



**Report of the Supervisory Board  
of TAURON Polska Energia S.A.  
for the financial year 2022**

29 March 2023

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## 1. Introduction

Acting pursuant to Article 382 § 3(3) of Commercial Companies Code (hereinafter referred to as the CCC) and § 20(1)(4) of the Articles of Association of TAURON Polska Energia S.A. (hereinafter referred to as: TAURON or the Company) and the Best Practice for WSE Listed Companies 2021 (hereinafter referred to as: the Best Practice 2021), the Supervisory Board of TAURON Polska Energia S.A. (hereinafter referred to as: the Supervisory Board) hereby submits this Report of the Supervisory Board of TAURON Polska Energia S.A. on the operations in the financial year 2022 (hereinafter referred to as: the Report) to the Ordinary General Meeting of the Company and proposes its approval.

The Report presents a summary of the operations of the Supervisory Board and its committees in the financial year 2022 and results of the evaluation of the following reports and selected aspects of the Company activities referred to in Article 382 § 3<sup>1</sup> of the CCC and the Best Practice 2021:

- 1) the financial statements of the Company and the consolidated financial statements of TAURON Capital Group and the report of the Management Board on operations of the Company and TAURON Group for the financial year 2022 in the scope of their compliance with the accounts, documents and facts and the proposal of the Management Board of the Company concerning the distribution of net profit,
- 2) the situation of the Company, taking into account the adequacy and effectiveness of the internal control, risk management, compliance and internal audit systems used in the Company,
- 3) the application by the Company of the corporate governance principles and the manner in which the Company fulfils its disclosure obligations set out in the Rules of the Warsaw Stock Exchange [Giełda Papierów Wartościowych w Warszawie S.A.] (WSE) and regulations concerning current and periodic information provided by issuers of securities,
- 4) the rationality of the expenses incurred by the Company and TAURON Capital Group to support culture, sports, charities, media, voluntary associations, trade unions, etc.
- 5) implementation by the Management Board of the disclosure obligations referred to in Article 380<sup>1</sup> of the CCC;
- 6) the procedure for the preparation or submission of information, documents, reports or explanations by the Management Board to the Supervisory Board requested in accordance with Article 382 § 4 of the CCC.

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

The current, sixth joint term of office of the Supervisory Board started on 15 July 2020, i.e. on the day of convening of the Ordinary General Meeting of the Company approving the financial statements for the financial year 2019.

By amending the Articles of Association of the Company on 13 July 2022, the Ordinary General Meeting of the Company determined the period of the joint term of office as three full financial years, which will end on 31 December 2023. The mandates of the members of the Supervisory Board will expire at the latest on the date of the General Meeting approving the financial statements for the last full financial year in which they acted in the capacity of members of the Supervisory Board, i.e. for the financial year 2023.

The Supervisory Board consists of 3 to 9 members. By Resolution No. 28 of 24 May 2022, the Ordinary General Meeting determined the number of Supervisory Board Members as nine. In connection with the aforementioned Resolution, the Ordinary General Meeting, pursuant to § 23(1) of the Articles of Association of the Company, appoints 4 Members of the Supervisory Board, while the Minister of State Assets, exercising powers in respect of rights from State Treasury shares, pursuant to § 23(1)(3) of the Articles of Association of the Company, appoints 5 Members.

The table below presents personal composition of the Supervisory Board as at 31 December 2022 and as at the date of this Report.

**Table no. 1 Composition of the Supervisory Board as at 31 December 2022 and as at the date of this report**

No.	Name and surname	Function exercised
1.	Piotr Tutak	Chairman of the Supervisory Board
2.	Teresa Famulska	Deputy Chairwoman of the Supervisory Board
3.	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 Koziorowski	Member of the Supervisory Board
7.	Ryszard Madziar	Member of the Supervisory Board
8.	Grzegorz Peczkis	Member of the Supervisory Board

As at 1 January 2022 the Supervisory Board consisted of the following Members: 1) Piotr Tutak (Chairman of the Supervisory Board), 2) Teresa Famulska (Vice-Chairwoman of the Supervisory Board), 3) Katarzyna Taczanowska (Secretary of the Supervisory Board), 4) Ryszard Madziar, 5) Grzegorz Peczkis and 6) Marcin Wawrzyniak.

Changes in the composition of the Supervisory Board during the financial year 2022 are presented in the table below.

**Table no. 2. Changes in the composition of the Supervisory Board during the financial year 2022 and until the date of the Report**

Date	Changes in the composition of the Supervisory Board
26 January 2022	Dariusz Hryniów was appointed to the Supervisory Board of the Company by the Minister of State Assets pursuant to § 23(1)(3) of the Articles of Association of the Company.
24 May 2022	Katarzyna Taczanowska submitted a statement of resignation from membership in the Supervisory Board of the Company and consequently, from her position of the Secretary of the Supervisory Board.
25 May 2022	Marcin Chludziński (appointed to the Supervisory Board by the Ordinary General Meeting of the Company pursuant to § 23(1) of the Articles of Association of the Company).
10 June 2022	Marcin Wawrzyniak was elected by the Supervisory Board as Secretary of the Supervisory Board.
30 November 2022	Marcin Chludziński submitted a statement of resignation from membership in the Supervisory Board of the Company.

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

The table below presents information on the fulfilment or non-fulfilment of independence criteria by Members of the Supervisory Board in 2022, as listed in the *Act on certified auditors, audit firms and public oversight* of 11 May 2017 (hereinafter: Act on Statutory Auditors) and on the existence or non-existence of actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company.

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

	Name and Surname	Fulfilment of the independence criteria listed in the Act on Statutory Auditors	Ties to a shareholder holding at least 5% of the total number of votes in the Company
1.	Piotr Tutak	Independent	Did not exist
2.	Teresa Famulska	Independent	Did not exist
3.	Stanisław Borkowski	Independent	Did not exist
4.	Dariusz Hryniów	Independent	Did not exist
5.	Leszek Koziorowski	Independent	Did not exist
6.	Ryszard Madziar	Independent	Did not exist
7.	Grzegorz Peczkis	Independent	Did not exist
8.	Marcin Wawrzyniak	Independent	Did not exist
9.	Katarzyna Taczanowska 01.01.2022 – 24.05.2022	Independent	Existed*
10.	Marcin Chłudziński 25.05.2022 – 30.11.2022	Independent	Existed*

\* ties to a shareholder holding at least 5% of the total number of votes at the General Meeting of the Company, i.e. KGHM Polska Miedź S.A.

Until the day of preparation of this report, no other changes in the scope of the aforementioned requirements occurred.

In the period covered by this report, in accordance with Rule 2.3 of the Best Practice 2021, at least two members of the Supervisory Board met the independence criteria listed in the Act on Statutory Auditors and had no actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company.

### 4. Information on the number of meetings held and resolutions passed, attendance and significant issues considered by the Supervisory Board in the financial year

The Supervisory Board performs its tasks based on specific powers granted by the CCC, the Articles of Association of the Company and the Regulations of the Supervisory Board of TAURON Polska Energia S.A. as well as the principles of corporate governance defined in the Best Practice 2021.

In the financial year 2022 the Supervisory Board held, in total, 16 meetings and adopted 127 resolutions.

The table below presents information on the attendance of Supervisory Board Members at individual meetings of the Supervisory Board and its Committees.

**Table no 4. Information on the attendance of Supervisory Board Members in 2022 and excused absences**

No.	Date of the meeting of the Supervisory Board	Number of Supervisory Board Members present	Number of Supervisory Board Members absent	Excused or non-excused absence
1.	17 January 2022	8	0	-
2.	20 January 2022	7	1	Excused
3.	2 February 2022	8	1	Excused
4.	25 March 2022	8	0	-
5.	25 March 2022	8	1	Excused
6.	30 March 2022	9	0	-
7.	1 April 2022	9	0	-
8.	6 and 8 April 2022	9	0	-
9.	10 June 2022	9	0	-
10.	29 July 2022	8	1	Excused
11.	12 and 16 August 2022	9	0	-
12.	26 August 2022	7	2	Excused
13.	31.08 and 05 September 2022.	7	2	Excused
14.	3 October 2022	8	1	Excused
15.	14 November 2022	9	0	-
16.	19 December 2022	8	0	-

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

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

Representatives of the Supervisory Board (Chairpersons of the Supervisory Board Committees) participated in the Ordinary General Meeting of the Company on 24 May 2022 in order to enable providing the answers to the questions asked during the General Meeting.

While exercising its competence, the Supervisory Board permanently supervised operations of the Company in all areas of its activity, in particular, in relation to the achieved economic and financial results of the Company and TAURON Capital Group, as well as execution of the material and financial plan, implementation of strategic investments of key importance to TAURON Capital Group taking into account schedules of their implementation as well as the accuracy and effectiveness of spending funds associated with investment executed by the Management Board of the Company.

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

**Table no. 5 Main issues considered by the Supervisory Board during its meetings in 2022**

**Main issues considered by the Supervisory Board during its meetings in 2022**

***In the scope of its opinion-making / evaluation functions***

- 1) It evaluated the *Financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2021 prepared in accordance with International Financial Reporting Standards approved by the European Union* in terms of their compliance with the ledgers and documents as well as with the actual state of affairs,
- 2) It evaluated the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2021 compliant with International Financial Reporting Standards approved by the European Union* in terms of their compliance with the ledgers and documents as well as with the actual state of affairs,
- 3) It evaluated the motion of the Management Board to the General Meeting of the Company concerning the method of distributing the net profit for the financial year 2021.
- 4) It evaluated the *Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the 2021 financial year and the Report on non-financial information of TAURON Capital Group for 2021*,
- 5) It adopted the *Report of the Supervisory Board on the evaluation of Financial Statements of TAURON Polska Energia S.A., Consolidated Financial Statements of TAURON Capital Group, Report of the Management Board on operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year ended 31 December 2021 and the motion of the Management Board concerning the coverage of net profit for the financial year 2021*,
- 6) It issued a positive opinion on the *Report of TAURON Polska Energia S.A. on representation expenditure, expenses incurred on legal services, marketing services, public relations and social communication services as well as on advisory services related to management incurred in 2021*,
- 7) It issued a positive opinion on the *Annual Report on the implementation of the Plan of the sponsorship activity conducted by TAURON Group in 2021, the Plan of the sponsorship activity of TAURON Capital Group for 2023 as well as the amendments to the Sponsorship rules in TAURON Group*,
- 8) It issued a positive opinion on *TAURON Group's 2022-2030 Strategy with an outlook up to 2050*. (hereinafter referred to as the TAURON Group's Strategy).
- 9) It issued a positive opinion on the motion of the Management Board to the General Meeting of the Company for introducing the amendments to the Articles of Association,

***In the scope of its decision-making competence***

- 1) It adopted the *Report on of the Supervisory Board on operations of TAURON Polska Energia S.A. in the financial year 2021* containing:
  - the evaluation of the Company position, including the assessment of the internal control, risk management systems, compliance and internal audit functions, comprising all significant control mechanisms, including, in particular those related to financial reporting and operational activity,
  - the assessment of the method of fulfilment of information obligations by the Company, in relation to the application of corporate governance principles defined in the Rules of the Exchange and provisions related to current and periodical information submitted by issuers of securities,
  - the assessment of the rationality of the policy of sponsorship, charity or other similar activities carried out by the Company,
  - the assessment of compliance with the criteria of independence by members of the Supervisory Board,
- 2) it adopted the consolidated text of the *Articles of Association of TAURON Polska Energia S.A.*,
- 3) it adopted the *Report on remuneration of Members of the Management Board and the Supervisory Board of TAURON Polska Energia S.A. for 2021* and submitted it to the General Meeting for opinion,
- 4) it adopted the new *Organisational By-laws of TAURON Polska Energia S.A.*,
- 5) it approved the *Material and financial plan of TAURON Group for 2022 and the Material and financial plan of TAURON Polska Energia S.A. for 2022*,
- 6) it approved concluding the agreements for legal services, marketing services, public relations services and social communication services as well as advisory services associated with management, whenever the level of the remuneration for the services provided exceeded PLN 500 thousand net on an annual basis jointly in a particular agreement or other agreements concluded with the same entity,
- 7) it defined the method of exercising the voting right at General Meetings / Meetings of Shareholders of companies in relation to which TAURON Polska Energia S.A. is a dominant undertaking within the meaning of Article 4(3) of the Act of 16 February 2017 *on competition and consumer protection* in cases related to: changes in the rules of remuneration of members of management boards, demerger and merger, purchase of fixed assets, increase in the share capital, change in the scope of subsidiaries' business,
- 8) it monitored the functioning of the Committees of the Supervisory Board and filled in vacancies in them.

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

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- 1) it met with the certified auditor to discuss the results of the audit of the financial statements of the company and TAURON Capital Group for the financial year 2021,
- 2) it reviewed the conclusions and results of the audit of the financial statements of the Company and TAURON Capital Group for the year 2021, as well as the additional report prepared for the Audit Committee,
- 3) it reviewed the report of the certified auditor on the evaluation of the *Report on remuneration of Members of the Management Board and the Supervisory Board of TAURON Polska Energia S.A. for 2021*,

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

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- 1) it analysed the current economic and financial situation of the Company and TAURON Capital Group, including the implementation of the material and financial plan, debt, utilisation of the generation potential, the projected revenue and profit in individual business areas,
- 2) it discussed the report on the implementation of the plan and schedule for the allocation of funds acquired from the issue of bonds in the amount of PLN 1 billion,
- 3) it approved incurring of a contingent liability by TAURON in the form of a surety securing the receivables of Bank Gospodarstwa Krajowego resulting from a loan granted to Elektrociepłownia Stalowa Wola S.A.,
- 4) it became acquainted with issues relating to the Polish capacity market,
- 5) it discussed key risks and their mitigation, in particular the impact of the aggression of Russian Federation against Ukraine on the TAURON Group's current and future operations,
- 6) it discussed information concerning the situation on the coal market, contracted volumes and demand for TAURON Group, as well as the recovery process of coal stocks, negotiations on the purchase of coal for TAURON Group companies,
- 7) it authorised the conclusion of donation agreements with TAURON Foundation,
- 8) it approved incurring of a contingent liability by TAURON in the form of granting a surety for the liabilities of the subsidiary, TAURON Sprzedaż sp. z o.o. towards Polska Spółka Gazownictwa sp. z o.o.,
- 9) it approved incurring of contingent liabilities in the form of bank guarantees issued at TAURON's request in order to secure transactions carried out at the Polish Power Exchange [Towarowa Giełda Energii S.A.] by TAURON on behalf of and for the benefit of TAURON and its subsidiaries,
- 10) it became acquainted with the content of the updated statement on "Information on the status of application by TAURON Polska Energia S.A. of the principles contained in the Set of Best Practice for WSE Listed Companies 2021" without any comments,
- 11) it monitored the process of implementation of the social dialogue in the Company and in TAURON Capital Group, met with the representatives of the Praesidium of the TAURON Capital Group's Social Council, explained the comments submitted and became acquainted with the agreement on employment stabilisation in TAURON Group companies, concluded in connection with the energy transition process,
- 12) it became acquainted with information concerning the expenses incurred on advisory services in TAURON and in TAURON Capital Group in 2021 and in 2022 H1, broken down by business and strategic advice, legal advice, audit services, tax advice and other,
- 13) it became acquainted with the report on the implementation of Regulation of the European Parliament and of the Council on Personal Data Protection (GDPR).
- 14) it analysed current information concerning, among others, the completed and ongoing audit tasks in TAURON Capital Group, the compliance management area, court disputes of the company Polska Energia – Pierwsza Kompania Handlowa sp. z o.o., the lists of resolutions adopted by the Management Board,

***In the scope of its competence concerning the Management Board***

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- 1) based on the recruitment procedures, it appointed Members to the Management Board of TAURON Polska Energia S.A. of the 6th joint term of office,
  - 2) it dismissed two Members of the Management Board from the Management Board of TAURON Polska Energia S.A. of the 6th joint term of office,
  - 3) it submitted motions to the Ordinary General Meeting to acknowledge the fulfilment of duties by Members of the Company Management Board in the financial year 2021 as well as by former Members of the Management Board for 2020 and 2019,
  - 4) it carried out an analysis of the level of achievement of the Management Objectives set for Members of the Company Management Board of the 6th term of office for 2021 and determined the amount of the Variable Remuneration payable,
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- 5) in connection with the adopted remuneration system, it specified the Management Objectives for Members of the Company Management Board to be implemented in 2022, including determining the weight of these objectives and the impartial criteria for their performance and settlement,
  - 6) it changed the terms and conditions for defining and allocation of Management Objectives together with their weight and criteria for performance and settlement,
  - 7) in connection with the Resolution of the Ordinary General Meeting, it changed the principles of shaping the remuneration of Members of the Management Board of TAURON Polska Energia S.A. and concluded Annexes No. 1 to the agreements on the provision of management services with Members of the Management Board,
  - 8) it approved holding positions in the governing bodies of other companies and associations by Members of the Management Board and accepted their participation in training courses,

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

- 1) it approved *the Report of the Management Board of TAURON Polska Energia S.A. on supervision over the implementation of investment projects in 2021*,
- 2) *it adopted the Report of the Supervisory Board of TAURON Polska Energia S.A. on the supervision of the implementation of investments by the Management Board, including the purchase of fixed assets in 2021* and issued a positive opinion and did not raise any objections concerning the accuracy and effectiveness of cash expenditure related to the purchase of fixed assets,
- 3) it reviewed current information concerning the status of implementation of strategic investment projects,
- 4) it authorised the disposal of shares of TAURON Wydobywanie S.A. to the State Treasury,
- 5) it discussed the progress of work related to the implementation of the Programme aimed at separation of the TAURON Group's coal generation assets to the National Energy Security Agency, it approved the conclusion of agreements for conducting Vendor Due Diligence analyses in the aforementioned Programme,
- 6) it approved the merger of TAURON Wytwarzanie S.A. with Nowe Jaworzno Grupa TAURON sp. z o.o. and the disposal of the shares in Nowe Jaworzno Grupa TAURON sp. z o.o. Held by TAURON to TAURON Wytwarzanie S.A.,
- 7) it approved the transfer of shares in BIOEKO Grupa TAURON sp. z o.o. to TAURON Wytwarzanie S.A.,
- 8) it became acquainted with the current information on the 910 MW power unit in Jaworzno, including the issues related to the elimination of failures and investigation of its causes, mediation proceedings,
- 9) it became acquainted with the state of implementation of RES projects in TAURON Group, including, among others, the implemented and planned RES projects as well as the RES model implemented in TAURON Group.

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The Supervisory Board did not report any deficiencies in the accuracy and effectiveness of the disbursement of cash related to the implementation of investment by the Management Board of the Company in the financial year 2021, including the purchase of fixed assets.

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

## **5. Activities of the Supervisory Board Committees**

While implementing the principles defined in the Best Practice 2021, in the financial year 2022, the activity of the Supervisory Board was supported by the following Committees:

- 1) Audit Committee,
- 2) Nominations and Compensation Committee,
- 3) Strategy Committee.

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

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

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

<b>Tasks and competence of the Supervisory Board Committees</b>
<b>Audit Committee</b>
<ol style="list-style-type: none"><li>1. Monitoring of the financial reporting process in the Company, effectiveness of internal control systems, risk management, compliance and internal audit, including in the scope of financial reporting, performing financial revisions, in particular performing an audit by an audit firm, taking into account any conclusions and findings of the Audit Supervision Committee stemming from an audit performed in an audit firm.</li><li>2. Controlling and monitoring the independence of the statutory auditor and the audit firm, in particular in the case where the audit firm provides services other than auditing to the Company.</li><li>3. Assessing the independence of the statutory auditor and granting the consent for provision by it of permitted services in the Company, other than auditing.</li><li>4. Developing the policy for selecting the audit firm to perform the audit.</li><li>5. Developing the policy related to the provision of permitted services other than auditing by the audit firm, entities related to the audit firm and by a member of the audit firm corporate network.</li><li>6. Defining the procedure for selecting the audit firm by the Company.</li><li>7. Presenting the recommendations to the Supervisory Board, for the purpose of selecting the audit firm responsible for performing the statutory audit or the review of financial statements, as referred to in Article 130(2) and (3) of the Act on statutory auditors and in Article 16(2) of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 <i>on specific requirements regarding statutory audit of public-interest entities (...)</i>, in line with the policies referred to above in clauses 4 and 5.</li><li>8. Informing the Supervisory Board of audit results and explaining how the audit contributed to the reliability of financial reporting in the Company as well as what was the role of the Audit Committee in the audit process.</li><li>9. Submitting recommendations aimed at ensuring the reliability of the financial reporting process in the Company.</li><li>10. Performing other activities assigned to the responsibilities of Audit Committee pursuant to the Act and the Regulation referred to in clause 7 above and the Accounting Act of 29 September 1994 (hereinafter referred to as the Accounting Act).</li></ol>
<b>Nominations and Compensation Committee</b>
<ol style="list-style-type: none"><li>1. Recommendations to the Supervisory Board concerning the recruitment procedure for the positions of Members of the Company Management Board.</li><li>2. Assessment of candidates for Members of the Company Management Board as well presenting opinions in this scope to the Supervisory Board.</li><li>3. Recommendations to the Supervisory Board concerning the form and contents of agreements concluded with Members of the Company Management Board.</li><li>4. Recommendations to the Supervisory Board concerning the remuneration and bonus scheme for Members of the Company Management Board.</li><li>5. Recommendations to the Supervisory Board concerning the need to suspend a Member of the Company Management Board due to material reasons.</li><li>6. Recommendations to the Supervisory Board concerning the need to delegate a member of the Supervisory Board to temporarily perform the duties of Members of the Company Management Board who cannot perform their duties, including the proposal of compensation.</li></ol>
<b>Strategy Committee</b>
<ol style="list-style-type: none"><li>1. Assessment of the Corporate Strategy of TAURON Group and presenting its results to the Supervisory Board.</li><li>2. Recommendations to the Supervisory Board concerning the scope and deadlines for submission of strategic multi-annual plans by the Management Board.</li><li>3. Assessment of impact of the planned and undertaken strategic investments on assets of the Company.</li><li>4. Monitoring the implementation of the strategic investment tasks.</li><li>5. Assessment of activities concerning the disposal of significant Company assets.</li><li>6. Issuing opinions on strategic documents submitted to the Supervisory Board by the Company Management Board.</li></ol>

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

The composition of the Audit Committee of the Supervisory Board is compliant with the requirements of Article 129(3) of the Act on Statutory Auditors. All members of the Audit Committee met the statutory independence requirements. Two members of the Audit Committee have knowledge and skills in the scope of accounting and audit of financial statements, including the Chairwoman of the Audit Committee. One Member of the Audit Committee has knowledge and skills in the scope of industry in which the Company operates.

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

The table below presents the personal composition of the Supervisory Board Committees as at 31 December 2022 and as at the date of this Report.

**Table no 7. Composition of the Supervisory Board Committees as at 31 December 2022 and as of the date of this Report**

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

In the financial year 2022:

- The Audit Committee held a total of 7 meetings and adopted 12 resolutions. During 6 meetings, all Audit Committee Members were present, while 1 Audit Committee Member was absent at 1 meeting.
- The Nominations and Compensation Committee held a total of 9 meetings and adopted 14 resolutions. During 7 meetings, all Nominations and Compensation Committee Members were present, while 1 Nominations and Compensation Committee Member was absent at 2 meetings.
- The Strategy Committee held a total of 5 meetings and adopted 6 resolutions. During 3 meetings, all Strategy Committee Members were present, while 1 Strategy Committee Member was absent at 2 meetings.

Individual absences of members of the Audit, Nominations and Compensation and Strategy Committees were excused by relevant resolutions of the Supervisory Board Committees.

**Table no 8. Main issues considered by the Committees of the Supervisory Board during their meetings in 2022.**

Main issues considered by the Committees of the Supervisory Board during their meetings in 2022.	
Audit Committee	
1)	<p>it monitored the financial reporting process, including the analysis of reliability of financial information presented by the Company, in terms of their compliance with the ledgers and documents as well as with the actual state of affairs and presented the relevant recommendations to the Supervisory Board concerning the performed evaluation of the information contained in the following documents:</p> <ul style="list-style-type: none"><li>– <i>Financial statements of TAURON Polska Energia S.A. for the financial year ended 31 December 2021 compliant with the International Financial Reporting Standards approved by the European Union,</i></li><li>– <i>The Management Board motion to the General Meeting concerning the distribution of net profit for the financial year 2021.</i></li><li>– <i>Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the financial year ended 31 December 2021 compliant with International Financial Reporting Standards approved by the European Union,</i></li><li>– <i>The Management Board's Report on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2021 and Report on non-financial information of TAURON Capital Group for 2021,</i></li><li>– <i>Extended consolidated quarterly report of TAURON Polska Energia S.A. Capital Group for the first quarter of 2022,</i></li><li>– <i>Extended consolidated semi-annual report of TAURON Polska Energia S.A. Capital Group for the first half of 2022,</i></li><li>– <i>Extended consolidated quarterly report of TAURON Polska Energia S.A. Capital Group for the third quarter of 2022,</i></li></ul>
2)	<p>it cooperated with the statutory auditor in the scope of:</p> <ul style="list-style-type: none"><li>– audit of the financial statements of the Company and consolidated financial statements of TAURON Capital Group for the financial year 2021 (discussion of the statutory auditor's report on the audit, discussion of the additional report prepared by the auditor for the Audit Committee, review of the statement on meeting the independence requirements by the audit firm and members of the team performing financial audit activities and information on the failure to perform services which are not financial audit services by the audit firm for the Company and companies of TAURON Capital Group),</li><li>– review of the interim condensed financial statements of the Company and the consolidated financial statements of TAURON Capital Group for the first half of 2022 (discussion of the results of the review and getting acquainted with the statement on maintaining independence from the audited entity in the period from the date of submission of the previous statement on independence),</li><li>– process of auditing the financial statements of the Company and the consolidated financial statements of TAURON Capital Group for the financial year 2022 (discussion of the general assumptions of the auditing process, auditing strategy and non-financial reporting, as well as the results of the preliminary audit in the Company and its subsidiaries),</li></ul>
3)	<p>it presented to the Supervisory Board a positive assessment of the independence of the financial audit process and assessment of the audit firm Ernst &amp; Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor and members of the team performing the financial audit, in terms of their fulfilment of independence criteria towards TAURON Capital Group companies and their independence towards the audited company in the period from the previous assessment of independence,</p>
4)	<p>it presented to the Supervisory Board a recommendation to adopt the <i>Report of the Supervisory Board on evaluation of the financial statements TAURON Polska Energia S.A., Consolidated financial statements of TAURON Capital group, Report of the Management Board on operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year ended on 31 December 2021 and the motion of the Management Board concerning coverage of net loss for the financial year 2021,</i></p>
5)	<p>it discussed the draft <i>Report on Remuneration of Members of the Management Board and the Supervisory Board of TAURON Polska Energia S.A. for 2021</i> for submission to the auditors' opinion,</p>
6)	<p>it analysed the financial results of the Company and TAURON Capital Group for 2021, 2022 Q1, 2022 H1 and 2022 Q3,</p>
7)	<p>it reviewed the detailed information on overheads at TAURON and the TAURON Group including a comparison of the costs in question for a period of 3 years,</p>
8)	<p>it reviewed and positively evaluated the new text of the <i>Accounting policy of TAURON Polska Energia S.A. Capital Group,</i></p>
9)	<p>it reviewed information concerning the performance of activities resulting from the <i>Procedure for ensuring compliance within the TAURON Group with the requirement of independence of the audit firm auditing and reviewing the financial statements and the consolidated financial statements of TAURON Polska Energia S.A.,</i></p>
10)	<p>it monitored issues related to internal audit and internal control systems, and in particular, it discussed the implementation of the annual <i>Audit Plan for TAURON Group for 2021,</i> the implementation of the plan of audit tasks for TAURON Group adopted for 2022 and ad hoc checks in individual quarters,</p>
11)	<p>it reviewed the self-assessment of the activities of the audit area in the period of three years, in terms of the effectiveness of audit and control projects in TAURON Capital Group and covering all significant areas of activity of the TAURON Capital Group companies,</p>
12)	<p>it discussed the Internal Control System Evaluation Report for 2021,</p>

- 13) it monitored issues in the area of key corporate and specific risks in TAURON Capital Group, as well as reviewed information on the impact of the armed conflict in Ukraine on the TAURON Group's operations and the measures taken to support refugees from Ukraine,
- 14) it monitored the quarterly reports on the tasks carried out by the compliance area, as well as reviewed: *TAURON Polska Energia S.A. Compliance Report for 2021*, *TAURON Group Compliance Plan for 2022* and the reports on periodic assessment of transactions concluded with related parties for the periods of 2021 H2 and 2022 H1.
- 15) it analysed the participation of TAURON Capital Group companies in trade organisations, as well as the costs of membership of individual TAURON Group companies in trade organisations,
- 16) it reviewed quarterly information in the area of procurement, covering in particular: the analysis of procurement proceedings in the framework of monitoring the effectiveness of the internal control system, including the proceedings under the procurement by direct agreement in the TAURON Capital Group companies, conclusions and findings resulting from the analysis of contracts awarded under the emergency procedure in the Company and the TAURON Capital Group companies, reviewed the changes to *the Procurement Regulations in TAURON Group*,
- 17) it adopted the *Report on activities of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. in the financial year 2021* and submitted it to the Supervisory Board,
- 18) it performed other tasks assigned by the Supervisory Board, including the analysis and assessment of documents or legal actions performed by the Company, in terms of their compliance with the applicable laws and internal regulations.

#### **Nominations and Compensation Committee**

- 1) it recommended to the Supervisory Board the amendment of the resolution concerning shaping the remuneration of the Members of the Management Board of TAURON Polska Energia S.A. and the conclusion of Annexes No. 1 to the agreements on the provision of management services with the Members of the Management Board,
- 2) it recommended to the Supervisory Board to adopt detailed Management Objectives for Members of the Management Board of TAURON Polska Energia S.A. of the 6<sup>th</sup> joint term of office to be completed in 2022, including determining of the weight of those objectives and measurable criteria of their implementation and settlement,
- 3) it conducted the analysis and assessment of the implementation of the Management Objectives set for the Members of the Company Management Board of the 6<sup>th</sup> term of office to be achieved in 2021 and presented appropriate recommendations to the Supervisory Board, including the amount of the Variable Remuneration payable to the Members of the Management Board of both terms of office for 2021,
- 4) it adopted the *Report on activities of the Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A. in the financial year 2021* and submitted it to the Supervisory Board,
- 5) it recommended to the Supervisory Board to announce and conduct the qualification procedure for the position of President and Vice-Presidents of the Management Board of TAURON for the 6<sup>th</sup> term of office,
- 6) it opened and verified applications in terms of meeting the formal requirements by candidates in the qualification procedure for individual positions in the Management Board of the Company of the 6<sup>th</sup> joint term of office,
- 7) it analysed quarterly information on the due performance of duties by the Members of the TAURON Management Board resulting from the concluded agreements for the provision of management services.

#### **Strategy Committee**

- 1) it recommended a positive opinion on *TAURON Group's 2022-2030 Strategy with an outlook up to 2050*,
- 2) it adopted the *Report on activities of the Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. in the financial year 2021* and submitted it to the Supervisory Board,
- 3) it recommended to the Supervisory Board: to approve the *Report of the Management Board on the supervision of implementation of investment projects in TAURON Group in 2021* and to accept the *Report of the Supervisory Board of TAURON Polska Energia S.A. on the supervision of the implementation by the Management Board of investments including the purchase of fixed assets in 2021*,
- 4) it visited the 910 MW power unit in Jaworzno, the 56 MW hydroelectric power plant in Rożnów and the 30 MW Piotrków wind farm,
- 5) it discussed issues related to the implementation of investment projects of key importance for TAURON Group in 2022, with special attention to projects in TAURON Dystrybucja S.A. and in the following Areas: Generation, RES, Heat, Mining and Customer Service,
- 6) it discussed the RES model implemented in TAURON Group in terms of the assignment of tasks between individual companies and the way TAURON coordinates and supervises the implementation of RES projects,
- 7) it became acquainted with the activities of the following TAURON Group companies: TAURON Zielona Energia sp. z o.o., TAURON Ekoenergia sp. z o.o., TAURON Nowe Technologie sp. z o.o. and TAURON Inwestycje sp. z o.o.,
- 8) it discussed issues related to the implementation of projects aimed at increasing the installed capacity of renewable energy sources and the agreements and arrangements concluded by TAURON Zielona Energia sp. z o.o. with external entities securing land for the construction of photovoltaic installations and wind farms,

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- 9) it became acquainted with the planned projects in the scope of construction of energy storage facilities in TAURON Group,
  - 10) it discussed the most important issues concerning the Polish capacity market,
  - 11) it discussed the status of progress of R&D projects in 2021.
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## **6. Results of the evaluation of financial statements of the Company and TAURON Group, the reports on operations of the Company and TAURON Group and the motion of the Management Board of the Company concerning the distribution of net profit**

Acting pursuant to Article 382 § 3<sup>1</sup>(1) of the CCC and § 20(1)(3) of the TAURON Articles of Association, the Supervisory Board assessed the following documents:

- 1) *Financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2022 compliant with the International Financial Reporting Standards approved by the European Union,*
- 2) *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2022 compliant with the International Financial Reporting Standards approved by the European Union,*
- 3) *Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022.*
- 4) *Motion of the Management Board concerning the method of net profit distribution for the financial year 2022.*

The audit of the aforementioned reports of TAURON Polska Energia S.A. was carried out by Ernst & Young Audyty Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw (hereinafter referred to as the “statutory auditor”, the “auditor”), selected by the Supervisory Board for the purpose of performing the audit of the standalone and consolidated financial statements of TAURON Polska Energia S.A. and the TAURON Capital Group for the financial year 2022.

### **6.1. Evaluation of the financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2022 compliant with the International Financial Reporting Standards approved by the European Union**

The Supervisory Board of TAURON evaluated the *financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2022 compliant with the International Financial Reporting Standards approved by the European Union*, comprising:

- 1) Statement of comprehensive income for the year ended on 31 December 2022 showing positive comprehensive income in the total amount of PLN 219 million and the net profit for the financial year 2022 in the amount of PLN 67 million,
- 2) Statement of financial position as at 31 December 2022, which indicates the total balance of assets and liabilities in the amount of PLN 36 052 million,
- 3) Statement of changes in equity for the year ended on 31 December 2022 showing equity increase by the amount of PLN 219 million,
- 4) Statement of cash flows for the year ended 31 December 2022 showing an increase in net cash flow by the amount of PLN 1 998 million,
- 5) Accounting principles (policy) and additional explanatory notes.

The Supervisory Board has positively assessed the aforementioned Financial Statements of TAURON and concluded that they were compliant with the accounts and documents as well as with the actual state of affairs.

The positive evaluation of the Supervisory Board was based on the independent auditor's report on the audit according to which the above Financial Statements of TAURON Polska Energia S.A.:

- 1) present a reliable and clear view of the economic situation and financial position of TAURON Polska Energia S.A. as at 31 December 2022 and of its financial result and cash flows for the period from 1 January 2022 to 31 December 2022, in accordance with the applicable International Financial Reporting Standards approved by the European Union and the adopted accounting principles (policy),
- 2) are consistent in terms of their form and content with the legal regulations applicable in TAURON Polska Energia S.A. and the Articles of Association of TAURON Polska Energia S.A.,
- 3) have been prepared on the basis of properly kept accounts in accordance with the provisions of Chapter 2 of the Accounting Act.

In view of the foregoing, the Supervisory Board recommends that the Ordinary General Meeting approves the *Financial Statements of TAURON Polska Energia S.A. for the year ended 31 December 2022 compliant with the International Financial Reporting Standards approved by the European Union.*

## **6.2. Evaluation of the Consolidated Financial Statements of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2022 compliant with International Financial Reporting Standards approved by the European Union**

The Supervisory Board of TAURON evaluated the *Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2022 compliant with the International Financial Reporting Standards approved by the European Union*, comprising:

- 1) Consolidated statement of comprehensive income for the year ended on 31 December 2022 showing positive comprehensive income in the total amount of PLN 108 million and the net loss for the financial year 2022 in the amount of PLN 134 million,
- 2) Consolidated statement of financial position as at 31 December 2022, which indicates the total balance of assets and liabilities in the amount of PLN 45 320 million,
- 3) Consolidated statement of changes in equity for the year ended 31 December 2022 showing equity increase by the amount of PLN 90 million,
- 4) Consolidated statement of cash flows for the year ended 31 December 2022 showing an increase in net cash flow by the amount of PLN 317 million,
- 5) Accounting principles (policy) and additional explanatory notes.

The Supervisory Board has positively assessed the aforementioned Consolidated Financial Statements of TAURON Capital Group for the financial year 2022 and concluded that they were compliant with the accounts and documents as well as with the actual state of affairs.

The positive evaluation of the Supervisory Board was based on the independent auditor's report on the audit according to which the above Consolidated Financial Statements of TAURON Capital Group:

- 1) present a reliable and clear view of the consolidated economic situation and financial position of TAURON Polska Energia S.A. as at 31 December 2022 and of its consolidated financial result and consolidated cash flows for the period from 1 January 2022 to 31 December 2022, in accordance with the applicable International Financial Reporting Standards approved by the European Union and the adopted accounting principles (policy),
- 2) are consistent in terms of their form and content with the legal regulations applicable in TAURON Capital Group and the Articles of Association of TAURON Polska Energia S.A. and have been prepared on the basis of properly kept accounts in accordance with the Accounting Act.

In connection with the foregoing, the Supervisory Board recommends that the Ordinary General Meeting approves the *Consolidated Financial Statements of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2022 compliant with the International Financial Reporting Standards approved by the European Union.*

### **6.3. Evaluation of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022**

The Supervisory Board positively assesses the *Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022* in terms of its compliance with the accounts and documents as well as with the actual state of affairs. The said Report presents the assets, the economic and financial position as well as the development situation of TAURON and TAURON Capital Group in a reliable and clear manner, while its completeness and compliance in the scope of information disclosed therein has been confirmed by the statutory auditor.

Moreover, in the opinion of the auditor, the aforementioned Report has been prepared in accordance with Article 49 of the Accounting Act and § 70 and § 71 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state and is consistent with the information contained in the Financial Statements of TAURON Polska Energia S.A. and on the Consolidated Financial Statements of the TAURON Capital Group for the year ended 31 December 2022.

In connection with the foregoing, the Supervisory Board recommends that the Ordinary General Meeting should approve the *Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022*.

At the same time, the Supervisory Board indicates that, pursuant to Article 49b(9) and Article 55(2c) of the Accounting Act, TAURON prepared the *Report on non-financial information of TAURON Capital Group for 2022* in the form of a separate document published on the Company website.

The above Report on non-financial information has been prepared in accordance with Article 49b(1)-(8) and Article 55(2)(b)-(e) of the aforementioned Act which implements the guidelines of Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 on the disclosure of non-financial information, together with additional, subsequent guidelines, including the Communication of the European Commission 2019/C 209/01 of 20 June 2019 with the guidelines concerning reporting of non-financial information: The supplement concerning the reporting of climate-related information and Global Reporting Index guidelines - GRI Standards.

### **6.4. Evaluation of the motion of the Management Board to the General Meeting concerning the method of distributing net profit for the financial year 2022.**

The Supervisory Board has reviewed the motion of the Management Board to the General Meeting concerning the distribution of net profit of TAURON Polska Energia S.A. for the financial year 2022 covering the period from 1 January 2022 to 31 December 2021 in the amount of PLN 67 102 592.85 (in words: sixty-seven million one hundred and two thousand five hundred and ninety-two zloty 85/100) by its full allocation to supply the supplementary capital of the Company.

Considering the justification of the Company Management Board concerning the method of distributing net profit for the financial year 2022, the Supervisory Board positively evaluates and does not raise any comments to the aforementioned motion of the Management Board.

### **6.5. Summary of the evaluation performed**

In its evaluation of the financial statements of TAURON Polska Energia S.A. and TAURON Capital Group, the Management Board Report on the operations of TAURON Polska Energia S.A. and TAURON Capital Group, as well as the Management Board's motion to the General Meeting concerning the procedure for distribution of net profit for 2022, the Supervisory Board took into account the recommendations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. which, in fulfilling its obligations set out in the Act on Statutory Auditors, supervised the financial reporting process.



As part of the process related to the audit of financial statements, the Audit Committee regularly met with representatives of the auditing company, Ernst & Young Audit Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw, monitoring and discussing the progress of audit processes. Furthermore, the Audit Committee reviewed the audit reports on the audit of financial statements presented by the audit firm and the additional report for the financial year 2022, prepared for the Audit Committee and the Company management, in accordance with the provisions of Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and Article 67(4)(9) of the Act on Statutory Auditors.

Taking into account the foregoing, the Supervisory Board, taking into account the recommendations of the Audit Committee and based on the opinion of the statutory auditors, positively evaluates the Financial Statements of TAURON Polska Energia S.A. and the TAURON Capital Group, the Management Board's Report on the Operations of TAURON Polska Energia S.A. and TAURON Capital Group and concludes that they are consistent with the accounts and documents as well as with the actual state of affairs.

At the same time, the Supervisory Board positively evaluates and has no comments on the motion of the Company Management Board concerning the procedure for distribution of the net profit for the financial year 2022, by its full allocation to the supplementary capital of the Company.

In connection with issuing of the positive opinion on the statements and reports, the Supervisory Board recommends to the Ordinary General Meeting to approve the aforementioned statements and reports and distribute the net profit for the financial year 2022 according to the procedure set forth in the motion of the Management Board of the Company, i.e. by allocating its full amount for supplying the supplementary capital of the Company.

## **7. Assessment of the Company standing, taking into account the adequacy and effectiveness of internal control systems, risk management and ensuring the compliance of the operations with the standards or applicable practices and the internal audit**

### **7.1. Evaluation of the Company situation**

#### ***Evaluation of the situation of the Company in consolidated perspective***

2022 was a year demonstrating the above-average volatility of the environment in which not only TAURON Group but also the entire energy industry operated. At the beginning of 2022, the aggression of the Russian Federation on the territory of Ukraine took place, which mainly contributed to a significant disruption of the macroeconomic environment functioning, not only in Poland but also in Europe and worldwide. Consequently, the energy crisis was triggered, causing energy and fuel price levels to fluctuate with unprecedented volatility and scope. For TAURON Group it was a year of very high exposure to risks arising from the market and macroeconomic situation as well as regulatory and geopolitical circumstances.

#### ***Evaluation of TAURON Polska Energia S.A. situation***

The TAURON Company, as a parent entity in TAURON Capital Group fulfils, in particular, the governing and the consolidating function. As a result of the implementation of the Business Model and centralisation of functions, TAURON has concentrated many competences concerning the functioning of the companies of TAURON Capital Group and currently operates, among others, in the areas of wholesale trade in electricity, gas and related products, in particular in the scope of trading support for companies, securing fuel needs, CO<sub>2</sub> emission allowances and certificates of origin, procurement management, financial management, Capital Group asset management, corporate risk management, IT model management, coordination of R&D work carried out in TAURON Capital Group, accounting and tax consultancy, legal services and audit.

In connection with the foregoing, the major sources of the Company income include dividends from subsidiaries as well as revenue on sales of electricity, coal, gas, property rights pertaining to electricity certificates of origin, CO<sub>2</sub> emission allowances and commercial services.

Despite the energy crisis continuing in 2022, affecting the conduct of the Company business, it should be stated that the results generated by the Company confirm its stable financial position. The table below presents the developments in the financial results of the Company:

**Table no 9. Developments in the financial results of the Company in the years 2021-2022**

PLN million	2021	2022	Growth (2022/2021)	Change (2022-2021)
Revenues on sales	18 216	29 334	161%	11 118
EBITDA	57	218	382%	161
Net profit (loss)	260	67	26%	(193)

In the reporting period ended on 31 December 2022, the Company generated revenue on sales 61% higher compared to the values achieved in 2021, which results from the following factors:

- 1) growth in revenue from electricity sales by 68%, mainly as a result of 82% higher electricity sales prices compared to 2021,
- 2) growth in revenue from gas sales mainly as a result of a significant increase in market prices by the average of 140%,
- 3) growth in revenue from the sale of CO<sub>2</sub> emission allowances, as a result of sales of CO<sub>2</sub> emission allowances in 2022 at significantly higher prices resulting from the market.

The 282% change in the EBITDA result achieved in 2022 compared with the previous year results mainly from the achievement of a higher margin on electricity sales as a result of taking advantage of the continuing market situation in the SPOT segment in 2022, the high price volatility, the difference in futures prices and the consequent trading positions effectively taken as well as gaining of the result on the repurchase of electricity under the contract with Elektrociepłownia Stalowa Wola S.A.

The net financial result accounts for 26% of the 2021 result and is attributable to the changes in the EBITDA result described above, due to higher interest expenses incurred on debt, lower dividend income received from TAURON Group companies, the resulting surplus of exchange losses over exchange gains, the measurement of financial instruments which was partly mitigated by a lower balance of impairment losses on shares and loans.

As at 31 December 2022, the balance sheet total of the Company amounted to PLN 36 052 million and was 15% higher compared to the status as at 31 December 2021. Non-current assets accounted for the highest share of balance sheet total (76%), where the dominant items include the value of shares (44% share of balance sheet total) as well as bonds and loans granted (31% of balance sheet total).

According to the status as at 31 December 2022 and 31 December 2021, the equity amounted to 34% and 38% of the total value of liabilities, respectively. Debt liabilities were the most significant item of liabilities, accounting for 50% of total liabilities as at the end of 2022, compared to 46% as at the end of 2021.

The status of cash received from operating, investment and financial activities of the Company for 2022, considering the status of opening balance of cash flows, amounted to PLN (321) million. Moreover, the level of cash closing balance presented in the balance sheet of the Company results from the adjustment of cash and pecuniary assets, consisting of balances of loans granted and received, implemented under cash pooling transactions, due to the fact that they do not constitute cash flows from investment or financial activities, therefore, being used mainly for the management of current financial liquidity.

## Evaluation of TAURON Capital Group situation

The aforementioned negative factors of geopolitical nature posed challenges to the activities conducted not only by TAURON, but also for all companies of TAURON Group. In 2022, TAURON Capital Group conducted its operations in all key segments of the energy market (excluding electricity transmission which is the sole responsibility of the Transmission System Operator), i.e. in the area of coal mining, generation, distribution and sales of electricity and heat as well as other products of the energy market.

The analysis conducted based on EBITDA and the Net Debt/EBITDA ratio, which, in the opinion of the Supervisory Board, are the most significant parameters for assessing the financial situation on a consolidated basis, confirm the stable standing of TAURON Capital Group. Despite the factors described above, EBITDA amounted to PLN 4 016 million and thus decreased slightly compared to 2021. The Net Debt/EBITDA ratio reached 2.9x, consequently, not exceeding the covenant assumed in the financing agreements (3.5x). In view of the ratios presented above, it can be concluded that TAURON Capital Group maintains a stable market position and that its indebtedness does not pose current liquidity risk.

The stable financial position is also confirmed by the current FITCH rating agency assessment published on 12 October 2022, assigning the BBB- rating to the Company, with a stable outlook. At the same time, the rating outlook was maintained, taking into account the dominant share of regulated activities in the results of TAURON Capital Group.

The rating agency also emphasises the strong market position of TAURON Group as the largest electricity distributor in Poland, covering the southern, densely populated regions of Poland. The high share of the regulated Distribution Segment in TAURON Group's EBITDA allows the Company to achieve predictable and sustainable results. Looking ahead, the rating agency positively assesses the completed sale of the mines to the State Treasury, performed at the end of 2022, as well as the ongoing process of unbundling the coal generation assets.

The financial results generated by TAURON Group are presented in the table below:

**Table no. 10 Financial results of TAURON Capital Group in the years 2021-2022**

PLN million	2021	2022	Growth (2022/2021)	Change (2022-2021)
Revenues on sales on continued operations	25 164	<b>36 311</b>	144%	<b>11 147</b>
EBITDA on continued operations	4 282	<b>3 215</b>	75%	<b>(1 067)</b>
EBITDA on discontinued operations	(130)	<b>801</b>	-	<b>931</b>
<b>Total EBITDA</b>	<b>4 152</b>	<b>4 016</b>	<b>97%</b>	<b>(136)</b>
Net profit (loss) on continued operations	832	<b>(209)</b>	-	<b>(1 041)</b>
Net profit (loss) on discontinued operations	(447)	<b>75</b>	-	<b>522</b>
<b>Net profit (loss)</b>	<b>385</b>	<b>(134)</b>	-	<b>(519)</b>
CAPEX	2 932	<b>3 962</b>	135%	<b>1 030</b>
Net debt/ EBITDA	2	<b>2</b>	121%	<b>0.5x</b>

Sales revenues generated are higher in y/y terms, mainly due to an increase in electricity and gas prices, which is directly attributable to price developments in the markets as a result of the energy crisis caused by the aggression of the Russian Federation against Ukraine. The y/y increase in the average price of electricity on the wholesale market (SPOT and forward market) amounted to 85%, while for gas (SPOT and forward market) it reached 207%.

Changes in the result of TAURON Capital Group are a direct consequence of changes in individual results of the operating segments, including Generation, Renewable Energy Sources, Distribution, Sales and Other activities. The Group's operations within the Mining Segment, due to the loss of control over TAURON Wydobycie S.A. by TAURON Group as of 31 December 2022, were classified as discontinued operations as a result of the sale of 100% of shares in TAURON Wydobycie S.A. to the State Treasury.

The table below presents the developments in the operating results of the TAURON Group Segments and key operating data:

**Table no. 11 Developments in the operating results of TAURON Group Segments and key operating data in 2021-2022**

PLN million	2021	2022	Growth (2022/2021)	Change (2022-2021)
<i>Continued operations</i>				
Generation	1 375	<b>(779)</b>	-	<b>(2 154)</b>
RES	376	<b>476</b>	127%	<b>100</b>
Distribution	2 967	<b>2 939</b>	99%	<b>(28)</b>
Sales	(524)	<b>594</b>	-	<b>1 118</b>
Other activities	208	<b>298</b>	143%	<b>90</b>
Unallocated items	(120)	(313)	-	(193)
<b>EBITDA</b> on continued operations	<b>4 282</b>	<b>3 215</b>	<b>75%</b>	<b>(1 067)</b>
<i>Discontinued activity</i>				
Mining	(130)	<b>781</b>	-	<b>911</b>
Unallocated items	-	<b>20</b>	-	<b>20</b>
<b>EBITDA</b> on discontinued operations	<b>(130)</b>	<b>801</b>	-	<b>931</b>
<b>Total EBITDA</b>	<b>4 152</b>	<b>4 016</b>	<b>97%</b>	<b>(136)</b>
Distribution of electricity	53.97	<b>53.68</b>	99%	(0.29)
Production of energy from RES	1.71	<b>1.57</b>	92%	(0.14)
Produkcja energii el. z jedn. węglowych	13.88	<b>13.90</b>	100%	0.02
Heat production	12.00	<b>10.58</b>	88%	(1.42)
Retail sales of electricity	33.41	<b>31.14</b>	93%	(2.27)
Commercial coal production	5.15	<b>5.01</b>	97%	(0.14)
Coal stocks	1.08	<b>1.12</b>	104%	0.04

Due to the circumstances described above, the results of the Mining Segment were classified as discontinued operations and as of 31 December 2022. TAURON Group discontinued its coal mining operations. From the Group's perspective, the key changes in the developments of the EBITDA result in 2022 compared to the result recorded in 2021 took place in the Generation and Mining segments, which is related to the factors listed below:

- 1) Result of the Generation Segment, lower by PLN (2 154) million than in 2021, mainly as a consequence of lower margins on electricity and heat production.

The lower margin on electricity sales results mainly from rising costs of fuel and CO<sub>2</sub> allowances, higher energy repurchase costs caused by the shutdown and limited production of the 910 MW unit in Jaworzno. The above-mentioned effects were partly offset by higher electricity sales prices and the use of the onerous reserve, which was established in 2021 as a result of the planned shutdown of the unit in the first half of 2022. The lower margin on heat sales results from the increase in costs of fuel and CO<sub>2</sub> emission allowances, partly offset by higher heat sales prices.

- 2) The higher EBITDA of the Mining Segment by PLN 911 million is mainly related to an increase in the average selling price of coal, as a consequence of the increase in market prices due to the reduced imports from the Russian Federation and the limited supply from domestic destinations.

Moreover, the result was positively affected by a change in the volume structure of coal sales, owing to the sales of a higher volume of coarse and medium grades.

The most significant investment projects implemented in 2022 include:

- 1) in the Generation Segment: replacement expenditure and repair components at TAURON Wytwarzanie S.A. (PLN 129 million), the 910 MW unit in Jaworzno (PLN 56 million), investment related to the development and maintenance of district heating networks (PLN 17 million), connection of new facilities (PLN 30 million), PLNE (PLN 17 million),
- 2) in the Distribution Segment: modernisation and replacement of grid assets (PLN 852 million), construction of new connections (PLN 1 138 million), communication and IT (PLN 70 million), other, including buildings and structures, vehicles, tools (PLN 60 million),
- 3) in the RES Segment: the construction of: Piotrków WF 30 MW (PLN 162 million), Majewo WF (PLN 35 million), Mierzyn WF 58.5 MW (PLN 78 million), Gamów WF 40 MW (PLN 29 million), Warblewo WF 30 MW (PLN 31 million), Brzeźnica WF 19.6MW (PLN 18 million), Proszówek PV 55MW (PLN 11 million), Mysłówice PV 37 MW (PLN 78 million), modernisation and restoration of hydroelectric power plants (PLN 20 million),
- 4) Other Segment: the construction of broadband Internet under POPC III (PLN 66 million), IT investments in TOK (PLN 303 million).

Fixed assets represent the major item of assets as at the end of December 2022, with the share of 77% in the balance sheet total. Compared to the year-end of 2021, the value of non-current assets increased by 1 198 million, or 4%, mainly due to an increase in the value of fixed assets and an increase in deferred tax assets.

The value of current assets as at the balance sheet date of 31 December 2022 is higher by PLN 4 047 million, i.e. 65%, compared to the closing balance of 2021, mainly due to an increase in cash and cash equivalents, an increase in other non-financial assets and the value of coal inventories as a result of its delivery at prices significantly higher than in 2021.

In 2022, the share of equity in the total liabilities amounted to 37% and was 4 p.p. lower than the share as at the balance sheet date falling on 31 December 2021. External capital in the form of debt liabilities was also a significant source of asset financing, with the share of 36% in total liabilities as at 31 December 2022, 3 p.p. higher than the share at the end of 2021. The total debt liabilities amounted to PLN 16 487 million and increased by 26% compared to 2021.

The value of TAURON Group's long-term liabilities in 2022 amounted to PLN 18 765 million and increased by PLN 5 131 million, i.e. 38%, mainly due to the change in debt liabilities as a result of new debt incurred in 2022 and the revaluation of foreign currency debt as a result of the change in the exchange rate as at 31 December 2022.

The value of short-term liabilities of TAURON Capital Group increased by 3%, as a result of the following contributing factors:

- 1) an increase in the value of provision for liabilities due to energy certificates of origin and CO<sub>2</sub> emission allowances,
- 2) a decrease in the debt liability due to the reclassification to the long-term portion of financial liabilities, the revaluation of bonds issued in foreign currency as a result of the change in the exchange rate as at 31 December 2022 compared to the exchange rate as at 31 December 2021 and the repayment of loans received,
- 3) a decrease in liabilities due to acquisition of non-controlling shares to PLN 0.
- 4) an increase in the value of liabilities to suppliers,
- 5) an increase in the value of investment liabilities.

As at 31 December 2022 the statement of financial position of TAURON Capital Group recognises a 13% higher balance sheet total compared to the balance as at the end of 2021.

In the cash flow statement for 2022, TAURON Group reported positive cash flow from operating activities in the amount of PLN 2 775 million, i.e. 56% of the 2021 level, negative cash flow from investment activities of PLN (3 976) million, i.e. 128% of the 2021 level, and positive cash flow from financial activities of PLN 1 518 million, i.e. 275% of the 2021 level.

The net change in cash and cash equivalents reported in the TAURON Group's consolidated statement of cash flows was positive and amounted to PLN 317 million, higher than the PLN 468 million reported in 2021.

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

In the reporting year, the Supervisory Board of TAURON reviewed the current results of the Group and the TAURON Company in relation to the approved material and financial plan of both entities and to the results of the corresponding period of the previous year on at least quarterly basis. Each time, the key operating indicators of individual operating segments were discussed, including: electricity distribution volumes, retail electricity sales, electricity generation from conventional and renewable energy sources, heat generation and commercial coal production.

Furthermore, the Supervisory Board analysed the Net Debt/EBITDA ratio, the EBITDA result and the capital expenditure incurred. The cyclical assessment of the above financial ratios resulted from their significant importance in the assessment of the economic and financial position of the Company and TAURON Capital Group.

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

## **7.2. Assessment of effectiveness of internal control, risk management and compliance systems and the internal audit function**

### **Introduction**

The Audit Committee of the TAURON Supervisory Board, in accordance with the provisions of § 1(1) of the Regulations of the Audit Committee of the TAURON Polska Energia S.A. Supervisory Board, is a permanent committee operating within the structure of the Supervisory Board of the Company, established to supervise the Company's financial reporting and internal control, risk management, compliance and audit systems.

In fulfilment of its obligation under Article 382 §3<sup>1</sup>(2) of the CCC and, moreover, taking into account the Best Practice 2021, the Supervisory Board assessed the effectiveness of the internal control, risk management, compliance systems as well as the audit and (institutional) control functions, including all significant control mechanisms, in particular, those related to financial reporting and operating activity.

In implementing Principle 3.2. of the Best Practice 2021, the units responsible for the aforementioned systems and functions have been separated and, with reference to principle 3.6 of the Good Practice, the internal audit unit, supervised by the Executive Director for Audit and Internal Control, reports directly to the President of the Management Board in the organisational structure of the Company. In functional terms, the Head of Internal Audit does not report to the Chairperson of the Audit Committee, however, in order to maintain independence, impartiality and due execution of the audit and control function, the Head of Internal Audit has a possibility to report periodically to the Audit Committee and the Supervisory Board of the Company. The Company also takes into account Principle 3.5. of the Best Practice 2021, by making the Executive Director for Risk and the Compliance Officer within its organisational structure directly reporting to the President of the Management Board, additionally providing him/her with a possibility to report periodically to the Audit Committee and the Supervisory Board of the Company.

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

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

Figure no.1 Model of three defence lines

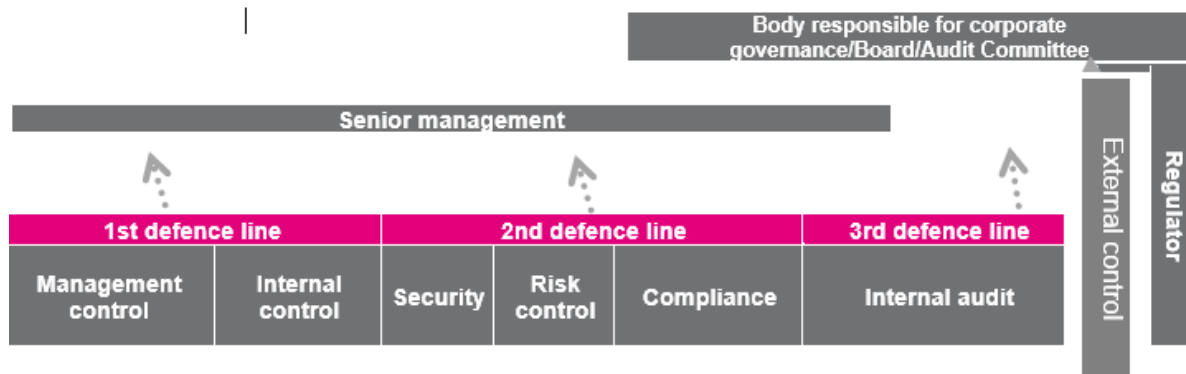
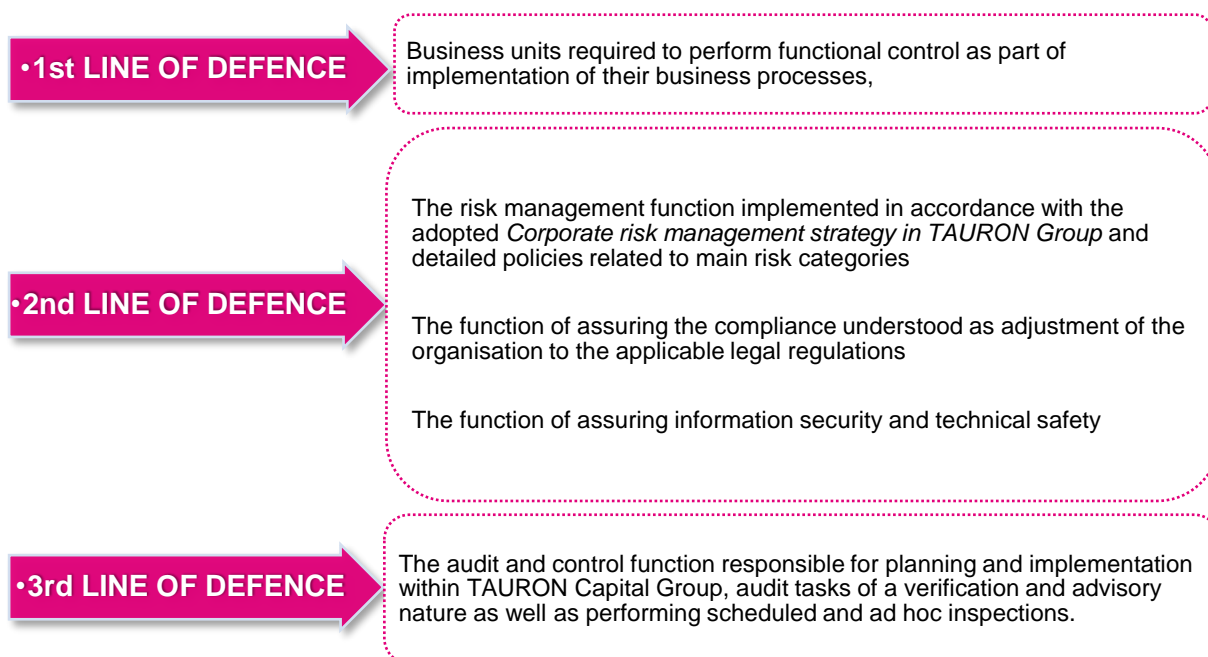


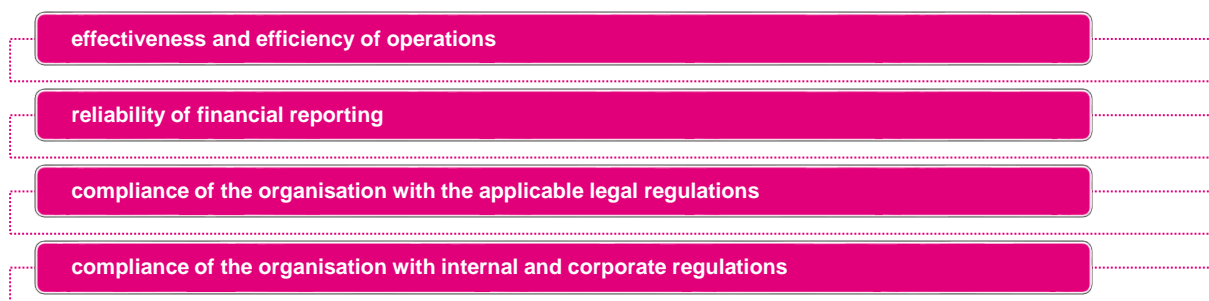
Figure no.2 Functions of individual defence lines



## THE FIRST LINE OF DEFENCE - INTERNAL CONTROL SYSTEMS

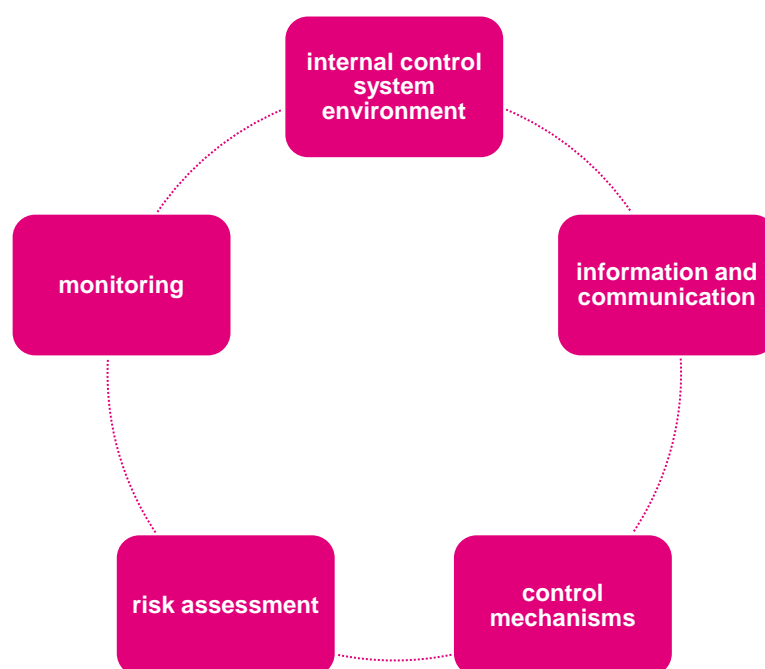
### *Description of the control systems implemented*

The internal control system in place at TAURON encompasses all the processes taking place occurring within the Company and the measures taken by management, the Supervisory Board and all employees, designed to achieve reasonable assurance regarding:



The elements of the internal control in the Company are presented below.

**Figure no. 3 Elements of internal control**



The principles and mode of operation of the internal control system in the Company are defined in detail in internal and corporate normative acts issued by the Members of the Company Management Board.

In addition to the aforementioned elements, the Internal Control System (ICS) covers the risks addressed by the organisation and its business objectives, providing reasonable assurance regarding:

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

Reasonable assurance takes into account the limitations of the Internal Control System due to unpredictable events, uncertainties and risks surrounding the achievement of objectives.



### Internal control assessment mechanisms

A new model for the cyclical assessment of the Internal Control System was implemented in 2022. On the initiative of the Audit Committee, the Internal Control System Assessment Model was designed as an independent tool to provide the TAURON Management Board and the Supervisory Board of the Company with independent and impartial information on the functioning of control mechanisms in business processes.

The Internal Control System Assessment process is carried out in-house based on a methodology developed with the external consultant. The new solution is based on the model defined in the document on Internal Control - Integrated Framework published by COSO, which is now an internationally recognised internal control model.

In 2022, as part of the aforementioned process, the assessment of the adequacy, implementation and effectiveness of selected controls linked to risks assessed as relevant to the Internal Control System was undertaken for the first time.

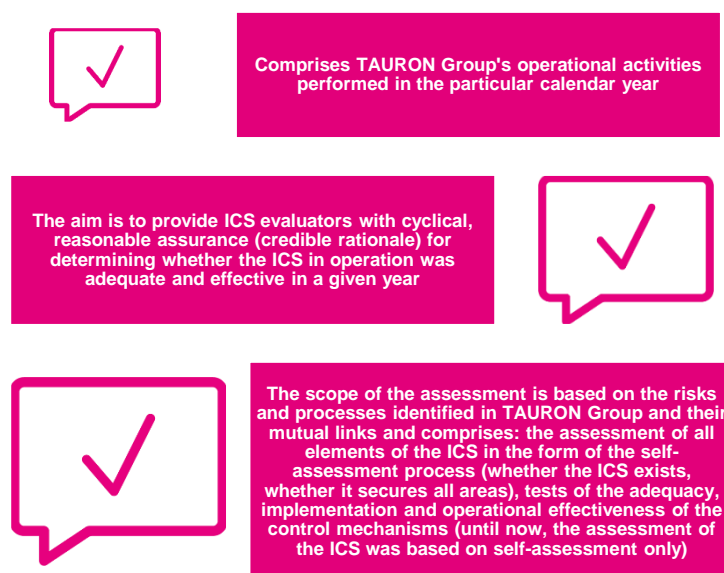
It is a significant change compared to the previous approach based on the self-assessment of the Internal Control System carried out annually by the owners of Mega processes at TAURON and, in the opinion of the Supervisory Board, has a positive impact on even more effective supervision of all areas of the Company operations.

The implementation of the cyclical assessment model of the Internal Control System has enabled:

- 1) the identification of areas where weaknesses in control mechanisms have been identified,
- 2) the adaptation to the changing environment,
- 3) the collection of data and comparison of assessment results in individual years.

The model supports the compliance with the requirements of the Act on Statutory Auditors and also complements the principles arising from the Good Practice 2021.

**Figure no. 4 Assessment of the Internal Control System according to the developed Methodology:**



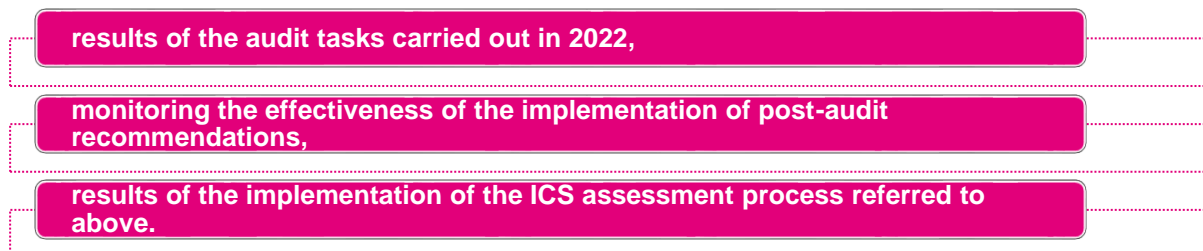
In the opinion of the Supervisory Board, the systemic approach to the assessment of the Internal Control System will contribute to the development of the internal control system and improve the efficiency of the Company operations.

The Internal Control System Assessment Report for 2022 was presented to the Audit Committee by the Audit and Control Area. The results of the assessment of the Internal Control System performed indicated that no significant non-compliance with the processes in place were found that would indicate

a lack of effectiveness of the Internal Control System. With regard to the identified non-compliance, recommendations and adequate guidelines were developed with the aim of their mitigation.

### **Assessment of the adequacy and effectiveness of the internal control systems**

The Supervisory Board, in assessing the adequacy and effectiveness of the internal control systems, verified the following data:



Based on the foregoing, the Supervisory Board has not identified any significant weaknesses in the effectiveness of the internal control system affecting the ability to achieve the defined objectives. In the case of identified gaps within the processes examined in the scope of operation of the internal control system, recommendations and guidelines were developed with the aim to eliminate them. Nevertheless, the issues identified during the audit tasks and during the implementation of the assessment process of the Internal Control System, indicate the need to continuously strengthen and improve the effectiveness of the Internal Control System.

### **SECOND LINE OF DEFENCE - RISK MANAGEMENT**

TAURON Capital Group, taking care of the implementation of the existing TAURON Group Strategy, implemented a comprehensive enterprise risk management system (Hereinafter referred to as the ERM System) and implements the risk management process in its operations. The basic objective of risk management is to ensure broadly understood security of TAURON Capital Group's operations, in particular, with the aim to ensure increasing the predictability of achievement of the strategic objectives, stable creation of the financial result, protection of the TAURON Capital Group's current economic value as well as to support to the decision-making processes.

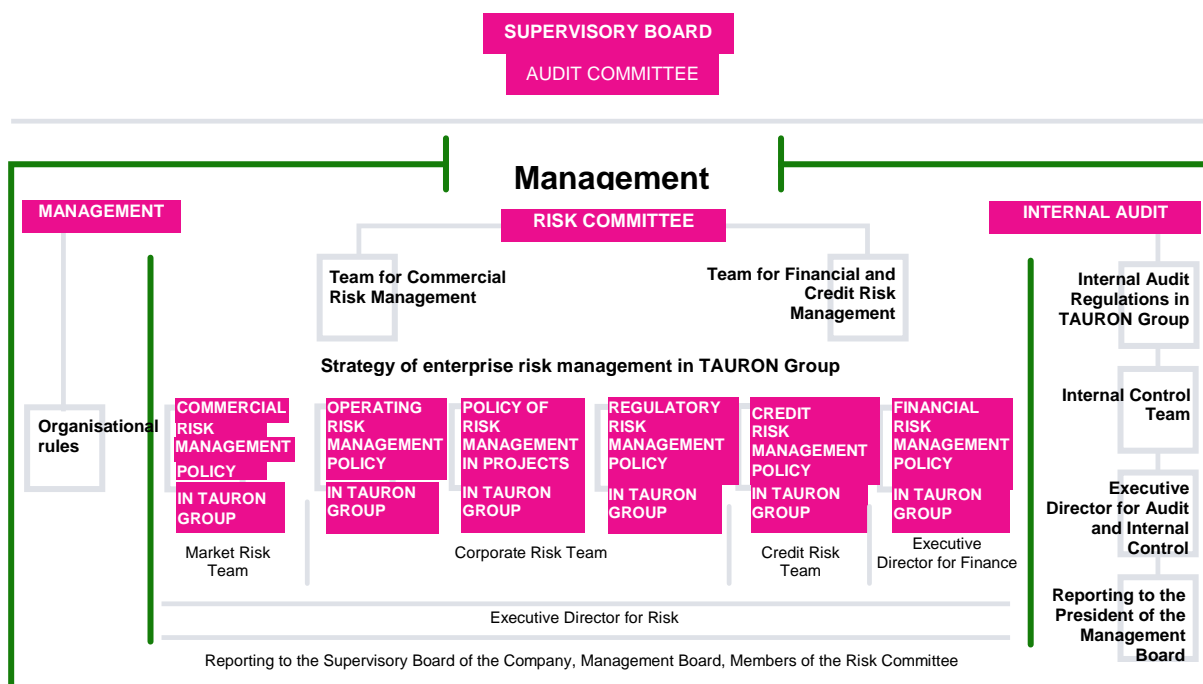
#### **Description of the risk management system applied**

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

A key premise of the ERM System is a clear and precise distribution of tasks and responsibilities, ensuring that no conflicts of interest arise. In particular, the system ensures that the risk-taking function is independent from risk control and monitoring. This is achieved by centralising the control function at parent Company level in an organisational and functional separation of the risk-taking function.

In the framework of ERM system organisation, roles and responsibilities of risk management process in TAURON Capital Group were defined. The figure below shows the links between individual roles and the documents regulating the ERM System in TAURON Capital Group in detail.

Figure no. 5 Links between individual roles and the documents regulating the ERM System in TAURON Capital Group in detail.



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

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

The Executive Director for Risk prepared and submitted for the information of both the Management Board, the Audit Committee and the Supervisory Board cyclical reports and reports concerning the risks identified at the TAURON Group level and the measures taken to mitigate individual risks.

Within the risk management process, the Risk Committee fulfils a special role, as the team of experts that permanently and continuously initiates, analyses, monitors, controls, supports and supervises the performance of the risk management system in TAURON Capital Group. The Risk Committee comprises persons with relevant knowledge on the Company and its environment as well as the required qualifications and powers.

The risk management system in place at TAURON Group is described in detail in the *Management Board's Operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022*, including an indication of the major risk factors in individual Segments of the Company activity and a description of the main risk categories and subcategories, an assessment of their materiality and the risk response measures taken.

### Assessment of the adequacy and effectiveness of risk management

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

On the basis of ongoing monitoring, the analysis of the applicable internal regulations and the cyclical reports and statements received from the Executive Director for Risk on the risks identified at the TAURON Group level and the measures taken to mitigate individual risks, the Supervisory Board concludes that risk management in TAURON Group:

- ✓ is based on a risk management process that provides a holistic and consistent framework - a continuous activity involving risk identification, risk assessment, risk response planning, implementation of the adopted risk response and communication between the participants in the process
- ✓ covers all elements of the value chain
- ✓ ensures centralising of the measurement, monitoring and risk control functions as well as a possibility of assessing the full risk profile in the organisation and consistent principles of its management
- ✓ ensures that the risk-taking function is independent from risk control and monitoring
- ✓ ensures a clear allocation of competences and responsibilities, in particular by introducing a risk ownership function
- ✓ is supervised by the Risk Committee as the team of experts that permanently and continuously initiates, analyses, monitors, controls and supports the performance of the risk management system in TAURON Capital Group
- ✓ is a pro-active process, oriented towards identifying risks early enough to be able to take preventive measures
- ✓ is a systematic and constantly improved process, which allows it to be adapted to the specific nature and organisational structure of TAURON Capital Group as well as to the changing environment
- ✓ places great emphasis on awareness-building, training and encouraging employees to use risk knowledge in their daily activities
- ✓ co-creates a system of internal control in TAURON Capital Group constituting an element of the model of three defence lines, next to the function of ensuring the compliance and security management
- ✓ uses tools to implement the process effectively, i.e. risk card, the risk register, the risk response plan, volatility models, scoring models, risk limits
- ✓ is based on a risk model defining a consistent classification of risks, enabling their uniform and comprehensive recognition at a level of the entire TAURON Capital Group

2022 was a particular year due to the fact that the aggression of the Russian Federation on the territory of Ukraine started, which consequently affected the TAURON Group's operations, including the escalation of risks. In particular, a crisis in the energy fuel market occurred, resulting from the reduction in trade with the Russian Federation, causing a rapid increase in the volatility and price levels of raw materials. The aforementioned event also contributed to the reduction in the supply of hard coal in terms of contracts concluded with external suppliers, the occurrence of a high level of volatility in electricity prices in all market segments both in Poland and on European markets. As a consequence, a high level of market risk was maintained, which indirectly also caused an increase in trading deposits resulting from contracts concluded on the electricity exchange market. Under these circumstances, the inflation rate was rising, causing increases in interest rates, affecting the cost of servicing financing in TAURON Group.

As a result of the economic turbulence, an increased volatility of exchange rates and a depreciation of the zloty were also recorded, which mainly affected the cost of purchasing CO<sub>2</sub> emission allowances and an increase in the cost of purchasing hard coal from foreign directions, as well as the valuation of debt denominated in EUR. As part of the regulatory measures, mechanisms were implemented to limit energy price increases for end-users, to introduce margin restrictions in 2023 for electricity generators, as well as changes to the rules of the wholesale electricity market (abolition of the exchange obligation, changes to the rules of price setting in the balancing market).

Taken into consideration the exceptional market, economic and geopolitical conditions, the organisation took active and extensive measures, both at the operational and strategic level, which were aimed at minimising the adverse effects of the identified risk factors both in terms of business, as well as maintaining the continuity of operations and protecting the health and safety of employees. The detailed description of the key risks including the assessment of their materiality and the description of the

measures taken in response to the risks is provided in the *Management Board's Report on the Operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022*. The TAURON Group's ongoing risk response activities are outlined below.

**Figure no. 6 TAURON Group's ongoing risk response activities**



In order to ensure the adequacy of the risk management system process in 2022, changes were introduced to the conducted processes, regulations and tools used on an ongoing basis to adapt them to the changing market, regulatory and macroeconomic environment. Given the dynamics of change, the ERM System, including the principles of risk monitoring, risk control and the preparation and implementation of risk response, were continuously adapted to the current needs and expectations. Enhanced reporting rules at both operational and management levels have also been introduced. Moreover, the Supervisory Board periodically received information prepared by the Executive Director for Risk on the risks identified, the impact of the aggression of the Russian Federation on the territory of Ukraine, as well as the actions taken in response to the risks.

The development of the TAURON Group's system of risk control indicators, with particular emphasis on early warning indicators, was continued consistently. The annual review and update of the TAURON Group's risk registers was also carried out in order to identify new risk factors as well as to review and implement mitigating measures. As a result of this review, the catalogue of key risks was reviewed for which detailed risk response plans were developed.

Taking into account the above-mentioned measures, the Supervisory Board positively assesses the enterprise risk management system implemented in TAURON Group. The Company maintains and implements the effective ERM System with a separate risk management unit within its structure. Tools for risk identification, measurement, reporting and control allow for the advance development and implementation of response to emerging risks and, consequently, the achievement of business and strategic objectives of TAURON Group, ensuring the adequate level of security. The Company provided adequate resources for the needs of effective operation of the risk management and control system adjusted to the size of the Company and the type and scale of its business. The risk management process is compliant with the best market practice and the regulatory requirements and the organisation of the process itself ensures independence of control functions from the business activity.

## **SECOND LINE OF DEFENCE - COMPLIANCE**

### ***Characteristics of the adopted Compliance Management System***

The Compliance Management System applicable in TAURON Group is aimed to ensure that the TAURON Group's activities comply with the law, guidelines of supervisory bodies, internal regulations and the principles of ethics.

The Compliance Management System comprises the activities of all TAURON Group's organisational units and is adapted to the nature, risk profile and scale of the TAURON Group's activities.

The basic internal corporate regulation setting the operating framework for the Compliance Management System is the *TAURON Group's Compliance Policy*.

The system is based on the guidelines arising from the ISO 19600 Compliance Management Systems standard, the *Recommended Standards for Compliance Management Systems - Anti-Corruption and Whistleblower Protection System* and Good Practice 2021 published by the Warsaw Stock Exchange.

The Compliance Officer is responsible for the development and maintenance of the compliance system in TAURON Group, pursuing his/her activities with the support of the Compliance Team. The Compliance Officer has a possibility to report directly to the Management Board, the Audit Committee and the TAURON Supervisory Board.

In TAURON Group companies, compliance management tasks are carried out by Compliance Coordinators.

The TAURON Supervisory Board supervises the due functioning of the adopted Compliance Management System in TAURON Group.

### ***Assessment of the adequacy and effectiveness of Compliance***

The Supervisory Board concludes that the Compliance Management System implemented in TAURON Group ensures the due implementation of tasks and objectives important for the due functioning and further development of TAURON Group in the area of compliance. The Compliance system is subject to evaluation and continuous improvement in accordance with the PDCA (Plan, Do, Check, Act) cycle.

Moreover, the assessment of the solutions adopted to ensure the adequacy and effectiveness of the compliance system performed in the framework of:

- 1) ongoing supervision of the tasks performed by the Compliance Team and Compliance Coordinators by the Compliance Officer at TAURON,
- 2) cyclical reporting to the Audit Committee on the implementation of compliance tasks,
- 3) reports submitted to the TAURON Supervisory Board in the scope of compliance tasks implemented in TAURON Group,
- 4) TAURON Group's Compliance Report containing information on the functioning of the Compliance Management System in TAURON Group,

demonstrated that the TAURON Group's compliance system is complete, consistent and adequately adapted to the changing market environment.

## **THIRD LINE OF DEFENCE - INTERNAL AUDIT**

### ***Description of internal audit functioning***

The internal audit function in TAURON Capital Group is carried out within the Audit and Internal Control Area in TAURON and is organised in such a way as to ensure the broadly understood security of TAURON Group's operations while supporting the achievement of the TAURON Group's Strategy objectives. While pursuing its audit activities, the TAURON Group seeks to increase the predictability of achieving its strategic objectives, including the stable achievement of the assumed financial result, focusing also on potential risks that may pose threat to the value levers that are key to the implementation of the TAURON Group's Strategy.

The main objectives of the Audit and Internal Control Area in TAURON include planning and implementing audit tasks within TAURON Group, creating and coordinating the principles of internal audit in TAURON Group and providing the support to the organisation in maintaining an effective internal control system.

Internal audit activities are carried out by audit teams consisting of employees holding Independent Audit and Internal Control Positions within the Audit and Internal Control Area at TAURON, performing planned and ad hoc audit tasks both in TAURON and in TAURON Capital Group companies. Audit teams act on the basis of the Annual Audit Plan for a given calendar year, while carrying out audit tasks of a process nature and assessing the current level of individual risks and the effectiveness of their management.

The audit activity also verifies the accuracy of the audited processes and the adequacy and implementation of the control mechanisms in the audited processes. Where irregularities are identified, the auditors recommend appropriate corrective action. The implementation of recommendations is the responsibility of the management of the audited entities while the degree of implementation of audit recommendations is monitored on an ongoing basis using the dedicated MRA application.

**Assessment of the adequacy and effectiveness of internal audit**

The organisation of the Audit and Internal Control Area operating within the TAURON's Organisational Structure is intended to enable the scope of audits and controls to cover the entire activity of the organisation both from the perspective of the needs of TAURON Capital Group and individual subsidiaries. The direct organisational reporting to the President of the Management Board and the functional reporting to the Audit Committee allows the aforementioned Area to maintain the necessary independence and impartiality needed to perform its duties effectively.

The internal audit function is supervised by the Audit Committee of the Supervisory Board, which involves, among others:

- consultation, issuing opinions and recommendations by the Audit Committee on the content of the Internal Audit Rules**
- consulting, issuing opinions on and recommending tasks by the Audit Committee within the internal audit plan for the specific year**
- consulting, issuing opinions on the selection and the work of the head of the Audit unit**
- addressing questions by the Audit Committee to the management and the internal audit manager to determine whether there are undesirable scope or resource constraints**
- requesting information by the Audit Committee from the Executive Director for Audit and Control concerning internal audit activities in relation to the plan and other matters**

The Executive Director for Audit and Internal Control was also provided with a possibility to report directly to the Audit Committee on a cyclical basis. This authorisation is implemented in the applicable Organisational Rules of the Company.

In the opinion of the Supervisory Board, the aforementioned solutions implemented are adequate and enable the Audit and Internal Control Area to operate effectively and efficiently. The internal audit function in TAURON Group is implemented effectively and is an important element of risk management with regard to the operation of control mechanisms in the Company's activities. In the opinion of the Supervisory Board, independent and objective information on the internal control system, risk management, compliance and analysis of business and operational processes in TAURON Group

provided by internal audit, adds value and contributes to the operational improvement of the organisation.

## CONCLUSIONS

Having analysed the control, security, risk control, compliance and audit systems operating in the Company within the three lines of defence, and taking into account the assessment of the adequacy and effectiveness of these areas, the Supervisory Board of TAURON positively assesses the effectiveness of the internal control, risk management, compliance and internal audit systems.

The Supervisory Board of TAURON recognises the model in place at the Company as comprehensive and, moreover, appropriate to the risk profile and size of the Company, and providing adequate protection against the occurrence of undesirable events. The measures taken enable the most effective countermeasures to prevent adverse effects, in particular on the Company operations and financial performance.

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

In 2022, the Company was subject to the corporate governance rules contained in Best Practice for WSE Listed Companies 2021 introduced by Resolution No. 13/1834/2021 of the WSE Supervisory Board of 29 March 2021, effective as of 1 July 2021 (Best Practice 2021).

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

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

<https://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/lad-korporacyjny>.

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

- 1) 1.4.2 - the rule regarding presenting the value of the equity ratio of remuneration paid to its employees, calculated as a percentage difference between the average monthly remuneration paid to women and men for the last year and information on the actions taken to eliminate any potential inequalities in this respect, including the presentation of the associated risks and the time horizon over which the equality is planned to be achieved.
- 2) 2.1. - the rule concerning holding a diversity policy related to the management board and the supervisory board, adopted by the supervisory board or the general meeting respectively, setting out the objectives and the criteria of diversity with regard to, among others, gender, educational background, professional knowledge, age and professional experience, as well as indicating the timeframe and method for monitoring the achievement of those objectives. In terms of gender diversity, a condition for ensuring the diversity of the company governing bodies is that the minority participation in the respective governing body shall be no less than 30%.
- 3) 2.2. - the rule stating that persons deciding on the election of members of the Management Board or the Supervisory Board of the Company should ensure the versatility of these governing bodies by electing persons who ensure diversity, making it possible, among others, to achieve the target ratio of minimum minority participation determined at a level which is not lower than 30%, in accordance with the objectives set out in the diversity policy referred to in section 2.1. of *Best Practice 2021*.
- 4) 3.6. - the rule stating that the head of internal audit reports in organisational terms to the president of the management board and in functional terms - to the chairperson of the audit committee or to the chairperson of the supervisory board if the board acts as an audit committee.



- 5) 3.7. - the rules stating that rules 3.4. - 3.6. shall also apply in the case of entities of the company group that are significant to its business, if they have designated persons to carry out these tasks.
- 6) 4.1. - the rule concerning enabling shareholders to participate in the general meeting by means of electronic communication where this is justified due to the expectations of shareholders, as long as the company is able to provide the technical infrastructure necessary for holding such a general meeting.
- 7) 4.14. - the rule stating that a company should seek to distribute its profits by paying out dividends while retaining the total profits in the company is possible only if any of the following grounds apply:
  - a) the level of this profit is minimal and consequently the dividend would be insignificant in relation to the value of the shares,
  - b) the company recognises uncovered losses of previous years and the profit is allocated to reducing them,
  - c) the company will justify that the use of the profit for investment will generate tangible benefits to the shareholders,
  - d) the company did not generate cash enabling the payment of the dividend,
  - e) the payment of dividend would significantly increase the risk of breaching covenants arising from loan agreements or bond issue terms binding the company,
  - f) keeping the profit in the company is in line with the recommendation of the institution supervising the company by virtue of carrying out a certain activity.
- 8) 6.2. - the rule concerning the construction of incentive schemes in a way necessary, among others, to tie the level of remuneration of members of the company management board and key managers to the actual long-term financial standing of the Company in the scope of financial and non-financial results and long-term growth of shareholder value, sustainable development as well as the stability of the company functioning.
- 9) 6.3. - the rule stating that if one of the company incentive programmes is a managerial options programme, then the implementation of the options programme should be conditional on the fulfilment by the authorised persons, within a period of at least 3 years, of pre-determined, realistic and appropriate financial and non-financial objectives for the company and sustainable development, while the price established for the acquisition of shares by the authorised persons or settlement of the options may not diverge from the value of the shares applicable in the period when the programme was adopted.
- 10) 6.4. - the rule stating that the supervisory board shall carry out its tasks continuously and, therefore, the remuneration of board members shall not depend on the number of meetings held. Remuneration of members of committees, in particular the audit committee, should take into account the additional workload associated with the work in these committees.

In 2022, the Company fulfilled its obligations related to the application of corporate governance rules set out in §29 of the Exchange Rules and in §70(6)(5) of the Regulation of the Minister of Finance of 29 March 2018 *on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent*.

In 2022, the Company did not record any cases of violation of Best Practice 2021, as well as changes in the status of application of the rules or the occurrence of circumstances justifying a change in the content of the explanations other than those indicated above.

Bearing in mind the requirements of §70(6)(5) of the Regulation, the *Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group in the financial year 2021* contained a statement on the application of corporate governance principles, constituting a separate part of the report, including the indication of the set of corporate governance rules which the Company was subject to and the place where the text of the set of principles was publicly available, as well as the indication of the provisions of the set of corporate governance rules which the Company did not apply.

In the opinion of the Supervisory Board, in 2022, the Company correctly applied the principles of corporate governance and properly fulfilled its disclosure obligations regarding their application set out in the Exchange Rules and the regulations concerning current and periodic information provided by issuers of securities. In the opinion of the Supervisory Board, the explanations and comments published by the Company relating to the set of corporate governance rules present the functioning of the Company governing bodies in a reliable and transparent manner.

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

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

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

TAURON Capital Group attaches particular importance to the proper fulfilment of its role as a responsible member of the community in which it operates. It addresses pro-social projects broadly, in proportion to the extent of its business activity by implementing them in accordance with *the TAURON Group's principles for the Conduct of Corporate Social Responsibility Projects*.

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

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

**Table no. 12 TAURON Capital Group's expenditure on supporting culture, sport, charity institutions, media, social organisations in 2022.**

Category	Value of expenditure <sup>1</sup>
Sports	PLN 8,935,282
Culture and arts	PLN 5,598,739
TAURON Foundation	PLN 3 608 900
Social organisations / charities	PLN 2 526 697
Education	PLN 1 372 550

<sup>1</sup>The expenditure includes the costs of sponsoring, promotional and CSR activities as well as donations provided by TAURON Capital Group companies to foundations, social organisations, etc.

Charity activities in TAURON are carried out through the TAURON Foundation whose statutory objective is to act for the public welfare mainly in the field of education, upbringing and science and additionally in the field of health care, development of the economy, culture and arts, social care and assistance, sport and recreation, environmental protection, protection of cultural assets and national heritage and promotion and organisation of volunteering. The TAURON Foundation operates on the basis of funds acquired mainly from companies of TAURON Capital Group and charitable activities of employees as part of employee volunteering. The aid is granted based on the preliminary budget of the TAURON

Foundation for a given year, developed by the Management Board and consulted with the Foundation Board.

In 2022, sponsorship activities in TAURON Capital Group were carried out in 2021 on the basis of the sponsorship activity plan positively approved by the Supervisory Board. By separate resolutions, the Supervisory Board approved the conclusion of sponsorship agreements with a value exceeding PLN 500,000. After the closure of the budgetary year 2021, the Supervisory Board issued a positive opinion on the *Report on the implementation of the sponsoring activity by TAURON Group in 2021*,

In connection with the Russian Federation's invasion of Ukraine and the growing number of refugees from Ukraine in Poland, TAURON Group, through its companies and the TAURON Foundation, has carried out extensive activities to support refugees since the beginning of the war. TAURON also provided in-kind aid to reconstruct the energy infrastructure in Ukraine. Infrastructure assistance is carried out in cooperation with the Governmental Strategic Reserve Agency. Since the beginning of the war, TAURON Group has also been organising collections that TAURON Group employees are encouraged to take part in. They include both donations to the TAURON Foundation account and donations for refugees. The funds raised are donated to organisations providing support in Ukraine.

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

In accordance with the recommendations of the Ministry of State Assets, energy companies can allocate 0.2% of consolidated net sales revenue in the previous year to sponsorship. In 2021, consolidated net sales revenues amounted to PLN 25,614,000,000, thus the amount of PLN 51.23 million could have been allocated to sponsorship. In 2022, PLN 10.60 million, or 0.04% of this revenue, was allocated to sponsorship.

In 2022, the equivalence ratio of sponsorship projects was 24.88. It means that every PLN spent on sponsorship activities generated PLN 24.88 in the form of advertising equivalent. The sponsorship projects carried out by TAURON Capital Group generated the highest TV advertising equivalent in the energy sector.

In the opinion of the Supervisory Board, the TAURON Capital Group's expenditure on supporting sport, culture, education and charity organisations is fully justified since it has a significant impact on building the brand image and positive relations with the environment. These activities are positively perceived by customers of TAURON Capital Group and support the sales of TAURON Capital Group products. It is confirmed by surveys conducted by independent research companies: *Sponsoring Insight Annual report of the TAURON Group's sponsoring activity for 2022*, Ottawa Advisory Group, *TAURON brand image awareness* and ARC Market and Opinion *Sponsoring Monitor 2022*.

#### **10. Assessment of the Management Board's performance of its obligations towards the Supervisory Board as indicated in Article 380<sup>1</sup> and in Article 382 § 4 of the CCC**

In fulfilment of the disclosure obligations referred to in Article 380<sup>1</sup> of the CCC, during the period covered by this report, the Management Board of the Company submitted to the Supervisory Board and the Committees of the Supervisory Board, on agreed dates, detailed information on the position of the Company, including with regard to its assets, as well as significant circumstances in the conduct of the Company affairs, in particular in the operational, investment and human resources areas, progress in the implementation of the Company designated business directions (deviations from the previously designated directions were justified), transactions and other events or circumstances which materially affected or could have affected the Company assets, including its profitability or liquidity, changes to the information previously provided to the Supervisory Board if they materially affected or could have affected the Company's position. At the same time, the Management Board provided information on the subsidiaries and affiliated companies forming part of TAURON Group.

Notwithstanding the above information, information on resolutions and their subject matter adopted by the Company Management Board in the period since the previous Supervisory Board meeting was submitted to each Supervisory Board meeting.

The Supervisory Board positively assesses the implementation by the Management Board of the disclosure obligations indicated in Article 380<sup>1</sup> of the CCC. The information provided to the Supervisory Board by the Company Management Board contributes to the effective cooperation of the above-mentioned bodies.

With reference to the obligations under Article 382 § 4 of the CCC, the Supervisory Board positively assesses the manner and timing of preparing and submitting the information, documents, reports, both those specified in the framework work plan adopted by the Supervisory Board for 2022 and the information and explanations requested by the Supervisory Board or its members from the Management Board during the reporting year. The Management Board did not restrict the Supervisory Board members' access to requested information, documents, reports or explanations, also concerning subsidiaries and affiliated companies.

#### **11. Information on the total remuneration payable by the Company for analyses commissioned by the Supervisory Board to its advisors pursuant to Article 382<sup>1</sup> of the CCC**

Pursuant to Article 382<sup>1</sup> of the CCC, no contract for the needs of the Supervisory Board to examine, at the Company expense, a specific matter relating to the Company business or its assets by a selected advisor was awarded during the reporting year.

In 2022, legal opinions were drawn up for the Supervisory Board by the internal legal area in connection with doubts of a formal and legal nature.

29 March 2023

*Signatures of Members of the Supervisory Board:*

Chairman of the Supervisory Board - Piotr Tutak	.....
Vice-Chairperson of the Supervisory Board - Teresa Famulska	.....
Member of the Supervisory Board - Marcin Wawrzyniak	.....
Member of the Supervisory Board - Stanisław Borkowski	.....
Member of the Supervisory Board - Dariusz Hryniów	.....
Member of the Supervisory Board - Leszek Koziorowski	.....
Member of the Supervisory Board - Ryszard Madziar	.....
Member of the Supervisory Board - Grzegorz Peczkis	.....