the given entity exceeded PLN 500 000, on a yearly basis,
- defined the manner of exercising the voting right during the General Meetings / Meetings of Partners of companies (subsidiaries) with respect to which TAURON Polska Energia S.A. is a dominating entrepreneur within the meaning of art. 4, section 3 of the Act of February 16, 2007, *on competition and consumer protection*, with respect to the following issues: a change to the Articles of Association / Founding Acts, a change of the principles of the compensation of the members of the Management Boards, splitting and merging, acquiring of the fixed assets, increasing of the company's share capital, a change of the subject of the operations of the subsidiaries,
- monitored the activities of the Supervisory Board's Committees, replenished their memberships.

### With respect to the cooperation with the audit firm Ernst & Young Audyt Polska sp. z o.o. sp.k.:

- held a meeting with the certified auditor to discuss the results of the audit of the Company's and TAURON Capital Group's financial statements for the financial year 2021,
- became familiar with the conclusions of the audit of the Company's and the TAURON Capital Group's financial statements for the year 2021, as well as the supplementary report prepared for the Audit Committee,

Main issues that the Company's Supervisory Board was dealing with during its meetings in 2022

3. became familiar with the certified auditor's report on the assessment of the *Report on the compensation of the Members of the Management Board and of the Supervisory Board of TAURON Polska Energia S.A. for the year 2021*.

#### **With respect to the oversight of the ongoing operations of the Company and TAURON Capital Group**

1. analyzed the current economic and financial situation of the Company and of TAURON Capital Group, including the implementation of the material and financial plan, leverage ratio, utilization of the electricity generation potential, projected revenues and profits in the individual lines of business,
2. discussed a report on the implementation of the plan and schedule for the allocation of the funds raised from the bond issue worth PLN 1 billion,
3. granted an approval of the assumption by TAURON of a contingent liability in the form of a surety constituting a collateral for Bank Gospodarstwa Krajowego's receivables stemming from the loan granted to EC Stalowa Wola,
4. became familiar with the issues relating to the Polish capacity market,
5. discussed the key risks and the mitigations thereof, in particular the impact of the Russian Federation's aggression against Ukraine on TAURON Group's current and future operations,
6. discussed the information on the situation on the hard coal market, contracted volumes and demand of TAURON Group, as well as the process of rebuilding the hard coal inventories, negotiations related to the purchase of the hard coal for TAURON Group's subsidiaries,
7. granted an approval of the conclusion of the donation agreements with TAURON Foundation,
8. granted an approval of the assumption by TAURON of a contingent liability in the form of granting a surety for the liabilities of its subsidiary, TAURON Sprzedaż, towards Polska Spółka Gazownictwa sp. z o.o.,
9. granted an approval of the assumption of the contingent liabilities in the form of the bank guarantees issued at TAURON's request in order to hedge the transactions carried out on the Polish Power Exchange (Towarowa Gielda Energii S.A.) by TAURON on behalf of and for the benefit of TAURON and its subsidiaries,
10. became familiar with the content of the updated statement: *Information on the status of TAURON Polska Energia S.A.'s application of the rules contained in the Code of the Best Practices of the Companies Listed on the Warsaw Stock Exchange 2021* without making any comments thereto,
11. monitored the process of the implementation of the social dialogue at the Company and at TAURON Capital Group, held a meeting with the representatives of the Presidium of TAURON Capital Group's Social Council, explained the comments made, got acquainted with the agreement on the stabilization of the headcount at TAURON Group's subsidiaries, concluded in connection with the energy transition process,
12. became familiar with the information on the expenses incurred in 2021 and in the first half of 2022 on the consulting services at TAURON and at TAURON Capital Group, broken down into the business and strategic consulting, legal consulting, auditing services, tax consulting and other services,
13. became familiar with the report on the implementation in 2021 of the Regulation of the European Parliament and of the Council on the protection of personal data (GDPR),
14. became familiar with the up to date information related to, among other things: the completed and ongoing audit tasks at TAURON Capital Group, the compliance management area, court disputes of the PEPKH subsidiary, lists of the resolutions passed by the Management Board.

#### **With respect to the competences related to the Management Board:**

1. based on the recruitment procedures carried out, the Supervisory Board appointed the Members of the Management Board of TAURON Polska Energia S.A. of the 6<sup>th</sup> common term of office,
2. dismissed two Members of the Management Board of TAURON Polska Energia S.A. of the 6<sup>th</sup> common term of office,
3. submitted the motions to the General Meeting related to the acknowledgment of the fulfilment of the duties of the Members of the Company's Management Board in the financial year 2021, as well as of the former Members of the Management Board for 2020 and 2019,
4. conducted an analysis of the level of the accomplishment of the Management Objectives set for the Members of the Management Board of the Company of the 6<sup>th</sup> term of office to be implemented in 2021, and determined the amount of the variable compensation to be paid out thereto,
5. in connection with the adopted compensation system, the Supervisory Board detailed the Management Objectives for the Members of the Company's Management Board to be implemented in 2022, along with the specification of the weights of these objectives and the objective criteria for the implementation and accountability thereof,
6. amended the rules for establishing and dividing the Management Objectives, their weights and the criteria for the implementation and accountability thereof,
7. in connection with the Resolution of the Ordinary General Meeting, the Supervisory Board amended the principles of determining the compensation of the Members of the Management Board of TAURON Polska Energia S.A. and concluded Annexes no. 1 to the agreements for the provision of the management services with the Members of the Management Board,
8. granted an approval of the performance of the functions in the bodies of other companies and associations and of the training for the Members of the Management Board.

#### **With respect to the oversight of the correctness and efficiency of the spending of the funds related to the implementation of investment projects by the Management Board of the Company, including purchasing of the fixed assets:**

1. approved the *Report of the Management Board of TAURON Polska Energia S.A. on the oversight of the implementation of the investment projects at TAURON Group in 2021*,
2. approved the *Report of the Supervisory Board of TAURON Polska Energia S.A. on the oversight of the implementation by the Management Board of the investment projects including purchasing of the fixed assets in 2021*, and issued a positive opinion and raised no objections to the correctness and efficiency of the spending of the funds related to the purchasing of the fixed assets,
3. became familiar with the up to date information on the status of the implementation of the strategic investment projects,
4. granted an approval of the sale of TAURON Wydobycie's shares to the State Treasury,
5. discussed the progress of the works related to the implementation of the Program for the spin-off of TAURON Group's hard coal-fired generating assets to the National Energy Security Agency, granted an approval of the conclusion of the agreements for the conducting of the Vendor Due Diligence studies as part of the above mentioned Program,
6. granted an approval of the merger of TAURON Wytwarzanie with Nowe Jaworzno Grupa TAURON and of the sale of TAURON's shares in Nowe Jaworzno Grupa TAURON to TAURON Wytwarzanie,
7. granted an approval of the transfer of the shares in Bioeko Grupa TAURON to TAURON Wytwarzanie,
8. became familiar with the up to date information on the 910 MW power generation unit in Jaworzno, including with the issues related to the fixing of the failure and the investigation of the root causes thereof, the mediation proceedings,
9. became familiar with the status of the implementation of the RES projects at TAURON Group, including, among others, the ongoing and the planned RES projects, as well as the RES model implemented at TAURON Group.



## Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.

The members of the Audit Committee were appointed for the current term of office on August 3, 2020, by the Company's Supervisory Board of the 6th common term of office from among its members.

The Audit Committee held a total of 7 meetings and passed 12 resolutions during the period covered by this report.

All of the Members of the Audit Committee were present during 6 meetings, while 1 Member of the Audit Committee was absent during 1 meeting. The absence of the Audit Committee Member was excused by the relevant resolution of the Audit Committee.

The Audit Committee was composed of 4 to 5 members in 2022.

### The composition of the Audit Committee as of December 31, 2022, and as of the date of drawing up this report

1. Teresa Famulska - Head of the Audit Committee,
2. Stanisław Borkowski - Member of the Audit Committee,
3. Leszek Koziowski - Member of the Audit Committee,
4. Grzegorz Peczkis - Member of the Audit Committee.

### The changes to the composition of the Audit Committee in 2022 and by the date of drawing up this report

As of January 1, 2022, the Audit Committee was composed of the following Members of the Supervisory Board of the Company: Teresa Famulska (Head of the Audit Committee), Stanisław Borkowski, Leszek Koziowski, Grzegorz Peczkis and Katarzyna Taczanowska.

On May 24, 2022, Katarzyna Taczanowska submitted a statement on her resignation from the membership of the Company's Supervisory Board, and thus her membership in the Audit Committee was terminated.

There had been no other changes to the composition of the Audit Committee by the date of drawing up this report.

### Information on the independence of the Members of the Audit Committee

Pursuant to the *Act of May 11, 2017, on certified auditors, audit companies and public oversight*, the majority the members of the audit committee, including the head thereof, should be independent and at least one member of the audit committee should have the knowledge and skills with respect to accounting or auditing financial statements and at least one member of the audit committee should have the knowledge and skills with respect to the industry that the company is operating in.

In 2021 the composition of the Audit Committee was in compliance with the requirements defined in the above mentioned act. The evaluation of the independence and the statutory requirements with respect to the knowledge and skills of the individual Members of the Audit Committee was carried out by the Company's Supervisory Board based on the relevant statements submitted by the Members of the Audit Committee. The qualifications of the Members of the Audit Committee with respect to the accounting or auditing, as well as the industry that the Company is operating in, were based on the education and skills possessed by the Members of the Audit Committee.

The below table presents the information on the compliance, in 2022, of the Members of the Audit Committee with the independence requirements and the requirements with respect to the knowledge and skills held.

**Table no. 60. Compliance, in 2022, of the Members of the Audit Committee with the independence requirements and the requirements with respect to the knowledge and skills held**

First and last name	Period of performing the function (tenure) in the Audit Committee in 2021	Compliance with the independence requirements and the requirements with respect to the knowledge and skills held
1. Teresa Famulska	01.01.2022 – 31.12.2022	Independent. She has knowledge and skills with respect to accounting and auditing of the financial statements.
2. Stanisław Borkowski	01.01.2022 – 31.12.2022	Independent. He has knowledge and skills with respect to accounting and auditing of the financial statements.
3. Leszek Koziowski	01.01.2022 – 31.12.2022	Independent.
4. Grzegorz Peczkis	01.01.2022 – 31.12.2022	Independent. He has knowledge and skills with respect to the industry in which the Company operates.
5. Katarzyna Taczanowska	01.01.2022 – 24.05.2022	Independent.

### Tasks and competences of the Audit Committee

In 2022 the Audit Committee was performing the tasks and competences defined in the currently applicable legal regulations and in the *Regulations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.* adopted by the Supervisory Board.

The tasks and competences of the Audit Committee as of December 31, 2022, and as of the date of drawing up this report, are presented in the below table.

**Table no. 61. Competences of the Audit Committee as of December 31, 2022, and as of the date of drawing up this report**

Competences of the Audit Committee
<ol style="list-style-type: none"> <li>1. Monitoring the Company's financial reporting process, the effectiveness of the internal control, risk management, compliance and internal audit systems, including with respect to the financial reporting, performing of the financial auditing activities, in particular performing of an audit by an audit company, taking into account any conclusions (motions) and findings of the Audit Supervision Committee stemming from an audit performed at an audit company.</li> <li>2. controlling and monitoring of the independence of the certified auditor and the audit company, in particular in case other services than an audit are provided for the benefit of the Company by the audit company,</li> <li>3. performing the evaluation of the independence of the certified auditor and expressing consent for the performance thereby of the permitted services that do not constitute an audit within the Company,</li> <li>4. developing the policy for selecting the audit company to perform the audit,</li> <li>5. developing the policy for performing by the audit company conducting the audit, entities related to such audit company and the members of the audit company's corporate network, of the permitted services that do not constitute an audit,</li> <li>6. defining the procedure for selecting the audit company by the Company,</li> <li>7. presenting to the Supervisory Board, for the purpose of selecting the audit company responsible for performing the statutory audit or review of financial statements, of the recommendation, referred to in Art. 130, clauses 2 and 3 of the <i>Act of May 11, 2017 on certified auditors, auditing companies and public oversight</i> and in Art. 16, clause 2 of the <i>Regulation (EU) No 537/2014 of the European Parliament and of the Council of April 16, 2014 on specific requirements regarding statutory audit of public-interest entities (...)</i>, in line with the policies referred to above in items 4 and 5,</li> <li>8. informing the Supervisory Board of the audit results and explaining how the audit contributed to the accuracy (fairness) of the Company's financial reporting, and also what the role of the Audit Committee in the audit process was,</li> <li>9. presenting the recommendations aimed at ensuring accuracy (fairness, reliability) of the Company's financial reporting process,</li> <li>10. performing other activities vested with the audit committees pursuant to the Act and the Regulation mentioned in items 7 above and <i>the Act of September 29, 1994, on accounting</i>.</li> </ol>

The below table presents the main issues that the Audit Committee was dealing with during its meetings in 2022.

**Table no. 62. Main issues that the Audit Committee was dealing with during its meetings in 2022**

Main issues that the Audit Committee was dealing with during its meetings in 2022
<ol style="list-style-type: none"> <li>1. Monitoring of the Company's financial reporting process, including analyzing the reliability of the financial information presented by the Company in the following documents in terms of its compliance with the books and documents, as well as with the factual situation, and making the relevant recommendations to the Supervisory Board based on the assessment of the information contained in: <ol style="list-style-type: none"> <li>1) Financial statements of TAURON Polska Energia S.A. for the financial year ended on December 31, 2021,</li> <li>2) Proposal of the Management Board of the General Meeting of TAURON Polska Energia S.A. with respect to the distribution of the net profit for the financial year 2021,</li> <li>3) Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the financial year ended on December 31, 2021,</li> <li>4) Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year ended on December 31, 2021, the Non-financial Report of TAURON for the year 2021,</li> <li>5) Extended consolidated report of TAURON Polska Energia S.A. for the first quarter of 2022, the first half of 2022 and the third quarter of 2022.</li> </ol> </li> <li>2. Cooperation with the certified auditor with respect to: <ol style="list-style-type: none"> <li>1) audit of the financial statements of the Company and of the consolidated financial statements of the Capital Group for the financial year 2021 (discussion of the auditor's report on the audit conducted, discussion of the additional report prepared by the auditor for the Audit Committee, becoming familiar with the statement on the compliance with the independence requirements by the audit firm and the members of the team performing the financial audit activities and the information on the non-performance of the non-audit services by the audit firm for the Company and TAURON Group's subsidiaries),</li> <li>2) review of the interim, abbreviated financial statements of the Company and of the consolidated financial statements of the Capital Group for the first half of 2022 (discussion of the results of the review conducted and becoming familiar with the statement on the compliance with the independence requirements with respect to TAURON Group's subsidiaries and remaining independent with respect to the entity being audited during the time frame from the date of the submission of the previous statement of independence),</li> <li>3) process of auditing the financial statements of the Company and the consolidated financial statements of the Capital Group for the financial year 2022 (discussion of the general assumptions of the audit process, the timetable, the audit strategy and the non-financial reporting, as well as the results of the preliminary audit of the Company and the subsidiaries).</li> </ol> </li> <li>3. Presenting to the Supervisory Board of a positive assessment with respect to the independence of the financial audit process and the conducting of the assessment of the key auditor and the members of the team performing the financial audit activities as to whether they meet the criteria for the independence with respect to TAURON Group's subsidiaries and remain independent with respect to the audited entity during the time frame from the date of the previous assessment of the independence,</li> <li>4. Presenting of a recommendation to the Supervisory Board on the acceptance of the <i>Report of the Supervisory Board on the Assessment of the Financial Statements of TAURON Polska Energia S.A., the Consolidated Financial Statements of TAURON Capital Group, the Report of the Management Board on the Operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year ended on December 31, 2021 and the Proposal of the Management Board with respect to the distribution of the net profit for the financial year 2021,</i></li> <li>5. Discussion of the draft <i>Report on the compensation of the Members of the Management Board and of the Supervisory Board of TAURON Polska Energia S.A. for the year 2021</i> in order to provide it to the certified auditors to receive the opinion thereof,</li> <li>6. Analysis of the financial results of TAURON Group and TAURON Polska Energia S.A. for the full year 2021, the first quarter of 2022, the first half of 2022 and for the third quarter of 2022.</li> <li>7. Becoming familiar with the detailed information on the overhead costs at TAURON and at TAURON Group, including a comparison of the costs in question over a period of 3 years,</li> <li>8. Becoming familiar with and evaluating of the new wording of the <i>Accounting Policy of TAURON Polska Energia S.A. Capital Group,</i></li> <li>9. Becoming familiar with the information with respect to the implementation of the activities stemming from the <i>Procedure for ensuring compliance, within TAURON Group, with the requirement of the independence of the audit company conducting the audit and review of the financial statements and the consolidated financial statements of TAURON Polska Energia S.A.,</i></li> </ol>

## Main issues that the Audit Committee was dealing with during its meetings in 2022

10. Monitoring of issues with respect to the internal audit and the internal control systems, in particular, discussing of the degree of the implementation of the annual *Audit Plan for TAURON Group for 2021*, as well as of the implementation in each quarter of the plan of the audit tasks and the ad hoc controls adopted for 2022.
11. Becoming familiar with the self-assessment of the audit area's activities over a three year period with respect to the effectiveness of the audit and control projects undertaken at TAURON Capital Group and the covering with its activities of all significant areas of the operations of TAURON Capital Group's subsidiaries,
12. Discussing of the Internal Control System Assessment Report for 2021,
13. Monitoring of the issues with respect to the key corporate and specific risks at TAURON Group, as well as getting acquainted with the information on the impact of the armed conflict in Ukraine on TAURON Group's operations and the measures taken to support the refugees from Ukraine,
14. Monitoring of the quarterly reports on the tasks carried out by the compliance area, as well as getting acquainted with: *TAURON Polska Energia S.A.'s Compliance Report for 2021*, *TAURON Group's Compliance Plan for 2022*, and the reports on the periodic assessment of the transactions concluded with the related parties for the periods of: H2 2021 and H1 2022,
15. Analysis of the participation of TAURON Capital Group's subsidiaries in the industry organizations, as well as of the cost of the membership of individual subsidiaries, and the discussion of the forecast of the cost of the membership of the subsidiaries in the industry organizations,
16. Becoming familiar with the quarterly information with respect to the area of purchasing, including in particular: the analysis of the purchase order (contract) award proceedings as part of the monitoring of the effectiveness of the internal control system, including the non-tender proceedings at TAURON Capital Group's subsidiaries, the findings and the conclusions stemming from the analysis of the purchase orders (contracts) awarded on the emergency basis by the Company and by TAURON Capital Group's subsidiaries, getting acquainted with the amendments to TAURON Group's Purchase Order Award Regulations,
17. Adopting and submitting to the Supervisory Board of the *Report on the activities of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. in the financial year 2021*,
18. Carrying out of other tasks entrusted by the Supervisory Board, including, among others, analyzing and evaluating of the documents or legal actions performed by the Company with respect to their compliance with the applicable legal regulations and the internal regulations.

## Permitted non-audit services provided by an audit company

The following permitted non-audit services were provided for TAURON and TAURON Capital Group's subsidiaries in 2022 by the audit firm auditing the financial statements:

1. confirmed in writing verification of the annual and interim (semi-annual) standalone consolidation packages of selected TAURON Capital Group's subsidiaries required to prepare the annual and interim consolidated financial statements,
2. completing the agreed procedures for the verification of the report of TAURON Dystrybucja subsidiary in connection with the requirement to estimate the Regulatory Asset Base (RAB) and the Regulatory Asset Base (RAB) for the AMI System for the needs of determining the justified return on capital employed by the President of ERO.
3. an assessment of the annual report of the Supervisory Board on the compensation of the Management Board and the Supervisory Board of TAURON Polska Energia S.A., drawn up in accordance with art. 90g of the *Act on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies*.

In connection with the provision of the above mentioned services, the Audit Committee performed an evaluation of the threats to and the safeguards of the independence of the audit company Ernst & Young Audyt Polska and expressed its consent for the provision of the above mentioned services.

## Main assumptions of the policy for selecting an audit company to conduct the audit and the policy of providing the permitted non-audit services by the audit company conducting the audit, by the entities related to such an audit company and by a member of the audit company's network

The Audit Committee adopted the following regulations on October 16, 2017, prepared in connection with the coming into force of the *Act of May 11, 2017, on certified auditors, auditing companies and public oversight*:

1. *Policy for the selection of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.,*
2. *Procedure for the selection of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.*
3. *Policy for the provision of the permitted non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., the entities related to such an audit firm and by a member of the audit firm's network.*

On October 5, 2020, the Audit Committee adopted the new version of the *Policy for the selection of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.*, as well as the *Procedure for the appointment (selection) of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.*

*Policy for the selection of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.* is aimed at ensuring the compliance of the selection of the audit firm to conduct the audit and review of the Company's financial statements with the legal regulations. The policy defines, in a clear manner, the principles and rules of the process for the appointment of the audit firm to

audit the reports of TAURON as a public interest entity, principles of the procedure for the appointment of the audit firm, principles of preparing the recommendations of the Audit Committee related to the appointment of the audit firm, as well as the principles of the rotation of the audit firm conducting the audit and review of the financial statements and consolidated financial statements of TAURON. The most important assumptions adopted in the policy include the fact that the process for the appointment of the auditor shall be based on the applicable legal regulations, ensuring the transparency and objectivity of the process for the appointment of the auditor and including in the process of the requirements necessary for the timely and correct performance of the audit services for the Company.

*Procedure for the selection of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.* is aimed at ensuring the compliance of the process for the appointment of the audit firm with the legal regulations, as well as ensuring that the audit and review of the financial statements are conducted at a high quality level, within a specified time frame, while ensuring independence, objectivity, transparency and credibility of the audit firm and the certified auditors. The procedure defines in detail and accurately the individual stages of the process to select the audit firm, including indicating the corporate authorities (bodies) and organizational units responsible for such stages. Furthermore, the procedure defines the general conditions for the participation in the proceedings and the criteria for the selection of the audit firm as well as the time frame of the auditor selection process. The most important assumptions made in the procedure include adopting a clear and transparent, based on the legal regulations, split of the responsibilities in the process for the appointment of the auditor, as well as defining transparent and non-discriminatory conditions for the participation in the tender procedure and criteria for the appointment of the audit firm that the company may apply.

*Policy for the provision of the allowed non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., the entities related to such an audit firm and by a member of the audit firm's network* is aimed at defining clear rules aimed at meeting the requirement of the independence of the audit firm conducting the audit of the Company, in case such firm or entities that are members of its network are providing non-audit services. This policy defines the principles related to the provision for the benefit of TAURON Capital Group's entities, by the audit firm conducting the audit at TAURON, entities related to the audit firm and a member of the audit firm's network, of additional non-audit services or non-review services, in particular the conditions for the admissibility of the provision of the permitted services, the principles of the Audit Committee conducting an assessment of the threats to and safeguards of the independence of the audit firm, as well as the control mechanisms with respect to observing the principles of the independence of the certified auditor at TAURON Capital Group. The most important assumptions adopted in the policy include defining clear rules for the Audit Committee to conduct an assessment of the threats to and safeguards of the independence of the audit firm and expressing consent for the provision of the non-audit services, based on the compliance with the legal regulations and the purposefulness of the provision of such services.

### **Recommendations of the Audit Committee related to the selection of the audit firm**

In 2021, the audit firm was selected to audit and review the financial statements and consolidated financial statements of TAURON for the years 2022-2024. The Supervisory Board selected the audit company based on the recommendation of the Audit Committee which met the applicable conditions and was drawn up as a result of the Company's public procurement proceedings, in accordance with the applicable criteria, including an indication of a second alternative entity to perform such activities and providing the justification for the preferences behind the selection of the recommended audit firm.

### **Controlling and monitoring the independence of the auditor**

Controlling and monitoring the independence of the audit firm by the Audit Committee shall take place on the basis of the legal provisions and regulations adopted by the Audit Committee, in particular the *Policy for the provision of the allowed non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., the entities related to such an audit firm and by a member of the audit firm's network* (Policy). In addition, the Company implemented the *Procedure for the selection of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.* (Procedure), which is aimed at ensuring the correct and timely performance by the Company of the activities required for the process of controlling and monitoring the independence of the audit firm and the entities that are members of its network by the Audit Committee.

The auditor's independence shall be assessed by the Audit Committee each time as part of reviewing the interim (semi-annual) and annual financial statements and the consolidated financial statements of the Company. In accordance with the Procedure, the Company shall obtain a declaration of compliance with the independence criteria referred to in the *Act of 11 May 2017 on certified auditors, audit firms and public oversight* from the audit firm at least once every six months. This statement shall be assessed by the Audit Committee.

The auditor's independence shall be assessed by the Audit Committee each time the Company or a subsidiary intends to commission services permitted to be performed by the audit firm or a member of the network that such an audit firm is a part of. In such a situation, the Audit Committee shall each time assess the threats and safeguards protecting the independence of the certified auditor and the audit firm. The assessment of threats and safeguards protecting the independence of the certified auditor and the audit firm carried out by the Audit Committee in accordance with the Policy shall include:

1. verification whether the given service is included in the list of the permitted services,
2. verification whether the requirements regarding the maximum limit of the compensation allowed by law for the provision of services other than an audit are met,
3. checking whether the subject of the permitted service to be commissioned to the certified auditor or audit firm, an entity related to that audit firm or a member of the network that the certified auditor or the audit firm is a part of, is not related to the Company's tax policy,
4. assessment of the statement on the compliance with the independence criteria obtained by the Company, in accordance with the Procedure, from the certified auditor or the audit firm that is to perform the permitted services, valid as of the date of the assessment,
5. an analysis of the substantive justification for the performance of the service by the certified auditor or the audit firm conducting the audit, an entity related to that audit firm or an entity that is a part of its network, indicating the key factors impacting the legitimacy of such a selection.

The Procedure implemented at the Company defines activities, the organizational units responsible for their execution and deadlines for the execution of the activities aimed at ensuring, within TAURON Group, of the compliance with the requirement of independence of the audit firm conducting the audit and review of the Company's financial statements and consolidated financial statements. In particular, the Procedure defines the principles of the intra-group communication with respect to the selection of the audit firm to audit the Company's financial statements and the principles and deadlines for obtaining, from the audit firm, of the statements on the independence. The Procedure also sets forth the principles and deadlines for the Company to collect and verify the information on the agreements entered into by TAURON Capital Group's subsidiaries with the audit firm auditing and reviewing the Company's financial statements and consolidated financial statements, as well as with the members of the network that such an audit firm is a part of. In addition, the Procedure regulates the principles and the deadlines for the collection of the information on transactions entered into by TAURON Capital Group's subsidiaries with the audit firm auditing and reviewing the Company's financial statements and consolidated financial statements, as well as with the members of the network that such an audit firm is a part of. At least once a year, the Company shall prepare information on the performance of the activities stemming from this procedure and submit it to the Audit Committee for evaluation.

## **Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A.**

The members of the Nominations and Compensation Committee were appointed for the current term on August 3, 2020, by the Supervisory Board of the 6th common term of office from among its members.

The Nominations and Compensation Committee held a total of 9 meetings and passed 14 resolutions during the period covered by this report.

All of the Members of the Nominations and Compensation Committee were present during 7 meetings, while 1 Member of the Nominations and Compensation Committee was absent during 2 meetings. The absences of the Nominations and Compensation Committee Members were excused by the relevant resolutions of the Nominations and Compensation Committee.

The Nominations and Compensation Committee was composed of 4 to 5 members in 2022.

### **The composition of the Nominations and Compensation Committee as of December 31, 2022, and as of the date of drawing up this report**

1. Piotr Tutak - Head of the Nominations and Compensation Committee,
2. Leszek Kozirowski - Member of the Nominations and Compensation Committee,
3. Ryszard Madziar - Member of the Nominations and Compensation Committee,
4. Marcin Wawrzyniak - Member of the Nominations and Compensation Committee.

### **The changes to the composition of the Nominations and Compensation Committee in 2022 and by the date of drawing up this report**

As of January 1, 2022, the Nominations and Compensation Committee was composed of the following Members of the Supervisory Board of the Company: Piotr Tutak (Head of the Nominations and Compensation Committee), Leszek Kozirowski, Ryszard Madziar and Marcin Wawrzyniak.

On June 10, 2022, the Company's Supervisory Board supplemented the composition of the Nominations and Compensation Committee by appointing Marcin Chludziński to be a member thereof.

On November 30, 2022, Marcin Chludziński submitted a statement of his resignation from the membership of the Company's Supervisory Board, effective as of the same day. Thus, his membership of the Nominations and Compensation Committee was terminated.

There had been no other changes to the composition of the Nominations and Compensation Committee by the date of drawing up this report.

### Tasks and competences of the Nominations and Compensation Committee

The tasks and competences of the Nominations and Compensation Committee, as of December 31, 2021, and as of the date of drawing up this report, are presented in the below table.

**Table no. 63. Competences of the Nominations and Compensation Committee, as of December 31, 2022, and as of the date of drawing up this report**

Competences of the Nominations and Compensation Committee
<ol style="list-style-type: none"><li>1. recommending to the Supervisory Board a recruitment procedure for the positions of the Members of the Company's Management Board,</li><li>2. evaluating candidates for the Members of the Management Board and providing the Supervisory Board with opinions in this respect,</li><li>3. recommending to the Supervisory Board a form and content of the agreements to be concluded with the members of the Management Board,</li><li>4. recommending to the Supervisory Board a compensation and bonus system for the members of the Management Board,</li><li>5. recommending to the Supervisory Board the need to suspend a member of the Management Board for important reasons,</li><li>6. recommending to the Supervisory Board the need to delegate a member of the Supervisory Board to temporarily perform the duties of the Members of the Management Board who cannot perform their duties, along with a compensation proposal</li></ol>

The below table presents the main issues that the Nominations and Compensation Committee was dealing with during its meetings in 2022.

**Table no. 64. Main issues that the Nominations and Compensation Committee was dealing with during its meetings in 2022**

Main issues that the Nominations and Compensation Committee was dealing with during its meetings in 2022
<ol style="list-style-type: none"><li>1. Presentation of the recommendations to the Supervisory Board with respect to the determination of the compensation for the Members of the Management Board of TAURON Polska Energia S.A. and the conclusion of Annexes no. 1 to the agreements for the provision of the management services with the Members of the Management Board,</li><li>2. Presentation of the recommendations to the Supervisory Board with respect to the adoption of the detailed Management Objectives for the Members of the Management Board of TAURON of the 6th common term of office to be implemented in 2022, along with the determination of the weights of these objectives as well as the objective and measurable criteria for the implementation and accountability thereof,</li><li>3. Carrying out of an analysis and evaluation of the performance of the Management Objectives set for the Members of the Management Board of the Company of the 6th common term of office to be implemented in 2021, and the presentation of the adequate recommendations to the Supervisory Board, including the ones related to the amount of the payout of the Variable Compensation due to the Members of the Management Board for 2021,</li><li>4. Adoption and submission to the Supervisory Board of the <i>Report on the activities of the Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A. in the financial year 2021</i>,</li><li>5. Presentation of a recommendation to the Supervisory Board with respect to the announcement and conducting of the recruitment procedure for the positions of the President and the Vice Presidents of the Management Board of TAURON the common 6th term of office,</li><li>6. Opening and verifying of the applications of the candidates with respect to the meeting of the formal requirements in the recruitment procedure for the individual positions in the Management Board of the Company of the 6th common term of office,</li><li>7. Analyzing the quarterly information with respect to the proper performance of the duties of the Members of the Management Board under the agreements for the provision of the management services.</li></ol>

### Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.

The members of the Strategy Committee were appointed for the current term on August 3, 2020, by the Supervisory Board of the 6th common term of office from among its members.

The Strategy Committee held a total of 5 meetings and passed 6 resolutions during the period covered by this report.

All of the Members of the Strategy Committee were present during 3 meetings, while 1 Member of the Strategy Committee was absent during 2 meetings. The absences of the Strategy Committee Members were excused by the relevant resolutions of the Strategy Committee.

The Strategy Committee was composed of 5 to 6 members in 2022.

### The composition of the Strategy Committee as of December 31, 2022, as of the date of drawing up this report

- |                        |                                     |
|------------------------|-------------------------------------|
| 1. Grzegorz Peczkis    | - Head of the Strategy Committee,   |
| 2. Stanisław Borkowski | - Member of the Strategy Committee, |
| 3. Dariusz Hryniów     | - Member of the Strategy Committee, |
| 4. Ryszard Madziar     | - Member of the Strategy Committee, |
| 5. Piotr Tutak         | - Member of the Strategy Committee, |
| 6. Marcin Wawrzyniak   | - Member of the Strategy Committee. |

## The changes to the composition of the Strategy Committee in 2022 and by the date of drawing up this report

As of January 1, 2022, the Strategy Committee was composed of the following Members of the Company's Supervisory Board: Grzegorz Peczkis (Head of the Strategy Committee), Stanisław Borkowski, Ryszard Madziar, Piotr Tutak and Marcin Wawrzyniak.

On February 23, 2022, the Company's Supervisory Board supplemented the composition of the Strategy Committee by appointing Dariusz Hryniów to be a member thereof.

There had been no other changes to the composition of the Strategy Committee by the date of drawing up this report.

## Tasks and competences of the Strategy Committee

The tasks and competences of the Strategy Committee as of December 31, 2022, and as of the date of drawing up this report are presented in the below table

**Table no. 65. Competences of the Strategy Committee as of December 31, 2022, and as of the date of drawing up this report**

Competences of the Strategy Committee
<ol style="list-style-type: none"><li>1. evaluating the Company's and TAURON Capital Group's Strategy and presenting the results of such evaluation to the Supervisory Board,</li><li>2. recommending to the Supervisory Board the scope and deadlines for submitting the long term (multi-year) strategic plans by the Management Board,</li><li>3. evaluating the impact of the planned and currently undertaken strategic investment projects on the Company's assets' position,</li><li>4. monitoring the implementation of the strategic investment tasks,</li><li>5. evaluating activities related to the use of the Company's material assets,</li><li>6. providing opinions on the strategic documents submitted to the Supervisory Board by the Management Board</li></ol>

The below table presents the main issues that the Strategy Committee was dealing with during its meetings in 2022.

**Table no. 66. Main issues that the Strategy Committee was dealing with during its meetings in 2022**

Main issues that the Strategy Committee was dealing with during its meetings in 2022
<ol style="list-style-type: none"><li>1. Presentation of a recommendation to the Supervisory Board with respect to the issuing of a positive opinion on <i>TAURON Group's Strategy for the years 2022-2030 with an outlook until 2050</i>,</li><li>2. Adoption and submission to the Supervisory Board of the <i>Report on the activities of the Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. in the financial year 2021</i>,</li><li>3. Presentation of a recommendation to the Supervisory Board on the approval of the <i>Report of the Management Board on the oversight of the implementation of the investment projects at TAURON Group in 2021</i> and the acceptance of the <i>Report of the Supervisory Board of TAURON Polska Energia S.A. on the oversight of the implementation of the investment projects by the Management Board, including the purchasing of the fixed assets in 2021</i>,</li><li>4. Site surveys at the 910 MW power generation unit in Jaworzno, the 56 MW hydro power plant in Rożnów and the 30 MW Piotrków wind farm,</li><li>5. Discussion of the issues related to the implementation of the key investment projects for TAURON Group in 2022, with a particular emphasis on the projects at TAURON Dystrybucja and in the following Lines of Business: Generation, RES, Heat, Mining and Customer Service,</li><li>6. Discussion of the RES model implemented at TAURON Group with respect to the division of the tasks among the various subsidiaries and the way TAURON is coordinating and supervising the implementation of the RES projects,</li><li>7. Becoming familiar with the activities of TAURON Group's following subsidiaries: TAURON Zielona Energia, TAURON Ekoenergia, TAURON Nowe Technologie and TAURON Inwestycje,</li><li>8. Discussion of the issues related to the implementation of the projects aimed at increasing the installed capacity of the renewable energy sources, as well as the agreements and memoranda of understanding signed by TAURON Zielona Energia with the external entities securing the land for the construction of the photovoltaic installations and wind farms,</li><li>9. Becoming familiar with the planned undertakings with respect to the construction of the energy storage facilities by TAURON Group,</li><li>10. Discussion of the most important issues related to the Polish capacity market,</li><li>11. Discussion of the advancement progress of the R&amp;D projects in 2021.</li></ol>

## Description of the activities of the Committees of the Supervisory Board of TAURON Polska Energia S.A.

The detailed description of the activities of the Committees of the Supervisory Board is provided in the Regulations of the individual Committees of the Supervisory Board.

The Committees of the Supervisory Board are advisory and opinion making bodies acting collectively as a part of the Company's Supervisory Board structure and perform the support and advisory functions for the Supervisory Board. The tasks of the Committees of the Supervisory Board are carried out by submitting motions, recommendations, opinions and statements related to the scope of their tasks to the Supervisory Board, by way of the resolutions passed. The Committees of the Supervisory Board are independent of the Management Board of the Company.

The Audit Committee and the Nominations and Compensation Committee of the Supervisory Board are composed of 3 to 5 members, while the Strategy Committee is composed of 3 to 7 members. The activities of the individual Committees are managed by the Chairpersons (Heads) thereof.

The meetings of the Committees of the Supervisory Board shall be convened by the Chairperson (Head) of the specific Committee on his / her own initiative or upon the motion of a member of the Committee or Chairperson of the Supervisory Board and they are held on as needed basis. In case of the Audit Committee the meetings are convened at least on a quarterly basis. The Head of the given Committee may invite the Members of the Company's Supervisory Board, who are not members of the specific Committee, the members of the Management Board and the employees of the Company as well as other persons working or cooperating with the Company to take part in the meetings of the Committees. The Head of the specific Committee or a person appointed by him / her submits motions, recommendations and reports to the Supervisory Board .

The Committees of the Supervisory Board shall pass resolutions if at least half of their members are present at the meeting and all of the members have been duly invited. The resolutions of the Committees of the Supervisory Board are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given "for" than "against" and "abstain". The Committees of the Supervisory Board may pass resolutions in writing or by using the means of direct remote communication.

The Members of the Committees of the Supervisory Board may also participate in the meetings of the Committees and vote on the resolutions being passed by using the means of direct remote communication, i.e. tele- or video conferences.

The Company's Management Board shall be informed of the recommendations and assessments submitted to the Supervisory Board by the given Committee of the Supervisory Board. Every year, the Committees of the Supervisory Board shall provide public record information, via the Company, on their memberships, the number of meetings held and the participation in the meetings during the year, as well as on their main activities.

The Company's Management Board shall provide the individual Committees with the possibility of using the services of the external advisers to the extent required to perform the obligations of the Committees

## 9.12. TAURON Group's Diversity Policy

The Company has *TAURON Group's Diversity Policy* (Diversity Policy) in place, under which TAURON Capital Group applies the policy of equal treatment and seeks to ensure diversity in terms of gender, educational background, age and professional experience in relation to all of its employees. The Diversity Policy is also applied in the cooperation with the external partners of TAURON Capital Group, i.e. companies, universities, schools or other business entities.

The Company does not have a separate diversity policy with respect to the Members of the Management Board and of the Supervisory Board in place, due to the adoption by the Company of the solutions in accordance with the Act of December 16, 2016 on the Principles of State Assets Management, related to the appointment of the members of the Management Board following the conducting of a recruitment procedure, and due to the personally assigned powers of the minister competent to exercise the rights related to the State Treasury shares to appoint a majority of the Members of the Supervisory Board.

With respect to the Members of the Management Board and the Supervisory Board the appointment of the persons performing the functions of the Members of the Management Board of the Company shall be made by the Supervisory Board of the Company, while the members of the Supervisory Board of the Company shall be elected by the General Meeting of the Company and the minister competent to exercise the rights related to the shares of the State Treasury under the statutory powers of the State Treasury.

The Members of the Management Board of the Company shall be appointed by the Supervisory Board of the Company on the basis of a recruitment procedure conducted in accordance with the rules and requirements set out in the Articles of Association and the *Act of December 16, 2016, on the principles of state assets management* whose goal is to check and assess the qualifications of the candidates and selecting the best candidate.

The announcement (notice) of the recruitment process shall be published on the Company's web site at the address: <https://www.tauron.pl> and in the Public Information Bulletin of the Minister competent to exercise the rights related to the shares of the State Treasury. Anyone who meets the requirements set out in § 16, clauses 3 and 4 of the Company's Articles of Association may enter the recruitment process. Due to the lack of specific requirements regarding, inter alia, gender, education background, age and professional experience, the Supervisory Board of the Company, when assessing and selecting candidates for the Members of the Management Board of the Company, has an option to ensure versatility and diversity in the selection of the Members of the Management Board of the Company.

### Due diligence procedures and internal regulations

The due diligence procedures in place under the Diversity Policy include the activities aimed at:

1. developing the work environment based on respect, openness, reliability and fairness (justice),
2. ensuring versatility and diversity, in particular with respect to gender, education, age and professional experience,



3. building organizational culture open to diversity, based on the corporate values: Partnership, Development and Boldness (PRO),
4. preventing discrimination by fostering appropriate atmosphere at work as well as building and strengthening positive relationships among the personnel.
5. supporting employee initiatives related to equality practices at the Group's Subsidiaries,
6. support for vulnerable groups of people
7. activities that support work-life balance,
8. equal treatment of employees in the hiring process and prohibition of discrimination,

By implementing its Diversity Policy TAURON Capital Group is seeking to provide the work environment based on respect and fairness (justice), within which each employee may fully realize his or her individual potential.

In accordance with the Diversity Policy, diversity and openness are an integral part of TAURON Capital Group's business operations. TAURON Capital Group applies the policy of equal treatment and seeks to ensure diversity in terms of gender, educational background, age and professional experience in relation to all employees, and in particular to the governing bodies and its key managers. Measures are also being taken to prevent manifestations of discrimination by developing the right atmosphere at work, creating and strengthening positive relations among the employees and building an organizational culture based on PRO corporate values.

As part of the employee related issues supporting the implementation of the directions set by TAURON Capital Group's Diversity Policy, the following regulations are put in place:

1. *Policy of compliance with the Principles of Ethics and counteracting Mobbing and Discrimination at TAURON Group,*
2. *Policy of Respect for Human Rights* defining the principles of respect for human rights and actions taken to prevent their violation and to support the atmosphere of dignity and mutual respect,
3. training and competence development programs conducive to and supporting the creation of an atmosphere for the development of each employee,
4. regulations ensuring fairness and objectivity with respect to work organization and compensation, including among others:
  - 1) *TAURON Group's Compensation Principles,*
  - 2) *Human Resources Management Policy at TAURON Group,*
  - 3) regulations with respect to benefits (entitlements),
  - 4) flexible forms of work time and ability to work remotely,
5. *TAURON Group's Employee Recruitment Principles,*
6. *TAURON Group's Competence Model*

TAURON Capital Group's diversity management is based on building a culture of openness. TAURON Capital Group, by fighting age related stereotypes, is building an intergenerational dialogue so as to facilitate the flow of knowledge. The workforce represents various age groups, including those over 50 years of age. Among the employees there are also people with various degrees of disability, which ensures the stimulation of the activities of this professional group.

TAURON Capital Group is taking steps aimed at preventing the discrimination, in particular due to age, gender, race, nationality, sexual orientation, appearance, fitness, difference in the views or political or religious beliefs by fostering the adequate atmosphere at work, which makes the employees feel respected and appreciated and gives a feeling that they can develop and fully realize their professional potential.

## 10. STATEMENT ON NON-FINANCIAL INFORMATION

Pursuant to art. 49b, clause 9 and art. 55, clause 2c of the *Act of September 29, 1994, on accounting* (Journal of Laws of 2023, item 120), instead of the statement on the non-financial information, the Company drew up a Non-financial Report of TAURON Capital Group for 2022, in line with the requirements defined in art. 49b, clauses 2-8 of the act on accounting, in the form of a separate document posted on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/raporty-okresowe>.

# 11. POLICY OF COMPENSATION OF MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

## 11.1. Compensation system for the Members of the Management Board and the key managers

### General information on the adopted compensation system for the Members of the Management Board of TAURON Polska Energia S.A.

The principles of the compensation of the Members of the Management Board in 2022 were in line with the *Policy of Compensation of the Members of the Management Board and the Supervisory Board* (Compensation Policy) adopted by the General Meeting of the Company by way of the resolution no. 26 of July 15, 2020, as amended by the GM of the Company by way of the resolution no. 31 of May 24, 2022.

The above mentioned principles were also in line with the resolution no. 5 of the Extraordinary General Meeting of the Company of November 21, 2019, on the principles of determining the compensation of the Members of the Management Board, and the subsequent amendment passed by the GM of the Company by way of the resolution no. 30 of May 24, 2019, and the *Act of June 9, 2016, on the principles of determining the compensation of persons managing certain companies* (Journal of Laws of 2020, item 1907), as well as the Best Practice 2021.

The Company shall draw up a report on the compensation of the Members of the Management Board and the Supervisory Board of the Company for the individual financial years in accordance with art. 90g of the *Act of July 29, 2005, on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies* and shall publish such reports on the Company's website at the address: <https://www.tauron.pl/tauron/relacjeinwestorskie/informacje-o-spolce/dokumenty-spolki>.

The subject of the Report on the Compensation are the principles of determining and the structure of the compensation of the Members of the Management Board and the Supervisory Board of the Company in the individual financial years, with a particular emphasis on the total compensation of the individual Members of the Management Board, broken down into the fixed and the variable compensation dependent on the accomplishment of the specific management objectives, along with the amount of the additional cash benefits and non-cash benefits granted to the Members of the Management Board and the amount of the benefits received by the Members of the Management Board in connection with the termination of the contract for the provision of the management services and the compliance with the non-compete clause.

The Compensation Policy, along with the resolution of the General Meeting of the Company on the adoption thereof is published on the Company's website at the address: <https://www.tauron.pl>.

The overarching objectives of the Compensation Policy include:

1. ensuring a consistent and motivational compensation system for the Members of the Company's Management Board,
2. linking the compensation principles with the monitoring of the implementation of the adopted strategic plans, the long term interests of the Company and the implementation of the financial plans,
3. setting the level of the compensation of the Members of the Company's Management Board in a way that links it with the accomplishment of the management objectives set
4. increasing the Company's value through the development of the most senior management staff
5. improving the compensation system that would result in the implementation of the Company's business strategy and the directions of its expansion,
6. ensuring the stable growth of the Company.

The model of compensation covered by the Compensation Policy assumes a two-component system for determining the compensation of the Members of the Company's Management Board, where the total compensation of a Member of the Company's Management Board is composed of a fixed part constituting the monthly base compensation and a variable part constituting the supplementary compensation for the Company's financial year, dependent on achieving specific management KPI objectives.

The system of compensating the Members of the Company's Management Board assumes linking the variable part of the compensation with the outstanding management objectives stemming from the provisions of the *Act of June 9, 2016 on the principles for determining the compensation of the management personnel of certain companies*, (Journal of Laws of 2020, item 1907), and set, pursuant to these provisions, by the GM and the Supervisory Board of the Company. The adoption, in the compensation system, of the dependence of the compensation's variable part on achieving the management objectives set to be accomplished is aimed, in particular, at implementing the adopted Strategy, the directions of the Company's expansion and the financial plans, taking into account the Company's long term interests.

Taking into account the applicable regulations, the level of compensation of the Members of the Company's Management Board is determined by the Supervisory Board of the Company within the range determined by the GM of the Company.

The variable compensation of the Members of the Company's Management Board shall not exceed 100% of the fixed compensation for the financial year, assuming the management objectives, set by the GM and detailed by the Supervisory Board for the given financial year, have been achieved. In the year under review, the Company's Supervisory Board passed a resolution resulting in an increase of the maximum amount of the variable compensation from 60% to 100% of the annual fixed compensation of a Member of the Management Board in the previous financial year.

The variable compensation for achieving the financial management objectives shall be granted based on the data coming from the audited consolidated financial statements of the Company for the given financial year. The variable compensation for achieving the non-financial management objectives is due in connection with the achieving of the specific goals in the given financial year based on the assessment of the accomplishment thereof made by the Supervisory Board of the Company.

The Members of the Management Board of the Company are neither covered by the bonus program based on the equity of the Company (stock awards), nor do they receive any compensation or bonuses due to the performance of their functions in the governing bodies of TAURON Capital Group's subsidiaries.

### **General information on the adopted System of Compensation of the Members of the Management Board of TAURON Capital Group's Subsidiaries**

At all of TAURON Capital Group's subsidiaries for which TAURON is a parent company within the meaning of art. 4, clause 3 of the *Act of February 16, 2007, on the protection of competition and consumers*, (Journal of Laws of 2021, item 275), the principles of compensation of the members of the management bodies are applied in accordance with the *Act of June 9, 2016, on the principles of determining compensation of the management personnel of certain companies* (Journal of Laws of 2020, item 1907). The above was defined in the *Policy for determining the compensation of the members of the authorities of the Subsidiaries* adopted by the Management Board of TAURON, and in the *Principles of the compensation of the members of the corporate authorities of the Subsidiaries*.

The principles of compensation of the members of the management bodies of the subsidiaries are, similar as at TAURON, based on a two component system for determining the compensation, where the total compensation is composed of a fixed part and a variable part dependent on fulfilling specific, results based criteria, i.e. achieving the management objectives. Linking of the compensation's variable part to achieving the management objectives set to be accomplished is of material importance in TAURON Capital Group's management process and is aimed at prioritizing the directions of the expansion of the individual subsidiaries.

### **General information on the adopted System of Compensation of the Key Managers**

The principles related to the compensation and bonus system for the key managers and other employees are defined in the *Regulations of the Compensation of the Employees of TAURON Polska Energia S.A.*, adopted for application by the Management Board of the Company.

*TAURON Group's Principles of Compensation* were in force at TAURON Capital Group in 2022, constituting the guidelines for TAURON Capital Group's subsidiaries with respect to the personnel compensation systems, particularly taking into account the bonus system for the key managers based on the management by objectives system, consistent throughout entire TAURON Capital Group, representing a combination of the planning process, efficiency (performance) measurement process and assessment process.

The compensation and bonus system for the key managers in force envisages that the level of compensation should be tied to the financial condition of TAURON Capital Group and the Company over one year's time frame, in connection with the achievement of the strategic goals.

The overarching assumption of the compensation system in force is to ensure the optimal and motivating compensation level, based on the value and type of work in the given position, as well as the quality of work and effects achieved by the employees.

The structure of the compensation is composed of the following elements:

1. fixed part - constituting the base compensation (salary) determined in accordance with the table of level (tier) categories applicable at the Company and the monthly rates of the personal level (tier). The allocated level of the basic compensation (salary) reflects the value and type of work as well as the quality of the employee's work, defined based on the assessment of the employee's competence level,
2. variable part - which is dependent on the work performance results, defined based on the level of accomplishing the targets and tasks within the Management By Objectives (MBO) bonus system,
3. benefits (entitlements) - which are defined in the internal regulations of the Company.

The MBO bonus system based on the market principles of awarding bonuses ensures focusing of the activities of the key managers on attaining the objectives aimed at implementing the Strategy, as well as the strategic objectives and expansion directions of TAURON Capital Group's individual subsidiaries. Such a system allows for cascading of the objectives defined by the Company's Management Board at TAURON Capital Group level and at the Company level, down to the concrete, parameterized tasks vested with the employees positioned at the lower levels of the organization. In addition, the MBO bonus system has been linked with the process based management system implemented at TAURON Capital Group, inter alia, by linking the objectives with the Mega-processes defined within TAURON Capital Group. Therefore, the Management by Objectives culture introduced reflects the specific features of the individual functions implemented by the Company and allows for the use of the mechanisms enabling dialogue between the superior and the subordinate during the process of setting and assessing the objectives, that translate into attaining the overall efficiency throughout the entire organization.

At the same time, this tool enables precise correlating of the KPIs defined for the Members of the Company's Management Board with the objectives set for the given year for the key managers of the Company. An initial assessment of the accomplishment of the objectives takes place after the elapse of the first 6 months, while the Members of the Company's Management Board make the final assessment of the accomplishment of the objectives by the key managers after the year has ended.

In addition, there is a bonus system for the trading area (and the units directly cooperating therewith) in place, the purpose of which is to motivate the personnel to achieving the higher revenues for TAURON Capital Group. The trading bonus covers the key managers from the trading area, where the bonus mechanism awards them an additional bonus only after exceeding their designated annual trading plans.

## 11.2. Principles, conditions and amount of compensation of the Members of the Management Board of TAURON Polska Energia S.A. and the entities that are a part of TAURON Capital Group

### Compensation of the Members of the Management Board of TAURON Polska Energia S.A.

The compensation of the Members of the Company's Management Board is determined by the Supervisory Board of the Company. The total amount of the compensation understood as the value of the salaries, bonuses and benefits received in cash, in kind or in any other form, as well as the severance payments and the compensation for refraining from competitive activities, paid out by the Company to the Members of the Management Board of the Company in 2022 reached the gross amount of PLN 6 181 000.

The compensation of the Members of the Company's Management Board paid out in 2022, broken down into the individual components, is presented in the below table.

**Table no. 67. Compensation of the Members of the Company's Management Board paid out in 2022, broken down into the individual components (excluding markups)**

First and last name and the period of holding a position on the Company's Management Board in 2022	Total compensation <sup>1</sup> (PLN '000)	Fixed compensation (PLN '000)	Variable compensation <sup>2</sup> for achieving KPIs in 2021 (PLN '000)	Other benefits (PLN '000)	Severance pay (PLN '000)	Ban on competition (PLN '000)	Total (PLN '000)
1. Paweł Szczeszek 11.04.2022 – 31.12.2022	572	572	0	–	–	–	572
2. Patryk Demski 01.01.2022 – 31.12.2022	921	740	181	43 incl.: 13 PPE <sup>3</sup> 30 DMS <sup>4</sup>	–	–	964
3. Bogusław Rybacki 09.09.2022 – 31.12.2022	230	230	0	9 DMS <sup>4</sup>	–	–	239
4. Krzysztof Surma 01.01.2022 – 31.12.2022	921	740	181	48 incl.: 46 PPE <sup>3</sup> 2 Training <sup>5</sup>	–	–	969
5. Tomasz Szczegielniak 06.09.2022 – 31.12.2022	236	236	0	8 DMS <sup>4</sup>	–	–	244
6. Artur Warzocha 21.01.2022 – 31.12.2022	701	701	0	34 PPE <sup>3</sup>	–	–	735

First and last name and the period of holding a position on the Company's Management Board in 2022	Total compensation <sup>1</sup> (PLN '000)	Fixed compensation (PLN '000)	Variable compensation <sup>2</sup> for achieving KPIs in 2021 (PLN '000)	Other benefits (PLN '000)	Severance pay (PLN '000)	Ban on competition (PLN '000)	Total (PLN '000)
7. Artur Michałowski 01.01.2022 – 12.08.2022	637	456	181	–	185	247	1 069
8. Jerzy Topolski 01.01.2022 – 12.08.2022	900	456	444	57 PPE <sup>3</sup>	185	247	1 389
<b>Total</b>	<b>5 120</b>	<b>4 131</b>	<b>988</b>	<b>198</b>	<b>370</b>	<b>493</b>	<b>6 181</b>

<sup>1</sup>total of fixed compensation and variable compensation.

<sup>2</sup>variable compensation had been paid in full due amount (100% of all of the set management objectives had been accomplished).

<sup>3</sup>PPE – Employee Pension Program.

<sup>4</sup>DMS – Housing allowance for the company's accommodation.

<sup>5</sup>Individual training sessions.

As part of the Company's obligations towards the former Members of TAURON's Management Board, the total amount of PLN 875 000 was paid out in 2022 due to the payment of the variable compensation and the other benefits.

The Members of TAURON's Management Board did not receive any compensation or bonuses for performing the functions in the corporate bodies of TAURON Capital Group's subsidiaries in 2022.

All of the Members of the Management Board of the Company received in 2021 their compensation in accordance with the applicable contract for the provision of the management services in compliance with the *Act of June 9, 2016, on the principles of determining compensation of the management personnel of certain companies* (Journal of Laws of 2020, item 1907) and the Compensation Policy.

The detailed information on the compensation model for the Members of the Company's Management Board and the Compensation Policy is presented in section 11.1. of this report.

### Information on the obligations towards the former Members of the Company's Management Board due to pensions or benefits of similar nature

The Company does not have any obligations towards the former Members of the Company's Management Board due to pensions or benefits of similar nature.

## Compensation of the Members of the Management Boards of TAURON Capital Group's subsidiaries

The compensation of the Members of the Management Boards of TAURON Capital Group's subsidiaries is determined taking into account the scale of the given subsidiary's operations, in particular:

1. average annual headcount,
2. annual net revenue (turnover) from the sales of goods, products and services as well as from the financial operations,
3. total assets on the balance sheet as of the end of the year.

Based on the above criteria, the categories of the subsidiaries are defined, which determine the amount of the fixed compensation of the members of the subsidiaries' management bodies.

The principles of the compensation of the Members of the Management Boards of TAURON Capital Group's subsidiaries are published on the Company's website at the address: <https://www.tauron.pl>.

### 11.3. Agreements concluded with the Members of the Management Board that envisage compensation in case of their dismissal from the position held

The agreements (contracts) for the provision of the management services concluded both with the Members of TAURON's Management Board, as well as with the Members of the Management Boards of TAURON Capital Group's individual subsidiaries, envisage, in case of the termination or renouncement of the agreement by the Company for reasons other than defined therein, a payout of the severance payment in the amount of three times the fixed part of the compensation, on the condition they have performed their function over a period of at least 12 months prior to the termination of the agreement.

In addition, due to the Members of TAURON's Management Board, as well as the Members of the Management Boards of TAURON Capital Group's individual subsidiaries having access to the confidential information the disclosure of which could expose the Company and TAURON Capital Group's subsidiaries to losses, the agreements for the provision of the management services include the non-compete clauses applicable after the expiry of the term of office. Under the above mentioned agreements the Members of the Management Board are

obligated to refrain from conducting competitive activities for a specified period of time in return for the compensation due thereto.

#### **11.4. Non-financial components of the compensation due to the Members of the Management Board of TAURON Polska Energia S.A. and the key managers**

##### **Non-financial components of the compensation of the Members of the Company's Management Board**

The Members of the Company's Management Board, in accordance with the agreements for the provision of the management services, shall be entitled to the reimbursement by the Company of the cost of the individual training up to the net amount of PLN 15 000 in a calendar year.

The Members of the Company's Management Board are covered by the Employee Pension Program in accordance with the rules applicable to all of the employees of TAURON.

In addition, in the event of the permanent residence at a considerable distance from the registered office of the Company, a Member of the Management Board of the Company shall be entitled to a housing allowance in the gross amount of PLN 2 500.00 per month, that constitutes an additional benefit.

##### **Non-financial components of the compensation of the key managers**

The personnel employed at the key positions by the Company shall be entitled to take advantage of the following benefits and the non-financial components of the compensation offered by the Company:

1. Employee Pension Program managed by the employer (under the condition of being employed by the Company or by one of TAURON Capital Group's subsidiaries over a period of at least 1 year),
2. medical package financed with the Company's funds,
3. company car allocated for their exclusive use,
4. housing allowance in the gross amount of PLN 2 500.00 per month in case the availability of the employee is required due to the nature of his / her work and scope of responsibilities.

#### **11.5. Information on the changes to the compensation policy during the last financial year**

During the reporting year, the Compensation Policy for the Members of the Management Board and the Supervisory Board, as adopted by the General Meeting of the Company by way of the resolution no. 26 dated July 15, 2020, had been in effect until May 23, 2022.

On May 24, 2022, the General Meeting of the Company, by way of the resolution no. 31, updated the wording of the Compensation Policy with respect to increasing the amount of the compensation for a Member of the Management Board for each month of the non-compete clause being in force after the termination of his or her position on the Management Board of the Company from 50% to 100% of the Fixed Compensation. The maximum period of the non-compete clause being in force after the termination of his or her position on the Management Board of the Company has not changed and may not exceed 6 months. The other provisions of the Compensation Policy have not changed.

#### **11.6. System of the Compensation of the Members of the Supervisory Board of TAURON Polska Energia S.A.**

The principles of the compensation of the Members of the Supervisory Board of the Management Board in 2022 were in line with the Compensation Policy and the resolution no. 6 of the Extraordinary GM of the Company of December 15, 2016, amended by the resolution no. 6 of the Extraordinary GM of the Company of November 21, 2019, on the principles of determining the compensation of the Members of the Supervisory Board.

In accordance with the resolution no. 6 of the Extraordinary GM of the Company of December 15, 2016, *on the principles of determining the compensation of the Members of the Supervisory Board*, as subsequently amended, which continues to be valid also in the light of the Compensation Policy in force, the monthly compensation of the Members of the Supervisory Board of the Company is determined as a product of multiplying the assessment base mentioned in art. 1, clause 3, item 11 of the *Act of 9 June 2016 on the principles for determining the compensation of the management personnel of certain companies*, and the multiplier:

1. for the Chairperson of the Supervisory Board – 1.7
2. for the other members of the Supervisory Board – 1.5

The Members of the Supervisory Board shall be entitled to receive the compensation irrespective of the frequency of the meetings convened.

The compensation shall not be due for a month during which a Member of the Supervisory Board of the Company was not present at any of the formally correctly convened meetings, and the absence thereof was not excused. The decision on excusing or a failure to excuse the absence of a Member of the Company's Supervisory Board at the meeting thereof shall be taken by the Company's Supervisory Board by way of a resolution.

Pursuant to the Company's Articles of Association, TAURON shall cover the costs incurred in connection with the performance the Members of the Supervisory Board of the functions entrusted therewith, in particular: the costs of the round trip between the place of residence and the venue of the Supervisory Board's meeting or a meeting of the Supervisory Board's Committee, the costs of the individual supervision and the costs of the accommodation and board.

## 11.7. Compensation of the Members of the Supervisory Board of TAURON Polska Energia S.A.

The total amount of the compensation understood as the value of the compensations due or paid out by the Company to the Members of the Company's Supervisory Board in 2022 reached the gross amount of PLN 712 000.

The compensation of the Members of the Supervisory Board of the Company in 2022 is presented in the below table.

**Table no. 68. Compensation of the Members of the Supervisory Board of the Company in 2022**

	First and last name	Period of holding a position on the Company's Management Board in 2022	Compensation (PLN '000)
1.	Piotr Tutak	01.01.2022 – 31.12.2022	90
2.	Teresa Famulska	01.01.2022 – 31.12.2022	79
3.	Marcin Wawrzyniak	01.01.2022 – 31.12.2022	79
4.	Stanisław Borkowski	01.01.2022 – 31.12.2022	79
5.	Dariusz Hryniów	26.01.2022 – 31.12.2022	74
6.	Leszek Koziorowski	01.01.2022 – 31.12.2022	79
7.	Ryszard Madziar	01.01.2022 – 31.12.2022	79
8.	Grzegorz Peczkis	01.01.2022 – 31.12.2022	79
9.	Marcin Chludziński	25.05.2022 – 30.11.2022	41
10.	Katarzyna Taczanowska	01.01.2022 – 24.05.2022	32
	<b>Total</b>		<b>712</b>

The Members of the Supervisory Board of the Company do not hold positions in the authorities of the subordinated units.

### Information on the obligations towards the former Members of the Supervisory Board of the Company due to pensions or benefits of similar nature

The Company does not have any obligations towards the former Members of the Supervisory Board of the Company due to pensions or benefits of similar nature.



## 12. OTHER MATERIAL INFORMATION AND EVENTS

### 12.1. Material proceedings pending in front of the court, competent arbitration authority or public administration authority

The below table presents the material proceedings pending in front of the court, competent arbitration authority or the public administration authority in 2022.

**Table no. 69. Summary of material proceedings pending in front of the court, competent arbitration authority or public administration authority in 2022**

Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
<b>Proceedings involving TAURON</b>	
<p>1. <b>Plaintiff:</b> Huta Łaziska (Łaziska Steel Works)</p> <p><b>Defendants:</b> TAURON (as a legal successor to GZE) and State Treasury represented by the President of the Energy Regulatory Office (ERO)</p>	<p><b>Object of litigation:</b> a lawsuit for the payment of compensation for alleged damage caused by non-performance by Górnośląski Zakład Elektroenergetyczny S.A. (GZE) of the decision of the President of the Energy Regulatory Office (ERO) of October 12, 2001, related to the resumption of electricity supply to the plaintiff.</p> <p><b>Value of the object of litigation:</b> PLN 182 060 000.00</p> <p><b>Initiation of the proceeding:</b> the lawsuit of March 12, 2007</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On May 28, 2019, the Regional Court in Warsaw issued a ruling on the dismissal of Huta Łaziska's lawsuit in whole and ruled that Huta Łaziska shall refund each Defendant the costs of the proceedings. The ruling is not legally binding.</p> <p>Huta Łaziska filed an appeal complaint on July 25, 2019, appealing against the above mentioned ruling in whole. Based on the ruling of the Court of Appeal in Warsaw of February 9, 2022, the appeal of Huta Łaziska was dismissed, and also, among other things, the reimbursement of the costs of the appeal proceedings was adjudicated for the benefit of the Company. The ruling is final. Huta Łaziska brought a cassation appeal against the judgment to the Supreme Court.</p>
<p>2. <b>Authority conducting the audit:</b> Head of the Mazovian Customs and Tax Office, and after an appeal has been filed – the Director of the Tax Administration Chamber in Katowice and the Director of the Tax Administration Chamber in Warsaw</p> <p><b>Party:</b> TAURON</p>	<p><b>Object of litigation:</b> examining the accuracy of the tax base amounts declared by TAURON and the correctness of calculations and payments of the VAT tax for the period from October 2013 until September 2014. The main subject of the two investigations (audits) are TAURON's deductions of the VAT assessed due to the purchase of electricity by TAURON on the German and Austrian electricity market from Castor Energy sp. z o.o.</p> <p><b>Value of the object of litigation (deducted VAT amount):</b> with respect to the transaction with Castor Energy sp. z o.o. – PLN 52 494 672.</p> <p><b>Date of initiating the proceeding:</b> October 2014, August 2016</p> <p><b>Company's position:</b> in the Company's opinion during the verification of the counterparty (business partner, contractor), the due diligence was actually adhered to, and the Company acted in good faith, so there are no grounds for refusing the Company the right to deduct the tax assessed on the invoices documenting the electricity purchase from Castor Energy sp. z o.o.</p> <p>On October 7, 2020, the Company received the decision of the Head of the Mazovian Customs and Tax Office, ending one of the audit proceedings, specifying the amount of its VAT tax liability for the following months: October, November, December 2013 and the first quarter of 2014, which resulted in the obligation for the Company to pay additional VAT due to the transaction with Castor Energy sp. z o.o. in the total amount of PLN 51 818 857, along with the interest on the tax arrears. The Company filed an appeal against the decision on October 20, 2020.</p> <p>On January 15, 2021, as part of the second audit proceedings, a decision was issued the Head of the Mazovian Customs and Tax Office in which the Authority stated that the Company had not been eligible to deduct the VAT assessed from the invoice issued by Castor Energia Sp. z o.o. in April 2014, and thus the Company overstated the amount of VAT assessed recognized in the tax statement filing for the second quarter of 2014 by the amount of PLN 677 815.39. On February 12, 2021, the Company filed an appeal against the decision.</p> <p>The second instance authority upheld both decisions of the first instance authority. The company filed an appeal against the decisions of the second instance authority by way of a complaint lodged to the Provincial Administrative Court.</p>
<p>3. <b>Plaintiff:</b> Enea</p> <p><b>Defendant:</b> TAURON</p>	<p><b>Object of litigation:</b> a lawsuit for the payment due to the Company's alleged unjust enrichment (benefit) in connection with the settlements related to the imbalance of the Balancing Market with PSE between January and December 2012</p> <p><b>Value of the object of litigation:</b> PLN 17 085 846.49</p> <p><b>Initiation of the proceeding:</b> the lawsuit of December 10, 2015</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On March 22, 2021, the Regional Court in Katowice dismissed Enea's lawsuit in full and ruled on Enea's obligation to reimburse the Company for the costs of the proceedings. The ruling is not final (legally binding). Enea filed an appeal against the said decision.</p>
<p>Lawsuits pertaining to the termination, by Polska Energia Pierwsza Kompania Handlowa sp. z o.o. (PEPKH) subsidiary, of the agreements related to the sales of electricity and property rights arising from the guarantees of origin (energy certificates)</p>	

Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
	<p><b>Object of litigation:</b> lawsuit for payment of damages and determination of liability for the future.</p> <p><b>Value of the object of litigation:</b> PLN 72 217 997.00</p>
<p>4. <b>Plaintiff:</b> Dobiesław Wind Invest sp. z o.o. <b>Defendant:</b> TAURON</p>	<p><b>Initiation of the proceeding:</b> the lawsuit of June 30, 2017</p> <p>In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff, apart from the existing claims, brought new claims: for the payment of PLN 37 471 305.05 or (a potential claim) PLN 35 969 662.07.</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p>
<p>5. <b>Plaintiff:</b> Gorzyca Wind Invest sp. z o.o. <b>Defendant:</b> TAURON</p>	<p><b>Object of litigation:</b> lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.</p> <p><b>Value of the object of litigation:</b> PLN 97 651 840.00</p> <p><b>Initiation of the proceeding:</b> the lawsuit of June 29, 2017</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p> <p>In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff, apart from the existing claims, brought new claims: for the payment of PLN 57 933 516.55 or (a potential claim) PLN 62 666 188.65.</p>
<p>6. <b>Plaintiff:</b> Pękanino Wind Invest sp. z o.o. <b>Defendant:</b> TAURON</p>	<p><b>Object of litigation:</b> lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.</p> <p><b>Value of the object of litigation:</b> PLN 44 817 060.00</p> <p><b>Initiation of the proceeding:</b> the lawsuit of June 29, 2017</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p> <p>In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff, apart from the existing claims, brought new claims: for the payment of PLN 16 347 985.20 or (a potential claim) PLN 11 894 096.96.</p>
<p>7. <b>Plaintiff:</b> Nowy Jarosław Wind Invest sp. z o.o. <b>Defendant:</b> TAURON</p>	<p><b>Object of litigation:</b> lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.</p> <p><b>Value of the object of litigation:</b> PLN 57 763 340.00</p> <p><b>Initiation of the proceeding:</b> the lawsuit of June 29, 2017</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p> <p>In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff, apart from the existing claims, brought new claims: for the payment of PLN 30 755 239.47 or (a potential claim) PLN 32 175 239.15.</p>
<p>8. <b>Co-participation on the plaintiff's (claimant's) side:</b> Amon sp. z o.o. (Amon) and Talia sp. z o.o. (Talia) <b>Defendant:</b> TAURON</p>	<p><b>Object of litigation:</b> lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.</p> <p><b>Value of the object of litigation:</b> Amon – PLN 78 205 000; Talia – PLN 53 128 000</p> <p><b>Initiation of the proceeding:</b> the lawsuit of April 30, 2018</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p>
<p><b>Proceedings involving TAURON Capital Group's subsidiaries related to the termination, by a subsidiary, of the agreements related to the sale of electricity and property rights arising from the guarantees of origin of electricity (energy certificates)</b></p>	
<p>9. <b>Plaintiff:</b> Gorzyca Wind Invest sp. z o.o., Pękanino Wind Invest sp. z o.o., Dobiesław Wind Invest sp. z o.o. <b>Defendant:</b> PEPKH</p>	<p><b>Object of litigation:</b> plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the guarantees of origin of electricity (energy certificates) null and void, and to award damages.</p> <p><b>Value of the object of litigation:</b> Gorzyca Wind Invest sp. z o.o. – PLN 112 353 945.05; Pękanino Wind Invest sp. z o.o. PLN 64 116 908.85</p> <p><b>Initiation of the proceeding:</b> Gorzyca Wind Invest sp. z o.o. – May 18, 2015, Pękanino Wind Invest sp. z o.o. – May 20, 2018, Dobiesław Wind Invest sp. z o.o. – May 18, 2015</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On April 14, 2022, PEPKH's power of attorney representatives received further lawsuits including more demands:</p> <ol style="list-style-type: none"> <li>1) Gorzyca Wind Invest sp. z o.o. – a claim for the amount of PLN 80 810 380.04 to be awarded or (an alternative claim) PLN 43 350 973.37,</li> <li>2) Pękanino Wind Invest sp. z o.o. – a claim for the amount of PLN 11 070 380.21 to be awarded or (an alternative claim) PLN 11 454 266.58.</li> </ol>
<p>10. <b>Plaintiff:</b> Dobiesław Wind Invest sp. z o.o. <b>Defendant:</b> PEPKH</p>	<p><b>Object of litigation:</b> plea to award damages and liquidated damages.</p> <p><b>Value of the object of litigation:</b> PLN 119 958 191.00</p> <p><b>Initiation of the proceeding:</b> the lawsuit of June 14, 2017</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p>
<p>11. <b>Plaintiff:</b> Nowy Jarosław Wind Invest sp. z o.o. <b>Defendant:</b> PEPKH</p>	<p><b>Object of litigation:</b> plea to declare the termination, by PEPKH, of the agreements related to the sale of electricity and property rights arising from the guarantees of origin of electricity (energy certificates) null and void, and to award damages.</p> <p><b>Value of the object of litigation:</b> PLN 105 128 834.11</p> <p><b>Initiation of the proceeding:</b> the lawsuit of June 3, 2015</p>

Parties to the proceedings	Description of the proceedings including the value of the object of litigation and the Company's position
12. <b>Plaintiff:</b> Amon <b>Defendant:</b> PEPKH	<p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p> <p><b>Object of litigation:</b> plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the guarantees of origin of electricity null and void, and to award damages.</p> <p><b>Value of the object of litigation:</b> PLN 40 478 983.22</p> <p><b>Initiation of the proceeding:</b> the lawsuit of May 22, 2015</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On July 25, 2019, the Regional Court in Gdańsk issued a partial and preliminary ruling in the case in which the Court:</p> <ol style="list-style-type: none"> <li>determined that PEPKH's statements on the termination of long term agreements, concluded between PKH and Amon, for the purchase of electricity and property rights arising from the guarantees of origin of electricity had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all provisions and shall be binding for the parties,</li> <li>determined that Amon's demand for payment of damages for a failure to perform the agreement had been justified in principle, however the Court did not determine the amount of the potential damages.</li> </ol> <p>PEPKH disagrees with the ruling and filed an appeal complaint on October 25, 2019. On November 17, 2022, the Court of Appeals dismissed PEPKH's appeal. The ruling of the Court of Appeals and, as a consequence, the above mentioned preliminary and partial rulings shall be legally binding, however, there is a possibility of filing a cassation appeal. These rulings do not award any damages to be paid by PEPKH to the plaintiff, i.e. Amon. PEPKH disagrees with the ruling of the Court of Appeals in its entirety, as well as it disagrees with the ruling of the Court of the First Instance. PEPKH will immediately request the Court of Appeals that it be served the Court of the Second Instance's ruling along with a written statement of reasons, and it will proceed to analyze it with a view to file an appeal against it as soon as possible and take all other legal remedies to which it is entitled.</p>
13. <b>Plaintiff:</b> Amon <b>Defendant:</b> PEPKH	<p><b>Object of litigation:</b> plea to determine awarding of damages due to a failure to perform, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the guarantees of origin of electricity (energy certificates).</p> <p><b>Value of the object of litigation:</b> PLN 49 096 783,00 29</p> <p><b>Initiation of the proceeding:</b> August 20, 2019</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On March 1, 2023 (an event that took place after the balance sheet date), PEPKH was served with an amendment to the lawsuit, in which Amon demanded the payment of PLN 20 087 593.10 in addition to the amount of PLN 29 009 190 demanded in the lawsuit.</p>
14. <b>Plaintiff:</b> Talia <b>Defendant:</b> PEPKH	<p><b>Object of litigation:</b> plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the guarantees of origin of electricity (energy certificates) null and void, and to award damages.</p> <p><b>Value of the object of litigation:</b> PLN 46 078 047.43</p> <p><b>Initiation of the proceeding:</b> the lawsuit of May 21, 2015</p> <p><b>Company's position:</b> the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On March 6, 2020, the Regional Court in Gdańsk issued a partial and preliminary ruling, supplemented by the court on September 8, 2020, in the case in which the Court:</p> <ol style="list-style-type: none"> <li>determined that PKH's statements on the termination of long term agreements, concluded between PEPKH and Talia, for the purchase of electricity and property rights arising from guarantees of origin electricity (energy certificates) had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all provisions and shall be binding for the parties,</li> <li>determined that Talia's demand for payment of damages for a failure to perform the agreement had been justified in principle, however the Court did not determine the amount of the potential damages.</li> </ol> <p>On August 3, 2020, and on March 8, 2021, PEPKH filed an appeal against the ruling (the preliminary one and the supplemented one) with the court. On December 20, 2021, the Court of Appeal in Gdańsk, announced the ruling to dismiss the appeal of PEPKH. The ruling of the Court of Appeal, and as a consequence the above mentioned preliminary and partial ruling as well as the supplementary ruling are final (legally binding), however it is possible to file a cassation appeal. The rulings do not order that PKH should pay any damages to the plaintiff, i.e. Talia sp. z o.o. PEPKH disagrees in full with the ruling of the Court of Appeal as well as with the rulings of the Court of the first instance. PEPKH has been served the statement of reason for the court judgment and filed a cassation appeal. On February 28, 2023 (an event that took place after the balance sheet date), the Supreme Court accepted the cassation appeal for review.</p>

## Other proceedings

### Petitions of TAURON Sprzedaż for a change of the approved tariff

As of January 1, 2020, pursuant to the decision of the President of the Energy Regulatory Office (ERO) of December 17, 2019, the electricity tariff for the G tariff groups consumers entered into force, resulting in an increase in the payments for the household consumers by 19.9% as compared to the payments incurred in 2018/2019.

Due to the fact that the said decision prevented TAURON Sprzedaż from passing on the justified costs of the activities related to the electricity trading, on January 8, 2020, TAURON Sprzedaż submitted to the President of the Energy Regulatory Office (ERO) a petition for a change of the tariff approved for 2020, thus initiating the administrative proceedings.

Due to the particularly complex nature of the case and the COVID-19 pandemic, the deadline for resolving the case was set as July 29, 2020. By way of the decision of July 8, 2020, the President of the Energy Regulatory Office (ERO) did not approve the above mentioned tariff change.

In the opinion of TAURON Sprzedaż, the decision to approve the tariff was justified by the legitimate interest of the party and the provisions of the applicable law, stipulating that the tariff should ensure that the justified costs of the activities conducted by the Company are covered, while the decision approving the tariff, in the opinion of the Company, did not ensure this.

On July 30, 2020, TAURON Sprzedaż filed an appeal to the Court of Competition and Consumer Protection in Warsaw, against the decision of the President of the Energy Regulatory Office (ERO) of July 8, 2020, motioning for the amendment of the challenged decision in its entirety by approving the electricity tariff in accordance with the application of TAURON Sprzedaż or revoking the decision in its entirety and ruling that the decision was issued in the violation of the law. The case is pending under the reference file number XVII AmE 242/20.

The Court of Competition and Consumer Protection Company, by way of its decision of July 28, 2022, admitted the evidence from the opinion of a court expert in the field of the energy market and accounting. The Company is waiting for the expert to issue the opinion.

### **The disputes between EC Stalowa Wola and Abener Energia**

In 2022, EC Stalowa Wola and Abener Energia, with its registered office in Campus Palmas Altas, Seville, proceeded with the implementation of the settlement agreement concluded on December 31, 2021, the purpose of which was to define the terms on which EC Stalowa Wola and Abener Energia were to make mutual settlements arising from any court and arbitration disputes pending between them and arising from the contract for the construction of a CCGT unit with a district heating section at EC Stalowa Wola. On February 28, 2022, the parties signed an addendum to the settlement agreement, which primarily postponed the deadline for the meeting of certain obligations by Abener Energia. In March 2022, the terms of the settlement agreement were fulfilled and the parties proceeded with the implementation thereof.

In connection with the settlement agreement concluded, all of the court and arbitration proceedings between EC Stalowa Wola and Abener Energia, the information of which was disclosed by the Company in 2021, had first been suspended at the joint motion filed by the parties, and subsequently, on March 9 and 10, 2022, the parties filed the motions to resume the suspended proceedings, to withdraw the lawsuits and the cassation appeal, as well as to discontinue all of the proceedings. As a consequence, the Arbitration Court at the Polish Chamber of Commerce issued, on March 14, 2022, a decision to discontinue the proceedings related to the claim brought by Abener Energia against EC Stalowa Wola, reviewed under the reference file number SA 14/19, and on March 21, 2022, the decision to discontinue the proceedings related to the claim brought by EC Stalowa Wola against Abener Energia, reviewed under the reference file number SA 167/19. The Supreme Court issued a decision on the discontinuation of the cassation proceedings on the complaint of EC Stalowa Wola with the participation of Abener Energia on June 2, 2022.

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

TAURON disclosed the information on the disputes between EC Stalowa Wola and Abener Energia in current reports: no. 16/2019 of May 2, 2019, no. 29/2019 of August 8, 2019, no. 59/2019 of December 20, 2019, no. 43/2020 of September 22, 2020, and no. 48/2020 of October 19, 2022.

### **Signing of an agreement on the conducting of a mediation process related to the 910 MW generation unit in Jaworzno**

On August 5, 2022, Nowe Jaworzno Grupa TAURON (currently TAURON Wytwarzanie, Ordering Party) and the consortium composed of RAFAKO S.A., Mostostal Warszawa S.A. and E003B7 sp. z o.o. (Contractor), signed a mediation agreement pursuant to which, subsequently, on August 8, 2022, a petition for a mediation to be conducted in front of the Court of Arbitration at the General Counsel to the Republic of Poland was submitted.

The intention behind conducting the mediation process stems from the need to change the terms of the settlement agreement concluded on December 2, 2021, in particular those concerning the transition period (i.e. the period during which the optimization and tune-up works are carried out, including the tests, trials and measurements) for the 910 MW generation unit in Jaworzno, which was originally supposed to end by October 30, 2022. The contentious issue that has arisen between the parties at the current, final stage of the contract implementation is related to the identification of the reasons that had caused the delays in the implementation of the schedule of works conducted on the 910 MW unit in Jaworzno and the fallout from the situation arisen.

The Contractor had not completed the transition period by January 11, 2023, and as a consequence, the protocol of the transition period completion, referred to in current report no. 47/2021 of December 2, 2021, has not been signed. Thus, on January 11, 2023 (event after balance sheet date) in view of the failure to obtain or confirm the technical parameters specified in the contract, an occurrence of objective delay in the performance of the contract for the construction of 910 MW unit in Jaworzno (Contract) on the part of the Contractor, an occurrence of damages for the Ordering Party as a result of a failure to meet the required availability parameter (rate), and the physical defects of the subject of the Contract that have been identified and not remedied, the Ordering Party took the decision – in line with the provisions of the Contract – to issue a demand for the payment of contractual penalties and liquidated damages.

A note for the total amount of PLN 1 312 440 218.91, was attached to the demand, which was a total amount of the liquidated damages and the compensation, in particular due for the below listed claims: statutory warranty for the physical defects and thus a claim to remedy damages incurred by the Ordering Party as a consequence of the physical defects, a claim to remedy the damages borne by the Ordering Party as a result of a failure to fix the non-limiting defects described in the unit's acceptance (hand-over) protocol (certificate), a claim to cover the costs of the substitute contractor with respect to the fixing of the defect in the boiler slag hopper and the mills, a claim to cover the recourse claim in view of the need to satisfy the claim of the Contractor's subcontractor by the Ordering Party, the liquidated damages for a delay in meeting the deadline for proceeding to start the fixing of the defects or for a delay in meeting the deadline for the fixing of the defects during a warranty period, the liquidated damages for a delay in the signing of the transition period completion protocol due to a failure to meet the guaranteed technical (performance) parameters, the liquidated damages for each hour of a non-planned shutdown in excess of the number of hours specified in the Contract, damages involving the occurrence of the flaws in the design and implementation of the subject of the Contract, the liquidated damages for a delay in the signing of the protocol for the completion of the stage of the Contract covering the performance of the selected acceptance tests with Polskie Sieci Elektroenergetyczne S.A. (Transmission System Operator).

The Contractor was given a deadline of 30 days from the date of the receipt of the summons to pay the amount covered by the note.

TAURON disclosed the information on the above event in current report no. 2/2023 of January 11, 2023.

On January 13, 2023 (event after balance sheet date), TAURON and TAURON Wytwarzanie received the summons to pay from RAFAKO.

The subject of the summons addressed to TAURON Wytwarzanie are the claims for the payment of:

1. PLN 1 500 000 to the public benefit organizations indicated by RAFAKO S.A. for an unlawful violation of the personal interests (rights, goodwill) of RAFAKO by TAURON Wytwarzanie,
2. PLN 249 605 000 to RAFAKO for the remedying by TAURON Wytwarzanie of the damage suffered by RAFAKO S.A. due to the violation of the personal interests (rights, goodwill) of RAFAKO and the loss of RAFAKO's ability to acquire the new contracts, resulting from the lack of the decrease in the amount of the financial guarantees that serve as the Contract collaterals (bonds),
3. PLN 319 447 991 to RAFAKO due to a reimbursement of the costs incurred by RAFAKO as a consequence of an extension of the implementation of the Contract due to TAURON Wytwarzanie's fault, with a proviso that the amount of the costs has been calculated assuming that the Contract's implementation will be completed by the end of 2023,
4. PLN 1 450 000 to RAFAKO due to a reimbursement of the costs of the fixing of malfunctions, faults of the devices and the remedying of effects of the failures with respect to the Unit arisen due to TAURON Wytwarzanie's fault and caused by the use of the coal that had not met the terms of the Contract. The amount had been calculated as of the date of drafting the summons,
5. PLN 34 471 000 to RAFAKO due to the indexing of RAFAKO's compensation.

At the same time RAFAKO indicated that in the case of a failure of the process related to the acquiring of an investor for RAFAKO for the reasons attributable, in the opinion of RAFAKO, to TAURON Wytwarzanie, RAFAKO will be filing a claim for the damages in the amount of not less than PLN 300 000 000.

In addition, RAFAKO made a proviso that in the event its contractors (counterparties) and business partners – as a result of acts or omissions by TAURON Wytwarzanie – file claims against RAFAKO for the liquidated damages or compensation, RAFAKO will file claims for compensation (damages) / recourse against TAURON Wytwarzanie in the amount of not less than PLN 483 305 502.71.

In addition, RAFAKO demanded that TAURON Wytwarzanie should submit a statement containing the wording presented in the above mentioned summons, that would constitute an apology for the violation of the personal interests (rights, goodwill) of RAFAKO.

The subject of the summons addressed to the TAURON are the claims for the payment of:

1. PLN 1 500 000 to the public benefit organizations indicated by RAFAKO S.A. for an unlawful violation of the personal interests (rights, goodwill) of RAFAKO by TAURON Wytwarzanie,

2. PLN 249 605 000 to RAFAKO for the remedying by TAURON Wytwarzanie of the damage suffered by RAFAKO S.A. due to the violation of the personal interests (rights, goodwill) of RAFAKO and the loss of RAFAKO's ability to acquire the new contracts, resulting from the lack of the decrease in the amount of the financial guarantees that serve as the Contract collaterals (bonds).

At the same time RAFAKO indicated that:

1. RAFAKO will file claims for compensation (damages) / recourse against TAURON in the amount of not less than PLN 483 305 502.71 due to the potential penalties and compensations being the subject of the claims filed by the entities for the benefit of which agreements (contracts) are performed or which are RAFAKO's business partners. This amount may go up due to further claims by the parties to the contracts, related to a breach of contracts and delays in the implementation thereof.,
2. in the case of a failure of the process related to the acquiring of an investor for RAFAKO for the reasons attributable - in the opinion of RAFAKO - to TAURON Wytwarzanie, RAFAKO will be filing a claim for the damages in the amount of not less than PLN 300 000 000.

In addition, RAFAKO demanded that TAURON Wytwarzanie should submit a statement containing the wording presented in the above mentioned summons, that would constitute an apology for the violation of the personal interests (rights, goodwill) of RAFAKO.

TAURON disclosed the information on the above event in current report no. 3/2023 of January 13, 2023.

On February 7, 2023 (event after balance sheet date), the Ordering Party and the Contractor entered into an agreement (Agreement).

The Agreement defined the terms of the cooperation in the period until March 8, 2023, and had been concluded to ensure a constructive course of the mediation in front of the Court of Arbitration at the General Counsel to the Republic of Poland, the purpose of which is to work out a solution to the contentious issues related to the implementation of the Contract. In accordance with the concluded Agreement, the Parties declared their intention to continue with the further mediation process in good faith, with an intention to find an amicable settlement of the claims covered by the summons to pay and the notes of each of the Parties, i.e.:

1. summons to pay, along with a debit note due to the liquidated damages and compensation in the amount of PLN 1 312 440 218.91 issued by the Ordering party to the Contractor, referred to in current report no. 2/2023 of January 11, 2023. In line with the Agreement, the initial payment due date for the amount of PLN 549 820 561.76 (the total amount of the performance bond with respect to the performance of the Contract) shall be amended and the said amount shall be due on February 28, 2023. The payment due date for the remaining amount, i.e. PLN 762 619 657.15 shall be extended until March 8, 2023, however, no claims shall be waived as the payment due dates have been extended.
2. summons to pay the amount of PLN 251 105 000.00 issued by RAFAKO to TAURON and the summons to pay the amount of PLN 606 473 991.00 issued to the Ordering party, referred to in current report no. 3/2023 of January 13, 2023. In line with the Agreement the payment due dates of the above mentioned amounts shall be extended until March 8, 2023. No claims shall be waived as the payment due dates have been extended.

In accordance with the concluded Agreement, the Parties recognize and confirm the possibility of minimizing the mutual claims. The Parties intend to reach a settlement, which will determine the manner of completing the Contract and finalizing the mutual settlements related thereto ("Settlement"). The Parties undertook to conduct the negotiations and mediation in good faith in order to agree on the final terms and conditions of the Settlement by February 28, 2023, and finish the mediation process, as well as sign the Settlement by March 8, 2023.

The Parties agree that the Contract will be completed within up to 5 days from the date of the verification and joint evaluation of the guaranteed technical performance parameters A and B on the terms and conditions defined in the Settlement, however not later than by December 31, 2023 and that Contractor's liability related to the implementation of the Contract will be limited to the amount agreed upon in the Settlement.

The Parties had undertaken not to file any claims, either monetary or non-monetary, including summons to pay/demands for payment, with each other or with the financing institutions, until February 28, 2023.

TAURON disclosed the information on the above event in current report no. 7/2023 of February 7, 2023.

As of February 28, 2023 the Parties have not agreed on the final terms of the Settlement.

TAURON informed about the abovementioned event in current report no. 12/2023 of February 28, 2023.

On March 7, 2023 (event after balance sheet date), TAURON Wytwarzanie and the Contractor signed an annex (Annex) to the Agreement. In line with the Annex, the Parties decided to amend the Agreement by extending the payment due dates of the claims referred to in current report no. 7/2023 of February 7, 2023, until March 22, 2023, otherwise the claims would have become due as of February 28, 2023, or March 8, 2023. No claims shall be waived as the payment due dates have been extended.

In addition, the Ordering Party has undertaken to refrain from filing any claims against the Contractor arising out of or in relation to the implementation of the Contract until March 22, 2023, with respect to the amount of PLN 549 820

561.76 (the total amount of the performance bond with respect to the performance of the Contract) and until March 24, 2023, with respect to the remaining amount of Ordering Party's claims against the Contractor, i.e. PLN 762 619 657.15.

The amendments to the Agreement had been introduced subject to a suspensive condition that by March 8, 2023, the Contractor should deliver to the Ordering Party the annexes, signed by the underwriters, to all of the performance guarantees (bonds) issued under the Contract and constituting the instruments securing good performance of the Contract that would extend the validity of such guarantees (bonds) until March 24, 2023 (inclusive of March 24, 2023).

At the same time Parties declared that they had intended to continue with the further mediation in front of the Court of Arbitration at the General Counsel to the Republic of Poland with an intention to amicably settle claims covered by the summons to pay and the notes, the information of which was disclosed by TAURON in current reports no. 2/2023 of January 11, 2023 and No. 3/2023 of January 13, 2023. Parties informed about their intention to conclude the Settlement that will determine the manner of completing the Contract and finalizing the mutual settlements related thereto by March 22, 2023.

TAURON disclosed the information on the above event in current report no. 14/2023 of March 7, 2023.

On March 20, 2023 (event after balance sheet date) the Parties signed assumptions of the Settlement. It has been agreed that:

1. Subject to prior agreement between RAFAKO and bond underwriters, TAURON Wytwarzanie will limit its claims against RAFAKO, Mostostal Warszawa and E003B7 to the amount of PLN 240,000,000 which should be satisfied by drawing from performance bond for the Contract granted at the request of E003B7 and which will be paid by the bond underwriters. The Parties assume that the bond underwriters will voluntarily pay the abovementioned amount by April 30, 2023. However, this arrangement does not mean that RAFAKO, Mostostal Warszawa and E003B7 recognize TAURON Wytwarzanie's claims,
2. As part of satisfying RAFAKO's claims against TAURON Wytwarzanie, TAURON Wytwarzanie will pay to RAFAKO and E003B7 the following amounts:
  - 1) on the day of signing the Settlement, PLN 32,574,744.16 for inventoried works,
  - 2) after coming into force of the Settlement (after signing settlement with UNIQUA S.A.), PLN 8,500,000 from compensation that it will obtain from UNIQUA S.A.,
  - 3) on the day of coming into force of the Settlement, PLN 14,012,700 for, among other things, workshop documentation for desulphurization installation and electro filter, calculation documentation for the boiler, ending the transition period (for passing KM 91c5), additional non-contractual items,
  - 4) on the day of coming into force of the Settlement, PLN 10,000,000 for being released by RAFAKO from liability for claims of all subcontractors of RAFAKO and E003B7, including further subcontractors, subject to reservation that the amount is to be returned if TAURON Wytwarzanie becomes liable and subject to reservation that RAFAKO demonstrates to TAURON Wytwarzanie that the claims of subcontractors and further subcontractors have been closed,
3. On the day of signing the Settlement RAFAKO and E003B7 will release, as of the day of signing the Settlement, all subcontractors and further subcontractors from all obligations that hinder or prevent them from cooperation with TAURON Wytwarzanie in any scope, including the scope related to the 910 MW unit in Jaworzno (its refurbishments, upgrades, optimization, tests, removal of defects and faults, repairs, and so on),
4. On the day of coming into force of the Settlement:
  - 1) TAURON Wytwarzanie will release RAFAKO, Mostostal Warszawa and E003B7 from obligations under technical guarantees. The release will be effective also in the circumstances that will occur in the period between signing and coming into force of the Settlement,
  - 2) The Parties will terminate the Contract by expiring contractual obligations,
  - 3) The Parties will waive all claims against each other exceeding those covered by the Settlement, TAURON Wytwarzanie will waive its claims against Mostostal Warszawa, and RAFAKO and E003B7 will waive their claims against TAURON in a separate agreement signed with TAURON,
5. On the day of signing these assumptions of the Settlement, RAFAKO and Mostostal Warszawa will issue and submit to TAURON Wytwarzanie statement extending until April 28, 2023 the deadline for issuing and submitting payment guarantee, which was required by RAFAKO from TAURON Wytwarzanie,
6. On March 21, 2023 the Parties will sign another annex to agreement of February 7, 2023 under which the deadlines for standstill arrangements will be extended until April 28, 2023,
7. The Parties will unanimously apply for acceptance of the Settlement by a relevant court,
8. Coming into force of the Settlement is subject to the following suspensive conditions:
  - 1) by TAURON Wytwarzanie – obtaining all required corporate approvals until April 20, 2023,
  - 2) by RAFAKO – obtaining all required Corporate approvals by April 20, 2023; signing agreement with bond underwriters to pay without undue delay the amount of PLN 240,000,000 to TAURON Wytwarzanie by April 24, 2023; adopting by the general meeting of RAFAKO of a resolution concerning increase of RAFAKO's share capital by the amount presented in the announcement convening the general meeting of RAFAKO; presenting by MS Galleon GmbH of a statement confirming further interest in participation in the investment

- process in RAFAKO by April 24, 2023; and signing settlement by RAFAKO and Ignitis Grupe AB or its subsidiary/ subsidiaries in relation to Vilnius project by April 24, 2023,
- 3) by Mostostal Warszawa – obtaining all required Corporate approvals by April 20, 2023,
9. By March 23, 2023 RAFAKO will submit to TAURON Wytwarzanie statements of bond underwriters (annexes to performance bonds) extending bond validity at least until April 28, 2023.

TAURON disclosed the information on the above event in current report no. 16/2023 of March 20, 2023.

On March 21, 2023 (event after balance sheet date) the Parties signed Annex no. 2 to the Agreement in which they decided to amend the Agreement by extending:

1. due date of RAFAKO's claims against TAURON and RAFAKO's claims against the Ordering Party, referred to in current report No. 3/2023 of January 13, 2023, until April 28, 2023.
2. due date of the Ordering Party's claim against the Contractor in relation to the amount of PLN 549,820,561.76 (total amount of performance bonds for the contract for construction of the Contract), until April 24, 2023,
3. Ordering Party's commitment to refrain from filing any claims against the Contractor arising out of or in relation to execution of the Contract, in relation to the amount of PLN 549,820,561.76, until April 24, 2023,
4. Ordering Party's commitment to refrain from filing any claims against the Contractor arising out of or in relation to execution of the Contract, in relation to the amount of PLN 762,619,657.15, until April 28, 2023,
5. Parties' commitment to refrain from filing any claims, monetary or non-monetary, against each other and against financing institutions, including demands/ requests for payment and non-monetary demands/ requests as well as to refrain from filing applications, notifications and claims with legal and administrative authorities, until April 28, 2023.

Entry into force of Annex no. 2 was subject to a suspensive condition of the Contractor delivering to the Ordering Party by March 23, 2023 annexes to bonds extending the validity of those bonds until at least April 28, 2023. The Contractor delivered the annexes to all bonds issued under the Contract and constituting performance guarantee securing good performance of the Contract signed by underwriters, extending the validity of the bonds until April 30, 2023 thus the provisions of Annex no. 2 came into force.

As of March 23, 2023 the Parties have not concluded Settlement.

TAURON informed about the abovementioned event in current reports no. 17/2023 of March 21, 2023 and no. 18/2023 of March 23, 2023.

As of the date of drawing up this report the Parties continue works the purpose of which is to conclude Settlement as part of mediation before the Court of Arbitration at the General Counsel to the Republic of Poland.

## 12.2. Agreements that are material for TAURON Capital Group's operations

Agreements that had been material for the operations of TAURON Capital Group in 2022 and by the date of drawing up this report are listed below.

### Information on the planned public aid for TAURON Wydobycie and the conclusion of the agreements in connection with the inclusion of TAURON Wydobycie in the support system with respect to the subsidies for the reduction of capacity

On April 8, 2022, TAURON received the information on the approval by the Minister of the State Assets of the Republic of Poland of the application for granting of the public aid in the form of awarding the company the subsidies for the reduction of the production capacity for 2022.

Pursuant to the *Act of September 7, 2007, on the functioning of the hard coal mining* and the *Regulation of the Minister of the State Assets of February 3, 2022, on the subsidies to reduce the production capacity of the coal mining enterprises*, TAURON Wydobycie has been covered by the support system to gradually phase out its hard coal mining operations. In accordance with the assumptions of the support system, the subsidies will be provided until the last hard coal mine of TAURON Wydobycie has been shut down.

The estimated amount of the subsidies for TAURON Wydobycie for 2022 was set at the level of approx. PLN 1.15 billion, however, taking into account the situation on the hard coal market (a limited supply resulting in an increase in the hard coal prices), this amount is subject to a reduction. In addition, the support system constitutes state aid and is subject to the notification to the European Commission.

On December 20, 2022, TAURON Wydobycie signed the agreement for the increase of the share capital with the Minister of State Assets and the agreement for taking up of the shares in the increased share capital with the State Treasury represented by the Minister of State Assets.

In accordance with the agreements signed, pursuant to the resolution of the Management Board of TAURON Wydobycie passed on December 20, 2022, TAURON Wydobycie's share capital was, after the balance sheet date, increased by way of a private subscription with the pre-emptive right of the existing shareholders being fully waived. The State Treasury paid the capital up through an in-kind contribution of the State Treasury securities, i.e. 203,603 State Treasury bonds.



The funds acquired from the sale of the bonds will be used to finance the ongoing operations of TAURON Wydobycie in accordance with the terms and conditions of the subsidies for the reduction of the production capacity referred to in Article 5f of the *Act of September 7, 2007, on the functioning of the hard coal mining*.

TAURON disclosed the information on the above events in current reports: no. 11/2022 of April 8, 2022, no. 30/2022 of July 15, 2022, and no. 47/2022 of December 20, 2022.

### **Signing of the letter of intent with respect to the cooperation in the field of the Small Modular Reactor (SMR) power generation technology**

On April 20, 2022, TAURON signed the letter of intent with KGHM Polska Miedź in which the parties considered launching the strategic cooperation related to the research and development works and the future investment projects with respect to the construction of the small and micro nuclear reactors (Small Modular Reactor - SMR) i.e. power nuclear reactors with the capacity of 5 to 300 MWe.

The purpose of the cooperation between the parties to the letter of intent is to define the possibilities, nature and details of the potential joint involvement in the implementation of the SMR investment projects. The subject of the cooperation will be, inter alia, the analysis of the available technologies and possibilities of siting the generation units in the vicinity of the electricity transmission infrastructure as well as the possibilities of using the existing infrastructure of the power generation units and identifying the possibilities of procuring the optimum technology, investing in a different way or engaging in other forms of the cooperation with third parties already implementing or planning to implement the SMR investment projects.

The letter of intent is an expression of the intention of the parties to establish the cooperation, while the terms and conditions thereof shall not be binding. The letter of intent shall be in force until the date either party declares the will to step back from the further cooperation.

TAURON sees a significant potential and the possibility of achieving synergy in undertaking joint efforts with KGHM Polska Miedź with the purpose of investing in the field of the SMR technology. These actions constitute an implementation of the climate related target and are in line with the assumptions of the European Green Deal and are also aimed at increasing the share of the low and zero emission energy sources in the energy mix of TAURON Capital Group, and as such contribute to the implementation of TAURON Group's Strategy.

TAURON disclosed the information on the above event, in reference to current report no. 23/2019 of May 27, 2019, in current report no. 13/2022 of April 20, 2022.

As part of the works carried out by the working team, the regulatory issues requiring a potential adjustment in order to implement the SMR technology in Poland are being analyzed, with a particular emphasis placed on the aspects related to the analysis of siting conditions for the future SMR investment projects. The analyses of available or planned financial support for the development of the modular nuclear reactor technologies in the context of Poland's energy transition are also being conducted.

### **Signing of a syndicated loan agreement**

On July 15, 2022, TAURON signed a PLN 4 billion syndicated loan agreement with a consortium of the banks: Powszechna Kasa Oszczędności Bank Polski S.A., Bank Polska Kasa Opieki S.A., CaixaBank S.A. (Spółka Akcyjna) Oddział w Polsce, Bank Handlowy w Warszawie S.A., Erste Group Bank AG, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, Santander Bank Polska S.A. and China Construction Bank (Europe) S.A. Oddział w Polsce. The funds from the syndicated loan may be used to refinance the existing financing, as of June 19, 2019, up to the amount of PLN 6.07 billion, to finance the capital expenditures of TAURON Group (excluding the financing of any hard coal assets related projects) and to finance the general corporate expenses of TAURON Group (excluding the financing of the expenses associated with the hard coal related assets).

Under the loan agreement, TAURON will be able to draw down multiple tranches of the loan during the five year loan availability period. The period of financing, with the approval of the parties, can be extended up to 7 years at the most.

The interest rate on the funds drawn down under the loan agreement shall be calculated based on the floating interest rate relevant for the given interest rate period, increased by a margin dependent on the fulfillment of the sustainable development metrics, i.e. the emission reduction factor and a rate of increase of the renewable energy sources' (RES) share in TAURON Group's generation portfolio. The correct calculation of the sustainable development metrics will be verified by an independent auditor.

TAURON disclosed the information on the above event in current report no. 30/2022 of July 15, 2022.

### **Divestment of the shares in TAURON Wydobycie S.A. to the State Treasury - receipt of a share purchase offer, resolution of the TAURON Management Board on the divestment of the shares, signing of a contingent sale agreement, fulfillment of the conditions precedent of the conditional sale agreement**

On September 13, 2022, TAURON received an offer from the State Treasury, represented by the Minister of the State Assets, for the acquisition of the shares in TAURON Wydobycie by the State Treasury, constituting 100

percent of the share capital of TAURON Wydobycie, for a total price of PLN 1. At the same time, the Minister of the State Assets disclosed the information that he was in possession of a letter from the Chairman of the Office of Competition and Consumer Protection (UOKiK), which stated that there was no obligation to notify and obtain a clearance from the Chairman of the Office of Competition and Consumer Protection (UOKiK) for the transaction in question to be completed.

On October 12, 2022, the Management Board of TAURON made a decision on the conditional sale to the State Treasury of all of TAURON Wydobycie shares held by TAURON, constituting 100 percent of TAURON Wydobycie's share capital for a total price of PLN 1.

On October 21, 2022, a conditional agreement was concluded between TAURON and the State Treasury for the sale of TAURON Wydobycie shares, constituting 100 percent of TAURON Wydobycie's share capital, for a total price of PLN 1.

The purchase price of all of TAURON Wydobycie shares held by TAURON, constituting 100 percent of TAURON Wydobycie's share capital, i.e. PLN 1, was set by the parties to the transaction following a valuation of TAURON Wydobycie shares carried out using the DCF (discounted cash flow) method by an external, independent advisory firm. The valuation is based on the long term financial projections spanning the years 2022-2049.

The net carrying value of the shares in TAURON Wydobycie held by TAURON and the net carrying value of the loans extended to TAURON Wydobycie by TAURON stand at PLN 0.

By December 31, 2022, the conditions precedent set forth in the agreement for the sale of the shares had been met, i.e.:

1. In accordance with the statement received on December 14, 2022, the National Center for the Support of Agriculture (Krajowy Ośrodek Wsparcia Rolnictwa) did not exercise its pre-emptive right to purchase TAURON Wydobycie shares vested thereupon under Article 3a, Section 1 of the *Act of April 11, 2003, on the shaping of the agricultural system* by the deadline specified in Article 3a, Section 4 of that Act,
2. The Katowice-Wschód District Court in Katowice, the 8<sup>th</sup> Commercial Division of the National Court Register registered an increase in TAURON Wydobycie's share capital on November 4, 2022 (made by TAURON in order to repay TAURON Wydobycie's debt towards TAURON).

In view of the above mentioned conditions having been met, the ownership right (title) to the TAURON Wydobycie shares was transferred to the State Treasury as of December 31, 2022.

TAURON disclosed the information on the above events, in reference to current report no. 39/2021 of September 15, 2021, in current reports no. 39/2022 of September 13, 2022, no. 40/2022 of October 12, 2022, no. 42/2022 of October 21, 2022, no. 46/2022 of December 14, 2022, and no. 48/2022 of December 31, 2022.

### **Signing of the hard coal purchase agreements with Polska Grupa Górnicza S.A.**

On January 5, 2023 (an event that took place after the balance sheet date), TAURON and Polska Grupa Górnicza S.A. (PGG) signed agreements for the purchase of hard coal from PGG to meet the electricity production needs of the generation units owned by TAURON Wytwarzanie and TAURON Ciepło. The agreements came into effect as of January 1, 2023, and they were signed for an indefinite period. The estimated value of the hard coal supplies for the year 2023, specified in the above mentioned agreements, will come in at approx. PLN 960 million. 77 percent of the value of the hard coal contracted for 2023 will be allocated to TAURON Wytwarzanie, while the remaining 23 percent will be allocated to TAURON Ciepło. The prices of the hard coal to be delivered in the subsequent years covered by the agreements will be agreed upon by way of the negotiations between the parties based on the current market conditions.

On February 9, 2023 (an event that took place after the balance sheet date), TAURON and PGG signed agreements for the purchase of additional volumes of hard coal from PGG to meet the electricity production needs of the generation units owned by TAURON Wytwarzanie and TAURON Ciepło. The agreements are in effect from December 22, 2023, to January 31, 2024. The estimated value of the hard coal supplies, specified in the above mentioned agreements, will come in at approx. PLN 520 million. 75 percent of the value of the hard coal contracted will be allocated to TAURON Wytwarzanie, while the remaining 25 percent will be allocated to TAURON Ciepło.

The parties to the above mentioned agreements may apply the liquidated damages for a failure to deliver or collect the agreed upon volumes of the hard coal in the amount of 10 percent of the value of the undelivered or uncollected hard coal.

TAURON disclosed the information on the above events in current reports no. 1/2023 of January 5, 2023, and no. 8/2023 of February 9, 2023.

### **Signing of an annex determining the prices for the hard coal supplies from TAURON Wydobycie S.A. in 2023**

On February 1, 2023 (an event that took place after the balance sheet date), TAURON signed an annex determining the prices for the hard coal supplies in 2023 under the multi year contract for the purchase of the thermal coal from

TAURON Wydobycie. The hard coal will be used to meet the electricity production needs of the generation units owned by TAURON Ciepło.

The estimated net value of the coal fuel supplies from TAURON Wydobycie to TAURON Ciepło in 2023 stands at approx. PLN 360 million.

The parties may apply the liquidated damages for a failure to deliver or collect the agreed upon volumes of the hard coal if the deviation is in excess of 5 percent with respect to the annual settlement. The parties agreed that the amount of the liquidated damages should stand at 5 percent of the value of the undelivered or uncollected hard coal. Each of the parties may claim compensation exceeding the liquidated damages due in accordance with generally applicable principles.

TAURON disclosed the information on the above event in current report no. 6/2023 of February 1, 2023.

### **Signing by TAURON Wytwarzanie of an annex determining the prices for the hard coal supplies from TAURON Wydobycie S.A. in 2023**

On February 14, 2023 (an event that took place after the balance sheet date), TAURON Wytwarzanie signed an annex determining the prices for the hard coal supplies in 2023 under the multi year contract for the purchase of the thermal coal from TAURON Wydobycie. The hard coal will be used to meet the electricity production needs of the generation units owned by TAURON Wytwarzanie. The estimated net value of the coal fuel supplies from TAURON Wydobycie to TAURON Wytwarzanie in 2023 stands at approx. PLN 2.3 billion.

The parties may apply the liquidated damages for a failure to deliver or collect the agreed upon volumes of the hard coal if the deviation is in excess of 5 percent for TAURON Wytwarzanie and 3 percent for TAURON Wytwarzanie – the Nowe Jaworzno Power Plant Division – the 910 MW unit. With respect to the annual settlement, the parties agreed that the amount of the liquidated damages should stand at, respectively, 5 percent and 20 percent of the value of the undelivered or uncollected hard coal. Each of the parties may claim compensation exceeding the liquidated damages due in accordance with generally applicable principles.

TAURON disclosed the information on the above event in current report no. 10/2023 of February 14, 2023.

### **Signing of the loan agreement with Bank Gospodarstwa Krajowego**

On February 16, 2023 (an event that took place after the balance sheet date), TAURON and BGK signed a loan agreement for the amount of PLN 750 million, the funds from which can be used to finance the ongoing operations with respect to the purchasing of the fuel for TAURON Group's subsidiaries.

A repayment of the whole or a part of the loan used will result in its renewal by the repayment amount and the possibility of the multiple use during the loan availability period up to the loan limit (available balance) amount. The loan shall be repaid in full by September 30, 2023.

The conclusion of the loan agreement will contribute to the strengthening of TAURON's financial stability by obtaining a new source of the working capital revolving financing, the purpose of which is to finance the ongoing operations.

TAURON disclosed the information on the above event in current report no. 11/2023 of February 16, 2023.

## **12.3. Transactions with related entities on terms other than at arm's length**

All of the transactions with the related entities are concluded at arm's length.

The detailed information on the transactions with the related entities is provided in note 60 to the Consolidated Financial Statements of TAURON Capital Group.

## **12.4. Concluded and terminated credit and loan agreements**

TAURON entered into a syndicated a syndicated loan agreement for the amount of PLN 4 billion in 2022. After the balance sheet date, TAURON entered into a working capital loan agreement for the amount of PLN 750 million.

*The detailed information related to the above mentioned agreements is provided in section 12.2. of this report.*

In 2022, as part of the financing of its ongoing operations, the Company used an overdraft bank facility for the amount of up to PLN 250 million. The loan is intended to be used to finance the Company's ongoing operations and its interest rate is based on a variable WIBOR 3 M base rate, increased by a fixed margin. After the balance sheet date, the Company entered into an addendum to the overdraft agreement, as a result of which the loan amount was lifted to PLN 500 million and the effective term of the agreement was extended to September 30, 2023.

On November 10, 2022, two loan agreements were entered into between TAURON Nowe Technologie and the National Fund for Environmental Protection and Water Management (Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej) for the total amount of PLN 19 million, intended to be used for the co-financing of the modernization of the lighting infrastructure. The interest rate of the loans is at the level of WIBOR 3M + fixed margin

(not less than 1.5% per annum), while the loans repayment deadline (maturity) falls on September 30, 2037. The loans will be disbursed in accordance with the eligible project expenses incurred.

The intra-group loan agreements were entered into within TAURON Capital Group in 2022. *The information is presented in section 12.5. of this report.*

TAURON Capital Group's other subsidiaries did not enter into any other credit or loan agreements in 2022.

*The detailed information on the credit and loan agreements is provided in note 41.2 of the Consolidated Financial Statements of TAURON Capital Group.*

TAURON Capital Group's subsidiaries did not terminate any credit and loan agreements in 2022.

## 12.5. Loans and sureties granted as well as sureties and guarantees received

### Loans granted

TAURON provided the financing to the related companies in the form of the intra-group loans in the total amount of PLN 6 515 million in 2022. In addition, as part of the intra-group financing, TAURON extended the maturity deadlines of the existing loans in the total amount of PLN 197 million. As of December 31, 2022, the total nominal amount of the intra-group loans granted stood at PLN 12 666 million.

In 2022, TAURON continued the financing, in the form of loans, of the co-subsidiary EC Stalowa Wola, with the total nominal value of such loans clocking in at PLN 532 million as of December 31, 2022.

Apart from the loans mentioned above, the Company did not extend any other loans in 2022.

In 2022, TAURON Zielona Energia granted the loans in the total amount of PLN 260 million to the special purpose vehicles conducting the investment projects in the field of the renewable energy sources. As of December 31, 2022, the amount of the loans came in at PLN 118 million.

In 2022, TAURON Ekoenergia continued the financing of the special purpose vehicle conducting the investment projects in the field of the renewable energy sources in the amount of PLN 0.7 million.

*The detailed information on the loans is provided in note 30 of the Consolidated Financial Statements of TAURON Capital Group.*

### Sureties and guarantees granted

In 2022 TAURON granted:

1. a surety in favor of Bank Gospodarstwa Krajowego to provide a security for the agreement on the loan granted to EC Stalowa Wola in the amount of PLN 424 million. The surety provides a collateral for the claims of Bank Gospodarstwa Krajowego up to PLN 187 million and it shall be in effect from October 12, 2022, to March 11, 2023.
2. a surety on a blank promissory note (bill of exchange) issued by TAURON Inwestycje to secure the commercial agreement. The security shall be in effect until November 23, 2025.
3. a corporate guarantee in favor of TAURON Czech Energy worth up to the amount of EUR 3 million as a security for the performance of the commercial contracts for the benefit of a third party. The corporate guarantee shall be in effect until January 31, 2024.
4. a surety in favor of BGK to secure a guarantee agreement for EC Stalowa Wola's liabilities up to PLN 7 million. The beneficiaries of the bank guarantee issued by BGK up to the amount of PLN 14 million are third parties that entered into an agreement with EC Stalowa Wola for the purchase, transmission, supply of electricity or a comprehensive agreement after February 15, 2021. The surety shall be in effect until December 30, 2023.

In 2022, TAURON Zielona Energia granted securities (collateral) for the trade liabilities of the companies carrying out investment projects in the field of the renewable energy sources, to third parties, i.e.:

1. a surety for WINDPOWER Gamów in the amount of PLN 107 million with an effective term until August 9, 2024.
2. a corporate guarantee for WINDPOWER Gamów up to the amount of EUR 41 million with an effective term until August 9, 2024.
3. a surety for "MEGAWATT S.C." in the amount of PLN 108 million with an effective term until October 23, 2024,
4. a corporate guarantee for "MEGAWATT S.C." up to the amount of EUR 64 million with an effective term until October 23, 2024.
5. a surety for WIND T30MW in the amount of PLN 95 million with an effective term until October 31, 2024.
6. a corporate guarantee for WIND T30MW up to the amount of EUR 41 million with an effective term until October 31, 2024.
7. a surety for WIND T4 in the amount of PLN 69 million with an effective term until March 27, 2025.
8. a corporate guarantee for WIND T4 up to the amount of EUR 28 million with an effective term until March 27, 2025.

In addition, in 2022 TAURON raised the surety granted to TAURON Sprzedaż for the trade liabilities to the amount of PLN 36 million and extended its effective term until April 30, 2023.

As of December 31, 2022, the total nominal amount of the sureties and the corporate guaranties granted by TAURON stood at PLN 1 128 million.

The amount of the guaranties (bonds) and sureties granted by TAURON Zielona Energia granted securities for the liabilities of the companies carrying out investment projects in the field of the renewable energy sources, as of December 31, 2022, stood at PLN 1 175 million.

In 2022, as part of the framework (master) agreements in force, the bank guarantees (bonds) were issued at the instruction of TAURON for the liabilities of TAURON Capital Group's subsidiaries and the related companies. As of December 31, 2022, the amount of the bank guarantees (bonds) in effect, issued at the instruction of TAURON, stood at PLN 648 million.

After the balance sheet date, TAURON has granted a surety for Energetyka Cieszyńska up to the amount of PLN 6 million to secure a commercial agreement in favor of a third party. The surety shall be in effect until December 31, 2023

In February 2023, TAURON Zielona Energia granted a surety for the trade liabilities of "MEGWATT S.C." (MEGWATT S.C.) up to the amount of PLN 1.5 million, with an effective term until June 30, 2025.

The material information related to the sureties and guarantees (bonds) granted is provided in note 59 to the *Consolidated Financial Statements of TAURON Capital Group* and in notes 40 and 41 to the *Financial Statements of TAURON*.

## **Sureties and guarantees received**

As of December 31, 2022, the Company and its subsidiaries held the transaction collaterals (securities, sureties) received from the counterparties (contractors) in the form of the guarantees (bonds) granted to TAURON Capital Group's subsidiaries, bills of exchange (promissory notes) issued by the counterparties (contractors), pledges on mortgage. The most important guarantees (bonds) granted to TAURON Capital Group's subsidiaries were related to TAURON Wytwarzanie and were issued with respect to the construction of the 910 MW unit in Jaworzno.

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

Apart from the events indicated in this information, no other events had occurred 2022 that were material for the evaluation of the personnel, assets, financial position and the financial result of TAURON Capital Group and the changes thereof, as well as for the evaluation of the ability of TAURON Capital Group to meet its obligations.

Katowice, March 28, 2023

Paweł Szczeszek – President of the Management Board (CEO)

Patryk Demski – Vice President of the Management Board

Bogusław Rybacki – Vice President of the Management Board

Krzysztof Surma – Vice President of the Management Board (CFO)

Tomasz Szczegieliński – Vice President of the Management Board

Artur Warzocha – Vice President of the Management Board

## Appendix A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

The glossary of the trade terms and the list of abbreviations and acronyms most commonly used in this report is presented below

**Table no. 70. Explanation of abbreviations and acronyms as well as trade terms**

Abbreviation and trade term	Full name / explanation
1. Abener Energia	Abener Energia S.A. (Joint Stock Company) with its registered office in Campus Palmas Altas (Sevilla).
2. Amon	Amon sp. z o.o. (Ltd.) with its registered office in Łebcz.
3. ARA	Dollar based carbon price index in the EU. Loco Amsterdam - Rotterdam - Antwerp ports
4. ARE	Agencja Rynku Energii S.A. (Energy Market Agency) with its registered office in Warsaw.
5. AVAL-1	AVAL-1 sp. z o. o. (Ltd.) with its registered office in Szczecin.
6. BASE (BASE Contract)	A baseload contract for the supply of electricity at all hours of the period, for example the BASE contract for March 2021 is related to the supply of the same amount of electricity during all hours of the month of March 2021.
7. BGK	Bank Gospodarstwa Krajowego with its registered office in Warsaw.
8. Bioeko Grupa TAURON	Bioeko Grupa TAURON Sp. z o.o. (Ltd.) with its registered office in Stalowa Wola.
9. B+R (R&D)	Research and Development (R&D).
10. B+R+I (R&D&I).	Research, Development and Innovations (R&D&I).
11. CAPEX	Capital Expenditures.
12. Cash pool	True real time (online) <i>cash pool</i> structure, implemented under the cash management agreement, is based on the daily limits. As a result of the implementation of the <i>cash pool</i> mechanism, cash transfers are made between the accounts of the service participants and the Pool Leader's account.
13. CDS	Clean Dark Spread - margin ratio used to calculate the profitability of electricity production, taking into account the revenues from the sale of electricity and the cost of fuel and CO <sub>2</sub> emission allowances.
14. CES	Customer Effort Score – ration used to measure the degree of effort that must be taken by client to obtain answer to his/her question or a solution to his/her problem.
15. Color certificates	Property rights based on the certificates of origin of electricity generated in the way that is subject to support, the so-called color certificates: <b>green</b> - certificates of origin of electricity from RES, <b>blue</b> - certificates of origin of electricity generated from agricultural biogas. <b>white</b> - energy efficiency certificates (mechanism stimulating and forcing pro-savings behaviors) <b>yellow</b> - certificates of origin of electricity generated in co-generation from gas-fired sources or with the total installed capacity below 1 MW, <b>red</b> - certificates of origin of electricity from co-generation (CHP certificates - Combined Heat and Power), <b>violet</b> - certificates of origin of electricity generated in co-generation fired using methane released and captured during underground mining works in active, in liquidation or liquidated hard coal mines, or using gas obtained from biomass processing,
16. COVID-19	Coronavirus Disease 2019 - acute respiratory system contagious disease caused by the SARS-CoV-2 virus infection. The disease was first diagnosed and described in November 2019 in central China in the city of Wuhan, Hubei Province.
17. CSI	Customer Satisfaction Index - an index used in marketing to determine the level of customer satisfaction with products or services offered by the company.
18. CSR	Corporate Social Responsibility.
19. CUW	Shared Services Center (Centrum Usług Wspólnych - CUW) - separate organizational units responsible for providing a specific range of support services (CUW R – accounting services, CUW HR – human resources services, CUW IT – IT services, CUW Insurance, CUW Protection).
20. CVC	Corporate Venture Capital - Venture Capital (VC) investments carried out by VC funds with the intention of achieving not only financial goals, but also strategic (industry) goals set by a large company (corporation) which is the capital donor for this fund. VC are capital investments made on the OTC market in business ventures that are in the early stages of development. CVC is a development of VC as a way of investing capital and is to have a positive impact on the industry objectives of TAURON Capital Group.
21. DMS	Distribution Management System – distribution grid management system.
22. Best Practices 2021	Document entitled <i>Best Practices of WSE Listed Companies 2021</i> , adopted by the Supervisory Board of the Warsaw Stock Exchange S.A. on March 29, 2021, effective as of July 1, 2021. The document replaced the <i>Best Practices of WSE Listed Companies 2016</i> in force before, adopted by the Supervisory Board of the Warsaw Stock Exchange S.A. on October 13, 2015.
23. EBI	European Investment Bank with its registered office in Luxembourg.

Abbreviation and trade term	Full name / explanation
24. EBIT	Earnings Before Interest and Taxes.
25. EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization.
26. EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. (Joint Stock Company) with its registered office in Stalowa Wola (Stalowa Wola Combined Heat and Power Plant (CHP)).
27. EEC Magenta ASI	EEC Magenta limited liability company ASI limited joint stock partnership with its registered office in Warsaw.
28. EEC Magenta 2 ASI	EEC Magenta limited liability company 2 ASI limited joint stock partnership with its registered office in Warsaw
29. EEC Ventures 2	EEC Ventures limited liability company 2 limited joint stock partnership with its registered office in Warsaw
30. EEX (EEX exchange)	European Energy Exchange – the European energy exchange in Leipzig, where the contracts and derivatives for electricity for various European countries are traded, as well as the primary auctions of the CO <sub>2</sub> emission allowances are conducted.
31. Enea	Enea S.A. (Joint Stock Company) with its registered office in Poznań.
32. Energa	Energa S.A. (Joint Stock Company) with its registered office in Gdańsk.
33. Energetyka Cieszyńska	Energetyka Cieszyńska sp. z o.o. with its registered office in Cieszyn
34. ERM	Enterprise Risk Management.
35. ESG	Environmental, Social and Governance - environmental, social and corporate governance factors used in the investment decision making process.
36. ESS	Energy Store System.
37. EU ETS	European Union Emission Trading System.
38. EUA	European Union Allowance - an allowance to introduce the carbon dioxide (CO <sub>2</sub> ) equivalent to the air, within the meaning of Article 2 section 4 of the <i>act of July 17, 2009, on the management system of emissions of greenhouse gases and other substances</i> , which is used for settlements of emission level within the system and which can be managed under the rules provided in the <i>Act of April 28, 2011, on the system of greenhouse gases emission allowances trading</i>
39. EUR	Euro - a common European currency introduced in some EU member states
40. FF PARK PV1	FF PARK PV1 sp. z o.o. with its registered office in Katowice
41. FIZAN	Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Closed-end Private Equity Investment Fund)
42. WSE (GPW)	Warsaw Stock Exchange (WSE) (Giełda Papierów Wartościowych w Warszawie S.A. (Joint Stock Company)) with its registered office in Warsaw.
43. TAURON Capital Group	TAURON Capital Group Polska Energia S.A. (Joint Stock Company)
44. GZE	Górnośląski Zakład Elektroenergetyczny S.A. (Joint Stock Company) with its registered office in Gliwice.
45. HEMS	Home Energy Management System.
46. ICE (ICE exchange)	InterContinental Exchange – the commodity and financial exchange, where, among others, the contracts for oil, coal, natural gas and the CO <sub>2</sub> emission allowances are traded.
47. IRGiT	Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Exchange Clearing House) with its registered office in Warsaw.
48. IRS	Interest Rate Swap - interest payment swap contract, one of the main derivatives that is traded on the interbank market
49. KGHM Polska Miedź	KGHM Polska Miedź S.A. (Polish Copper Mining Joint Stock Company) with its registered office in Lubin.
50. Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A..
51. Nominations and Compensation Committee	Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A.
52. Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
53. KPI	Key Performance Indicators – key financial and non-financial indicators used as ways to measure progress of achieving goals of an organization.
54. Ksh	<i>Act of September 15, 2000, Code of Commercial Companies</i>
55. Kopalnia Wapienia Czatkowice	Kopalnia Wapienia (Limestone Mine) "Czatkowice" sp. z o.o. (Ltd.) with its registered office in Krzeszowice.
56. Marselwind	Marselwind sp. z o.o. (Ltd.) with its registered office in Katowice.

Abbreviation and trade term	Full name / explanation
57. Mg	Megagram - million gram (1 000 000 g), i.e. ton.
58. Business Model	Document entitled <i>TAURON Group's Business and Operational Model</i>
59. IFRS (MSSF)	International Financial Reporting Standards.
60. NBP	National Bank of Poland (Narodowy Bank Polski) with its registered office in Warsaw.
61. NCBR	National Research and Development Center (Narodowe Centrum Badań i Rozwoju) with its registered office in Warsaw.
62. Nowe Jaworzno Grupa TAURON	Nowe Jaworzno Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Jaworzno.
63. NSP	Net Promoter Score – tool used to assess loyalty of a company's clients
64. Line of Business (Segment)	Six areas (segments) of TAURON Capital Group's core operations set up by the Company: Trading, Generation, RES, Heat, Distribution and Supply
65. OPEC	Organization of the Petroleum Exporting Countries with its registered office in Vienna.
66. DSO (OSD)	Distribution System Operator (Operator Systemu Dystrybucyjnego - OSD)
67. TSO (OSP)	Transmission System Operator (Operator Systemu Przesyłowego - OSP)
68. OTC (OTC market)	Over The Counter Market – European OTC market.
69. RES (OZE)	Renewable Energy Sources (Odnawialne Źródła Energii - OZE)
70. PEAK (PEAK contract)	Peak contract for the supply of electricity during business hours (8-22) on business days, for example the PEAK contract for March 2020 is related to the supply of the same amount of electricity on all business days in March 2020 between 8 and 22.
71. PEPKH	Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. (Ltd.) with its registered office in Warsaw.
72. PFR	Polski Fundusz Rozwoju S.A. (Polish Development Fund Joint Stock Company) with its registered office in Warsaw.
73. PGE Baltica 4	PGE Baltica 4 sp. z o.o. (Ltd.) with its registered office in Warsaw
74. PGG	Polska Grupa Górnicza S.A. (Polish Mining Group) with its registered office in Katowice
75. PGE	PGE Polska Grupa Energetyczna S.A. (Joint Stock Company) with its registered office in Warsaw.
76. PGE EJ 1	PGE EJ 1 sp. z o.o. (Ltd.) with its registered office in Warsaw.
77. PGK	Tax Capital Group (Podatkowa Grupa Kapitałowa – PGK).
78. PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A. (Polish Oil and Gas Joint Stock Company) with its registered office in Warsaw.
79. PKB (GDP)	Gross Domestic Product (Produkt Krajowy Brutto).
80. PLN	Polish zloty currency symbol – zł (PLN)
81. PMEf	Property rights related to the energy efficiency certificates
82. PMOZE	Property rights related to the certificates of origin confirming generation of electricity in RES before March 1, 2009.
83. PMOZE_A	Property rights related to the certificates of origin confirming generation of electricity in RES after March 1, 2009.
84. PMOZE-BIO	Property rights related to the certificates of origin confirming generation of electricity from agricultural biogas from July 1, 2016
85. Polski Holding Obronny	Polski Holding Obronny with its registered office in Warsaw
86. POPC	Digital Poland Operational Program. (Program Operacyjny Polska Cyfrowa – POPC).
87. PRO	Partnership, Development, Boldness (Partnerstwo Rozwój Odwaga – PRO) - key corporate values reflecting the way TAURON Capital Group wants to achieve its business goals.
88. PSE	Polskie Sieci Elektroenergetyczne S.A. (Joint Stock Company) with its registered office in Konstancin-Jeziorna.
89. Balancing Market (Rynek Bilansujący – RB)	Balancing Market (Rynek Bilansujący) - technical market on which the demand for and supply of electricity in the National Power System (KSE) is balanced.
90. RDB (Intraday Market)	Intraday Market - a market operating on the POLPX TGE), where trading is carried out in a continuous trading formula, 24 hours a day. Instruments with delivery on the next day are traded, with their trading starting at 14:00 the day before the delivery and gradually exiting the market one hour before the start of the delivery.



Abbreviation and trade term	Full name / explanation
91. RDN (Day Ahead Market)	Day Ahead Market - a market operating on the POLPX (TGE), where trading is carried out one and two days ahead of the delivery.
92. RDNg	Day Ahead Gas Market - a market operating on the POLPX (TGE), where trading is carried out every day and is conducted in the continuous trading system.
93. RTT	Futures Commodity Market (Rynek Terminowy Towarowy – RTT) - market operating on the POLPX (TGE), where trading in contracts is carried out in the continuous trading system and in the auction system.
94. SARS-CoV-2	Severe Acute Respiratory Syndrome - virus that causes the COVID-19 disease.
95. Segment, Segments of Operations (Operating Segments)	TAURON Capital Group's segments of operations used in the statutory reporting process. TAURON Capital Group's results from operations are allocated to the following 5 main Segments: Mining, Generation, RES, Distribution and Supply, as well as, additionally, Other Operations.
96. SLA	Service Level Agreement.
97. Consolidated Financial Statements of TAURON Capital Group	Document under the title <i>Consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards approved by the European Union for the year ended on December 31, 2022.</i>
98. Financial Statements of TAURON	Document under the title <i>Financial statements of TAURON Polska Energia S.A. in accordance with the International Financial Reporting Standards approved by the European Union for the year ended on December 31, 2022.</i>
99. SPOT (SPOT market)	With respect to electricity, it is the place where trade transactions for electricity are concluded with delivery not later than 3 days after the date of the transaction's conclusion (most often it is one day before the date of delivery). The operation of the SPOT market for electricity is strongly tied to the operation of the Balancing Market run by the TSO.
100. Company	TAURON Polska Energia S.A. (Joint Stock Company) with its registered office in Katowice.
101. Company's Articles of Association	Document entitled <i>Articles of Association of TAURON Polska Energia S.A. (Joint Stock Company)</i>
102. Strategy	Document entitled TAURON Group's Strategy for 2022-2030 with outlook until 2050 adopted on June 22, 2022.
103. TAMEH HOLDING	TAMEH HOLDING sp. z o.o. (Ltd.) with its registered office in Dąbrowa Górnicza.
104. TAMEH POLSKA	TAMEH POLSKA sp. z o.o. (Ltd.) with its registered office in Dąbrowa Górnicza.
105. TAURON	TAURON Polska Energia S.A. (Joint Stock Company) with its registered office in Katowice.
106. TAURON Ciepło	TAURON Ciepło sp. z o.o. (Ltd.) with its registered office in Katowice.
107. TAURON Czech Energy	TAURON Czech Energy s.r.o. with its registered office in Ostrava (Czech Republic).
108. TAURON Dystrybucja	TAURON Dystrybucja S.A. (Joint Stock Company) with its registered office in Cracow.
109. TAURON Ekoenergia	TAURON Ekoenergia sp. z o.o. (Ltd.) with its registered office in Jelenia Góra.
110. TAURON Nowe Technologie	TAURON Nowe Technologie S.A. (Joint Stock Company) (formerly: TAURON Dystrybucja Serwis S.A. (Joint Stock Company)) with its registered office in Wrocław.
111. TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. (Ltd.) with its registered office in Wrocław.
112. TAURON Serwis	TAURON Serwis sp. z o.o. (Ltd.) with its registered office in Katowice.
113. TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. (Ltd.) with its registered office in Cracow.
114. TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. (Ltd.) with its registered office in Gliwice.
115. TAURON Wydobycie	TAURON Wydobycie S.A. (Joint Stock Company) with its registered office in Jaworzno.
116. TAURON Wytwarzanie	TAURON Wytwarzanie S.A. (Joint Stock Company) with its registered office in Jaworzno.
117. TAURON Zielona Energia	TAURON Zielona Energia sp. z o.o. (Ltd.) with its registered office in Katowice
118. TEC1	TEC1 sp. z o.o. (Ltd.) with its registered office in Katowice.
119. TEC2	TEC2 sp. z o.o. (Ltd.) with its registered office in Katowice.
120. TEC3	TEC3 sp. z o.o. (Ltd.) with its registered office in Katowice.
121. TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange – POLPX) with its registered office in Warsaw.
122. TGEozebio	Property rights that confirm the production of electricity from renewable energy sources using agricultural biogas.
123. EU (UE)	European Union (Unia Europejska - UE)
124. UOKiK	Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów – UOKiK)

Abbreviation and trade term	Full name / explanation
125. Unbundling	Separation of the operations with respect to transmission or distribution of electricity from the operations that involve the production and delivery (supply) of this electricity to the final consumers.
126. ERO (URE)	Energy Regulatory Office (Urząd Regulacji Energetyki - URE)
127. USA	United States of America.
128. USD	United States Dollar - US dollar's international acronym
129. Usługi Grupa TAURON	Usługi Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Tarnów.
130. WACC	Weighted Average Cost of Capital - the weighted average cost of capital of the company, weighted respectively by the share of debt and equity in the company's capital structure.
131. Wind T1	Wind T1 sp. z o.o. . z o.o. with its registered office in Jelenia Góra.
132. WIND T30MW	WIND T30MW sp. z o.o. (Ltd.) with its registered office in Pieńków.
133. WIND T4	WIND T4 sp. z o.o. (Ltd.) with its registered office in Katowice.
134. WINDPOWER Gamów	WINDPOWER Gamów sp. z o.o. (Ltd.) with its registered office in Katowice.
135. Wsparcie Grupa TAURON	Wsparcie Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Tarnów.
136. GM (WZ/ZW)	General Meeting (GM) / Shareholders' (Partners') Meeting (Walne Zgromadzenie – WZ / Zgromadzenie Wspólników - ZW)
137. ZG	Coal Mine (Zakład Górniczy - ZG) (Janina Coal Mine in Libiąż, Sobieski Coal Mine in Jaworzno, Brzeszcze Coal Mine in Brzeszcze).

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