



**Report of the Supervisory Board  
of TAURON Polska Energia S.A.  
for the financial year 2023**

17 April 2024

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## 1. Introduction

Acting pursuant to Article 382 § 3 item 3) of Commercial Companies Code (hereinafter referred to as the CCC) and § 20 section 1) item 3) 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 2023 (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 2023 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 2023 in the scope of their compliance with the ledgers, documents and the actual state of affairs and the proposal of the Management Board of the Company concerning the coverage of the net loss,
- 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 disclosed 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

In accordance with the Company's Articles of Association the term of office of the Supervisory Board is a joint term and lasts three full financial years.

In the financial year 2023 the sixth joint term of office of the Supervisory Board lasted, that started on 15 July 2020 and ended on 31 December 2023

After the balance sheet date, on 3 April 2024 the seventh term of office of the Supervisory Board started, that will end on 31 December 2027.

In accordance with the Company's Supervisory Board the Supervisory Board is composed of 5 to 9 Members.

In the reporting year the Supervisory Board consisted of 8 Members of the Supervisory Board and from 2 October 2023 of 7 Members of the Supervisory Board, out of which 5 members were appointed by the Minister of State Assets performing the rights from shares of the State Treasury in line with § 23 section 1 item 3) of the Company's Articles of Association and 3 Members were appointed by Resolutions of the General Meeting in line with the provisions of § 23 section 1 of the Company's Articles of Association.

The table below presents the composition of the Supervisory Board as of 31 December 2023.

**Table no. 1 Composition of the Supervisory Board as of 31 December 2023**

No.	Name and surname	Function exercised
1.	Piotr Tutak	Chair of the Supervisory Board
2.	Teresa Famulska	Vice Chair of the Supervisory Board
3.	Marcin Wawrzyniak	Secretary of the Supervisory Board
4.	Dariusz Hryniów	Member of the Supervisory Board
5.	Leszek Koziorowski	Member of the Supervisory Board
6.	Ryszard Madziar	Member of the Supervisory Board
7.	Grzegorz Peczkis	Member of the Supervisory Board

As at 1 January 2023 the Supervisory Board consisted of the following Members: 1) Piotr Tutak (Chair of the Supervisory Board), 2) Teresa Famulska (Vice Chair of the Supervisory Board), 3) Marcin Wawrzyniak (Secretary of the Supervisory Board), 4) Stanisław Borkowski, 5) Dariusz Hryniów, 6) Leszek Koziorowski, 7) Ryszard Madziar, and 8) Grzegorz Peczkis.

Changes in the composition of the Supervisory Board during the financial year 2023 are presented in the table below.

**Table no. 2. Changes in the composition of the Supervisory Board during the financial year 2023 and until the date of the Report**

Date	Changes in the composition of the Supervisory Board
2 October 2023	The mandate of Member of the Supervisory Board, Stanisław Borkowski expired due to his death.
<i>Events after the balance sheet date</i>	
25 January 2024	Acting pursuant to § 23(1)(3) of the Company Articles of Association, the Minister of State Assets: - dismissed Dariusz Hryniów, Ryszard Madziar, Piotr Tutak and Marcin Wawrzyniak from the Supervisory Board of the Company, - appointed Natalia Klima-Piotrowska, Katarzyna Masłowska, Karolina Mucha-Kuś and Sławomir Smyczek as members of the Supervisory Board of the Company.
1 February 2024	The Supervisory Board of the Company elected: - Sławomir Smyczek as the Chairman of the Supervisory Board of the Company, - Natalia Klima-Piotrowska as the Secretary of the Supervisory Board of the Company.
5 February 2024	Acting pursuant to § 23(1)(3) of the Company Articles of Association, the Minister of State Assets: - dismissed Teresa Famulska from the Supervisory Board of the Company, - appointed Piotr Kołodziej as a member of the Supervisory Board of the Company.
13 February 2024	The Supervisory Board of the Company elected: - Natalia Klima-Piotrowska as the Vice Chairperson of the Supervisory Board of the Company, - Piotr Kołodziej as the Secretary of the Supervisory Board of the Company.
13 February 2024	As of 14 February 2024, the Supervisory Board of the Company delegated the Member of the Supervisory Board, Karolina Mucha-Kuś to act in the capacity of the President of the Management Board of the Company on a temporary basis for the period until the appointment of the new President of the Management Board of the Company. In connection with the appointment of the President of the Management Board as of 7 March 2024, the Supervisory Board of the Company adopted a resolution to terminate the secondment as of 6 March 2024.

Date	Changes in the composition of the Supervisory Board
2 April 2024	Resignation of Leszek Koziorowski, Member of the Supervisory Board, from his membership in order to enable the appointment of the full Supervisory Board for a new term of office at the Extraordinary General Meeting of the Company convened on 3 April 2024 in connection with the end of the term of office of the existing Supervisory Board on 31 December 2023.
3 April 2024	Pursuant to § 23(1) of the Articles of Association of the Company, the Extraordinary General Meeting of the Company - dismissed Grzegorz Peczkis from the Supervisory Board, - appointed Michał Hulboj, Beata Kisielewska, Leszek Koziorowski and Krzysztof Tkaczuk as members of the Supervisory Board.

Until the date of this Report there were no other changes in the composition of the Company's Supervisory Board. The table below presents the composition of the Supervisory Board as of the date of this report.

**Table no. 3. Composition of the Supervisory Board as of the date of the Report**

No.	Name and surname	Function
1.	Sławomir Smyczek	Chair of the Supervisory Board
2.	Natalia Klima - Piotrowska	Vice Chair of the Supervisory Board
3.	Piotr Kołodziej	Secretary of the Supervisory Board
4.	Michał Hulbój	Member of the Supervisory Board
5.	Beata Kisielewska	Member of the Supervisory Board
6.	Leszek Koziorowski	Member of the Supervisory Board
7.	Katarzyna Masłowska	Member of the Supervisory Board
8.	Karolina Mucha - Kuś	Member of the Supervisory Board
9.	Krzysztof Tkaczuk	Member of the Supervisory Board

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

The table below presents information on the fulfilment or non-fulfilment of independence criteria by Members of the Supervisory Board in 2023, 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 4. Fulfilment of the independence criteria by Members of the Supervisory Board and ties to a shareholder and existence of actual ties with a shareholder holding at least 5% of the total number of votes in the Company in the year 2023 and as of the date of this Report**

Name and Surname	Period of holding function in the Supervisory Board in 2023 and until the date of this Report	Fulfilment of the independence criteria	Ties to a shareholder
1. Sławomir Smyczek	from 25.01.2024-present	Independent	Do not exist
2. Natalia Klima-Piotrowska	from 25.01.2024-present	Independent	Do not exist
3. Piotr Kołodziej	from 05.02.2024-present	Independent	Do not exist
4. Michał Hulbój	from 03.04.2024-present	Independent	Do not exist
5. Beata Kisielewska	from 03.04.2024-present	Independent	Do not exist
6. Leszek Koziorowski	from 01.01.2023-present	Independent	Do not exist

	Name and Surname	Period of holding function in the Supervisory Board in 2023 and until the date of this Report	Fulfilment of the independence criteria	Ties to a shareholder
7.	Katarzyna Masłowska	from 25.01.2024-present	Independent	Do not exist
8.	Karolina Mucha-Kuś	from 25.01.2024 to 13.02.2024	Independent	Do not exist
		from 14.02.2024-present	Dependent	
9.	Krzysztof Tkaczuk	from 03.04.2024-present	Independent	Do not exist
10.	Piotr Tutak	from 01.01.2023 to 25.01.2024	Independent	Did not exist
11.	Teresa Famulska	from 01.01.2023 to 05.02.2024	Independent	Did not exist
12.	Marcin Wawrzyniak	from 01.01.2023 to 25.01.2024	Independent	Did not exist
13.	Stanisław Borkowski	from 01.01.2023 to 02.10.2023	Independent	Did not exist
14.	Dariusz Hryniów	from 01.01.2023 to 25.01.2024	Independent	Did not exist
15.	Ryszard Madziar	from 01.01.2023 to 25.01.2024	Independent	Did not exist
16.	Grzegorz Peczkis	from 01.01.2023 to 03.04.2024	Independent	Did not exist

In the year 2023, 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.

Prior to their appointment to the Supervisory Board, Members of the Supervisory Board of the Company submit to the Company, a written representation on the fulfilment of the prerequisites of independence specified in the Act on Statutory Auditors, as well as on the existence or non-existence of actual and significant relations with a shareholder holding at least 5% of the total number of votes in the Company. In the event of the occurrence of circumstances resulting in the non-fulfilment of prerequisites for independence, a Member of the Supervisory Board is obliged to inform the Company thereof without delay.

Information on the fulfilment of the independence criteria by Members of the Supervisory Board of the Company is published on the Company website.

In order to update the information on the fulfilment of the independence criteria by Members of the Supervisory Board, as well as on the existence or non-existence of actual and significant relations with a shareholder holding at least 5% of the total number of votes in the Company, Members of the Supervisory Board submitted updated declarations of independence and relations.

#### **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 2023 the Supervisory Board held, in total, 7 meetings and adopted 75 resolutions.

During five meetings, all members of the Supervisory Board of the Company were present, while during two meetings 1 member of the Supervisory Board was absent, whose absence was justified by relevant resolutions of the Supervisory Board of the Company.

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

**Table no 5. Information on the attendance of Supervisory Board Members in 2023 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.	13 February 2023	8	8	-
2.	29 March 2023	8	8	-
3.	23 May 2023	8	8	-
4.	17 July 2023	8	7	Excused
5.	13 September 2023	8	7	Excused
6.	6 November 2023	7	7	-
7.	11 December 2023	7	7	-

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 10 May 2023 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. 6 Main issues considered by the Supervisory Board during its meetings in 2023**

Main issues considered by the Supervisory Board during its meetings in 2023
<i>In the scope of its opinion-making / evaluation functions</i>
1) It evaluated the <i>Financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2022 prepared in accordance with the International Financial Reporting Standards approved by the European Union</i> in terms of their compliance with the ledgers and documents as well as with the actual state of affairs,
2) It evaluated the <i>Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2022 compliant with the International Financial Reporting Standards approved by the European Union</i> in terms of their compliance with the ledgers and documents as well as with the actual state of affairs,
3) It evaluated the motion of the Management Board to the General Meeting of the Company concerning the method of distributing the net profit for the 2022 financial year,
4) It evaluated the <i>Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the 2022 financial year and the Report on non-financial information of TAURON Capital Group for 2022</i> ,
5) It issued a positive opinion on the <i>Report of TAURON Polska Energia S.A. on representation expenditure, expenses incurred on legal services, marketing services, public relations and social communication services as well as on advisory services related to management incurred in 2022</i> ,

- 
- 6) It issued a positive opinion on *the Annual Report on the implementation of the Plan of the sponsoring activity conducted by TAURON Group in 2022*, the amendments to *the Plan of the sponsoring activity of TAURON Capital Group in 2023* as well as the *Plan of the sponsoring activity of TAURON Capital Group in 2024*.

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

- 1) It adopted the *Report on of the Supervisory Board of TAURON Polska Energia S.A. for 2022*,
- 2) it adopted the consolidated text of the *Articles of Association of TAURON Polska Energia S.A.*,
- 3) it adopted the *Report on the remuneration of Members of the Management Board and the Supervisory Board of TAURON Polska Energia S.A. for 2022* and submitted it to the General Meeting for opinion,
- 4) it adopted the amendments to the *Organisational Rules of TAURON Polska Energia S.A.*,
- 5) it approved the *Material and financial plan of TAURON Group for 2023* and the *Material and financial plan of TAURON Polska Energia S.A. for 2023*,
- 6) it approved the amended *Remuneration Rules in TAURON Group*,
- 7) it approved concluding the agreements for legal services, marketing services, public relations services and social communication services as well as advisory services associated with the 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,
- 8) 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 parent entity undertaking within the meaning of Article 4(3) of the Act of 16 February 2017 *on competition and consumer protection* in cases related to: amendments to the articles of association/agreements/founding deeds to adapt their content to the amended Commercial Companies Code, mergers, acquisition of fixed assets, remuneration of members of corporate bodies, increase in share capital,
- 9) it monitored the functioning of the Supervisory Board Committees and filled in vacancies in those Committees.

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

- 1) it met with the certified auditor to discuss the results of the audit of the financial statements of the company and TAURON Capital Group for the financial year 2022,
- 2) it reviewed the conclusions and results of the audit of the financial statements of the Company and TAURON Capital Group for the year 2022, 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 2022*,

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

- 1) it analysed the current economic and financial position 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 reviewed information on the implementation of the TAURON Group's Strategy for 2022-2030 with an outlook to 2050 and development directions, with particular focus on small modular reactors (SMRs) and offshore wind farms, including deviations from the set directions,
- 3) it discussed the progress of work related to the implementation of the Programme for the spin-off of the TAURON Group's coal-fired generating assets to the National Energy Security Agency (NABE),
- 4) it granted consent to the boundary conditions set out in the document summarising the conditions of the transaction for the sale (Term Sheet) to the State Treasury represented by the Minister of State Assets of 100% of the shares held by TAURON in the share capital of TAURON Wytwarzanie S.A. under the NABE Programme,
- 5) it discussed information concerning the situation on the coal market and in the TAURON Group companies, including stocks and the status of coal deliveries in 2023
- 6) it discussed key risks and their mitigation, in particular the impact of the Russian Federation's aggression against Ukraine on the TAURON Group's current and future operations,
- 7) it discussed a report covering the status of work on the directions of the reorganisation of the RES Area in the TAURON Group,
- 8) it discussed the concept of heat market development in the TAURON Group,
- 9) it granted the consent to conclude donation agreements with the TAURON Foundation
- 10) it gave its consent to the assumption of a contingent liability by TAURON in the form of granting a surety for the liabilities of the subsidiary company TAURON Sprzedaż sp. z o.o. towards Polska Spółka Gazownictwa sp. z o.o.,



- 11) it approved the extension of the period for TAURON to incur contingent liabilities in the form of bank guarantees issued within the framework of uncommitted line agreements concluded with banks for the purpose of securing transactions carried out by TAURON on behalf of and for the benefit of TAURON and its subsidiaries, as well as the extension of the group of potential beneficiaries by amending the resolution adopted in 2022,
- 12) 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,
- 13) it became acquainted with information concerning the expenses incurred on advisory services in TAURON and in TAURON Capital Group in 2022 and in 2023 H1, broken down by business and strategic advice, legal advice, audit services, tax advice and other,
- 14) it became acquainted with the implementation of Regulation of the European Parliament and of the Council on Personal Data Protection (GDPR) in 2022,
- 15) it monitored the membership of TAURON Group companies in associations and other sector organisations and the contributions paid,
- 16) it discussed the situation of the 910 MW unit in Jaworzno, with particular emphasis on the causes, effects and consequences related to the occurrence of failure and failure to achieve optimum capacity of the unit, as well as the status of negotiations with Rafako S.A. conducted in mediation proceedings before the Arbitration Court at the General Prosecutor's Office of the Republic of Poland,
- 17) it reviewed current information concerning, inter alia: completed and ongoing audit tasks in the TAURON Capital Group, activities of the compliance management area, litigation of the company Polska Energia - Pierwsza Kompania Handlowa sp. z o.o., lists of resolutions adopted by the Management Board.

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

- 1) 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 2022,
- 2) 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 implementation in 2022 and determined the amount of the Variable Remuneration payable,
- 3) in connection with the adopted remuneration system, it determined the Management Objectives for Members of the Company Management Board to be implemented in 2023, including determining the weight of these objectives and the unbiased criteria for their performance and settlement,
- 4) it approved incurring costs associated with the training of a Management Board Member.

#### ***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 of the implementation of investment projects in 2022*,
- 2) it adopted the *Report of the Supervisory Board of TAURON Polska Energia S.A. on supervision of the implementation of investment projects by the Management Board, including the purchase of fixed assets in 2022*, 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 approved the disposal of shares in TAMEH HOLDING sp. z o.o., representing 50% of the share capital of TAMEH Holding Sp. z o.o., to companies in the ArcelorMittal Group in a procedure without tender or auction, in accordance with the provisions of the Shareholders' Agreement,
- 4) it reviewed current information concerning the implementation status of strategic investment projects,
- 5) it approved the merger of the companies: TAURON EKOENERGIA sp. z o.o. with AVAL-1 sp. z o.o. and Polpower sp. z o.o., TAURON Ciepło sp. z o.o. with Energetyka Cieszyńska sp. z o.o. and TAURON EKOENERGIA sp. z o.o. with WIND T1 sp. z o.o.,
- 6) it consulted the implementation status of RES projects in TAURON Group, including, among others, the implemented and planned RES projects as well as the distribution of tasks and responsibilities in the scope of RES among companies of TAURON Group.

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 2023, including the purchase of fixed assets.

## 5. Activities of the Supervisory Board Committees

While implementing the principles defined in the Best Practice 2021, in the financial year 2023, 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. 7 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></ol>

- Recommendations to the Supervisory Board concerning the need to delegate a member of the Supervisory Board to temporarily perform the duties of Members of the Company Management Board who cannot perform their duties, including the proposal of compensation.

### Strategy Committee

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

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

The composition of the Audit Committee of the Supervisory Board is compliant with the requirements of Article 129 section 3 of the Act on Statutory Auditors. Majority of the members of the Audit Committee met the statutory independence requirements. Two members of the Audit Committee, the Chair of the Audit Committee Teresa Famulska and Stanisław Borkowski had knowledge and skills in the scope of accounting and audit of financial statements. One Member of the Audit Committee, Grzegorz Peczkis had 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 managed works of a given Committee and supervised 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 in 2023.

**Table no 8. Composition of the Supervisory Board Committees in 2023**

No.	Name and surname	Audit Committee	Nominations and Compensation Committee	Strategy Committee
1.	Piotr Tutak	-	Chair	Member
2.	Teresa Famulska	Chair	-	-
3.	Marcin Wawrzyniak	-	Member	Member
4.	Stanisław Borkowski (mandate expired on 02.10.2023)	Member	-	Member
5.	Dariusz Hryniów	-	-	Member
6.	Leszek Koziowski	Member	Member	-
7.	Ryszard Madziar	-	Member	Member
8.	Grzegorz Peczkis	Member	-	Chair

In connection with the changes in the composition of the Supervisory Board of the Company in 2024, the following table shows the composition of individual Supervisory Board Committees as at the date of this report.

**Table nr 9. Composition of the Supervisory Board Committees as at the date of preparation of the Supervisory Board report**

Lp.	Name and surname	Audit Committee	Nominations and Compensation Committee	Strategy Committee
1.	Sławomir Smyczek	-	Chair	Member
2.	Natalia Klima - Piotrowska	Member	Member	Chair
3.	Piotr Kołodziej	Chair	Member	Member
4.	Michał Hulbój	Member	-	Member
5.	Beata Kisielewska	Member	-	-
6.	Leszek Koziarowski	-	Member	-
7.	Katarzyna Masłowska	-	Member	Member
8.	Karolina Mucha - Kuś	Member	Member	Member
9.	Krzysztof Tkaczuk	-	-	Member

In the financial year 2023:

- The Audit Committee held altogether 8 meetings and adopted 16 resolutions. During 6 meetings, all Audit Committee Members were present, while 1 Audit Committee Member was absent at 2 meetings.
- The Nominations and Compensation Committee held altogether 2 meetings and adopted 3 resolutions. During both meetings, all Nominations and Compensation Committee Members were present.
- The Strategy Committee held altogether 4 meetings and adopted 6 resolutions. During 1 meeting, all Strategy Committee Members were present, while 1 Strategy Committee Member was absent at 3 meetings.

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

**Table no 10. Main issues considered by the Committees of the Supervisory Board during their meetings in 2023.**

Main issues considered by the Committees of the Supervisory Board during their meetings in 2023.	
<b>Audit Committee</b>	
1)	it monitored the financial reporting process, including the analysis of reliability of financial information presented by the Company, in terms of its 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: <ul style="list-style-type: none"> <li>- <i>Financial statements of TAURON Polska Energia S.A. for the financial year ended 31 December 2022 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 2022 financial year.</i></li> <li>- <i>Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the financial year ended 31 December 2022 compliant with the 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 2022 financial year and Report on non-financial information of TAURON Capital Group for 2022,</i></li> <li>- <i>Extended consolidated quarterly report of TAURON Polska Energia S.A. Capital Group for the first quarter of 2023,</i></li> <li>- <i>Extended consolidated semi-annual report of TAURON Polska Energia S.A. Capital Group for the first half of 2023,</i></li> <li>- <i>Extended consolidated quarterly report of TAURON Polska Energia S.A. Capital Group for the third quarter of 2023,</i></li> </ul>
2)	it cooperated with the statutory auditor in the scope of: <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 2022 financial year (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 other than 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 2023 (discussion of the review results and getting acquainted with the</li> </ul>

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- statement on maintaining independence from the audited entity in the period from the date of submission of the previous statement on independence),
- process of auditing the financial statements of the Company and the consolidated financial statements of TAURON Capital Group for the 2023 financial year (discussion of the general assumptions of the auditing process, auditing strategy and non-financial reporting, as well as the results of the preliminary audit in the Company and its subsidiaries),
- 3) it presented to the Supervisory Board a positive assessment of the independence of the financial audit process and assessed the key statutory auditor and members of the team performing the financial audit, in terms of their fulfilment of independence criteria in relation to TAURON Capital Group companies and their independence towards the audited company in the period from the previous assessment of independence,
  - 4) it presented to the Supervisory Board the *Report of the Audit Committee to the Supervisory Board on the evaluation of the financial statements, the Report of the Management Board on the operations of the Company and the TAURON Capital Group and the motion of the Management Board concerning the distribution of net profit for the financial year 2022 and on the evaluation of the Company's standing with regard to the adequacy and effectiveness of the internal control, risk management, compliance and internal audit systems applied in the Company*,
  - 5) it discussed the draft *Report on Remuneration of Members of the Management Board and the Supervisory Board of TAURON Polska Energia S.A. for 2022* for submission to the auditors' opinion,
  - 6) it analysed the financial results of the Company and TAURON Capital Group for 2022, 2023 Q1, 2023 H1 and 2023 Q3,
  - 7) it reviewed the new text of the *Accounting policy of TAURON Polska Energia S.A. Capital Group* and has not submitted any comments,
  - 8) it reviewed information concerning the performance of activities resulting from the *Procedure for ensuring the 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.*,
  - 9) it reviewed the draft amendments to the regulations on the selection of the audit firm and the audit of financial statements in view of the guidelines of the Polish Financial Supervision Authority (UKNF),
  - 10) it reviewed the information on the internal and external financing system in the TAURON Group and the status of subsidiaries' indebtedness to TAURON on account of intra-group loans and cash pool as at 31 December 2022,
  - 11) it monitored issues in the area of internal audit and internal control systems, and in particular discussed the implementation of the annual *Audit Plan for the TAURON Group for 2022*, as well as the implementation in individual quarters of the plan of audit tasks and ad hoc controls in the TAURON Capital Group adopted for 2023,
  - 12) it reviewed the self-assessment of the activities of the audit area in the period of three years, in terms of effectiveness of the audit and control projects in TAURON Capital Group and covering all significant areas of activity of the TAURON Capital Group companies,
  - 13) it discussed the Internal Control System Evaluation Report for 2022,
  - 14) it monitored issues in the area of key corporate and specific risks in TAURON Capital Group (quarterly risk management information),
  - 15) 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 2022, TAURON Group Compliance Plan for 2023* and the reports on periodic assessment of transactions concluded with related parties for the periods of 2022 H2 and 2023 H1, information on the status of application of Best Practice 2021 and the updated *Procedure for the Assessment of Contractors' Reliability in TAURON Group*,
  - 16) it reviewed the rules and procedures related to the methods used to assess the personal relationships of the Members of the Company Bodies as part of the assessment of the reliability of contractors,
  - 17) it monitored 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 negotiated contracts in the TAURON Capital Group companies, conclusions and findings resulting from the analysis of contracts awarded under the emergency procedure in the Company and in the TAURON Capital Group companies, reviewed the procurement procedures used in TAURON Group companies,
  - 18) it reviewed the management model and organisation of legal services in TAURON Group and the list of contracts awarded to external law firms in 2022,
  - 19) it adopted the *Report on activities of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. in the 2022 financial year* and submitted it to the Supervisory Board,
  - 20) it performed other tasks assigned by the Supervisory Board, including, among others, the explanatory procedures, the analysis and assessment of documents or legal actions performed by the Company or companies of TAURON Group, in terms of their compliance with the applicable laws and internal regulations.

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

- 1) 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 achieved in 2023, including determining of the weight of those objectives and measurable criteria of their implementation and settlement,

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- 2) it conducted the analysis and assessment of the implementation of the Management Objectives determined for the Members of the Company Management Board of the 6<sup>th</sup> term of office to be achieved in 2022 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 2022,
  - 3) it adopted the *Report on activities of the Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A. in the 2022 financial year* and submitted it to the Supervisory Board,
  - 4) 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 to the Supervisory Board to approve the *Report of the Management Board on the supervision of implementation of investment projects in TAURON Group in 2022*,
  - 2) it recommended to the Supervisory Board to approve 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 2022*,
  - 3) it approved and submitted to the Supervisory Board the Report on the activities of the Strategy Committee of the TAURON Polska Energia S.A. Supervisory Board in the 2022 financial year,
  - 4) it reviewed the information on the status of implementation of the development directions adopted in the TAURON Group Strategy for 2022-2030 with an outlook to 2050, including those related to the replacement of production assets, the construction of energy storage facilities, the management of combustion by-products (UPS), and the construction of a pumped storage power plant,
  - 5) it discussed issues related to the implementation of investment projects of key importance for TAURON Group in 2023, with special attention to projects in TAURON Dystrybucja S.A. and in the following Areas: Generation, RES, Heat and Customer Service,
  - 6) it reviewed the information on the assets of the Generation Area (before the demerger) and other TAURON Group companies, divided into assets transferred within the NABE project (real estate and fixed assets) and assets remaining in TAURON Group,
  - 7) it discussed the concept of business areas in TAURON Group after the completion of NABE, including the consolidation of the TAURON Group's subsidiaries,
  - 8) it reviewed the updated Strategic Research Agenda and the status of R&D projects in 2023, in particular the Distribution Area, including: connection of new RES generation units to the grid, implementation of smart metering in the context of replacement of meters with smart meters (AMI),
  - 9) it reviewed information on the implementation of new RES projects scheduled for acquisition in 2023 and the status of construction of RES projects acquired in 2022,
  - 10) it analysed the status of work regarding the implementation of the concept of reorganisation of the RES Area in the TAURON Group,
  - 11) it reviewed the information on the impact of key industry regulations 2023 on the TAURON Group Strategy.
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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 coverage of net loss**

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 2023 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 2023 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 2023 financial year*.
- 4) *Motion of the Management Board concerning the coverage of net loss for the 2023 financial year*.

The audit of the aforementioned reports of TAURON Polska Energia S.A. was carried out by Ernst & Young Audyt 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 separate and consolidated financial statements of TAURON Polska Energia S.A. and the TAURON Capital Group for the 2023 financial year.

#### **6.1. Evaluation of the financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2023 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 2023 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 2023 recognising the negative comprehensive income in the total amount of PLN (870) million and the net loss for the 2023 financial year in the amount of PLN (638) million,
- 2) Statement of financial position as at 31 December 2023, which indicates the total balance of assets and liabilities in the amount of PLN 32 054 million,
- 3) Statement of changes in equity for the year ended on 31 December 2023 showing a decrease in equity by the amount of PLN (870) million,
- 4) Statement of cash flows for the year ended 31 December 2023 showing an increase in net cash flows by the amount of PLN 34 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 ledgers 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 pursuant to which the above-mentioned Financial Statements of TAURON Polska Energia S.A.:

- 1) present a reliable and clear view of the economic position and financial standing of TAURON Polska Energia S.A. as at 31 December 2023 and of its financial result and cash flows for the period from 1 January 2023 to 31 December 2023, 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 based on accurately kept ledgers in accordance with the provisions of Chapter 2 of the Accounting Act of 29 September 1994 (hereinafter: the Accounting Act).

In view of the foregoing, the Supervisory Board recommends that the Ordinary General Meeting should approve the *Financial Statements of TAURON Polska Energia S.A. for the year ended 31 December 2023 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 2023 compliant with the 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 2023 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 2023 showing positive comprehensive income in the total amount of PLN 1 339 million and the net profit for the 2023 financial year in the amount of PLN 1 678 million,
- 2) Consolidated statement of financial position as at 31 December 2023, which indicates the total balance of assets and liabilities in the amount of PLN 49 798 million,
- 3) Consolidated statement of changes in equity for the year ended 31 December 2023 showing an increase in equity by the amount of PLN 1 339 million,
- 4) Consolidated statement of cash flows for the year ended 31 December 2023 showing an increase in net cash flows by the amount of PLN 108 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 2023 financial year and concluded that they were compliant with the ledgers 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 position and financial standing of TAURON Polska Energia S.A. as at 31 December 2023 and of its consolidated financial result and consolidated cash flows for the period from 1 January 2023 to 31 December 2023, 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.

In connection with the foregoing, the Supervisory Board recommends that the Ordinary General Meeting should approve the *Consolidated Financial Statements of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2023 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 2023**

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 2023* in terms of its compliance with the ledgers and documents as well as with the actual state of affairs. The Report concerned presents the assets, the economic and financial position as well as the development 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 in the Consolidated Financial Statements of the TAURON Capital Group for the year ended 31 December 2023.

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 2023.*

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 2023* 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) and Article 55(2)(b)-(e) of the aforementioned Accounting Act of 29 September 1994 as amended, 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 (core level).

#### **6.4. Evaluation of the motion of the Management Board to the General Meeting concerning the method of loss coverage for the 2023 financial year.**

The Supervisory Board has reviewed the motion of the Management Board to the General Meeting concerning the coverage of net loss for the 2023 financial year covering the period from 1 January 2023 to 31 December 2023 in the amount of PLN 637 505 198,92 from the supplementary capital of the Company.

Considering the justification of the Company Management Board concerning the method of loss coverage for the 2023 financial year, 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 coverage of net loss for 2023, the Supervisory Board took into account the recommendations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. which, as part of fulfilment of its obligations defined 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 the 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 2022 financial year, 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 the statutory audit of public-interest entities and Article 67(4)(9) of the Act on Statutory Auditors.

In view of the foregoing, taking into account the recommendations of the Audit Committee and based on the opinion of the statutory auditors, the Supervisory Board 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 ledgers 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 coverage of net loss for 2023 from the supplementary capital of the Company.

In connection with issuing of the positive opinion on the statements and reports, the Supervisory Board recommends the Ordinary General Meeting to approve the aforementioned statements and reports and to cover the net loss for the 2023 financial year in accordance with the procedure defined in the motion of the Management Board of the Company, i.e. from the supplementary capital of the Company.

## 7. Evaluation 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 standing

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

In 2023, after the previous year's destabilisation in the international arena caused by the Russian Federation's aggression in Ukraine, the macro-economic situation began to gradually normalise. The energy crisis resulting from the previous year's conflict was receding, which contributed to the stabilisation of energy and fuel prices. In the energy sector, a significant stabilisation of economic conditions was observed compared to 2022, which had a positive impact on TAURON Group.

As a consequence of these changes in the market environment, TAURON Group companies were able to focus on their development strategy, innovation and operational efficiency. The support for renewable energy sources and the efficient use of generating units became key elements of this stabilisation process, enabling the company to operate effectively in a dynamic energy environment. As a result, the Company position in the energy market strengthened in 2023, allowing it to focus on long-term development.

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

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, the Company has concentrated major competence related to 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 assigned to electricity certificates of origin, CO<sub>2</sub> emission allowances and commercial services.

The table below presents the developments in the financial results of the Company:

Table no 11. Developments in the results of the Company

PLN million	2022	2023	Growth (2023/2022)	Change (2023-2022)
Revenues on sales	27 545	<b>34 314</b>	125%	6 769
EBITDA	218	<b>240</b>	110%	22
Net profit (loss)	67	<b>(638)</b>	(952)%	(705)

It should be noted that despite the legal regulations introduced, limiting the achievable level of margin on electricity trading to the level specified in the Act, as well as the write-downs of shares and stocks, as well as loans granted to TAURON Group companies, the operating results generated by the Company confirm its stable financial and economic position.

In the reporting period ended 31 December 2023, TAURON Polska Energia S.A. generated 25% higher revenue on sales compared to the values achieved in 2022, which results from the following factors:

- 1) growth in the revenue from electricity sales by 26%, mainly as a result of 62% higher electricity sales prices compared to 2022, with a simultaneously 22% lower sales volume,

- 2) growth in the revenue from gas sales mainly as a result of an increase in market prices by an average of 6%, with a simultaneously 4% higher sales volume,
- 3) growth in the revenue from the sales of CO<sub>2</sub> emission allowances, which is the result of the sale in 2023 of a larger volume of CO<sub>2</sub> emission allowances as a consequence of the sale in 2023 of a larger volume of allowances for the redemption needs of the TAURON Capital Group companies in connection with emissions for both 2022 and 2023.

The achievement of a 10% higher EBITDA in 2023 compared to the previous year is the result of the following factors:

- higher achieved margin on electricity sales, mainly as a result of changes in market electricity prices,
- higher revenues obtained from the CO<sub>2</sub> portfolio management service as a result of a higher level of contracting compared to 2022,
- reversal in 2023 of an allowance for receivables created at the end of 2022 as a result of ratings in the TAURON Group's model for estimating expected credit losses,
- decrease in revenues from electricity trading services and fuel portfolio management services, which is related to the transfer of these competencies to TAURON Wytwarzanie S.A. following the implementation of the programme to spin off coal assets from the TAURON Group,
- higher costs of the Company's operations, inter alia due to the wage agreements signed.

The gross financial result generated in 2023, lower than in the previous year by PLN 705 million, was affected by various factors that contributed to both the decrease and its increase, the most important of which include:

- a decrease in dividend income, mainly due to the absence of a dividend from the subsidiary TAURON Dystrybucja S.A., the profit of which was fully allocated to the company's supplementary capital,
- recognition of a loss on derivatives due to the appreciation of the PLN exchange rate, which translated into a decrease in the valuation and result on the current settlement of currency derivatives,
- recognition of foreign exchange gains related to the valuation of external financing in EUR due to the strengthening of the PLN,
- increase in interest expenses as a result of higher average borrowing and generally higher underlying rates,
- increase in interest income on loans resulting mainly from an increase in the amount of loans granted to subsidiaries, in particular to TAURON Wytwarzanie S.A.,
- revaluation of shares by recognising an impairment loss on shares in the TAMEH Holding Sp. z o.o. joint venture as a result of impairment tests,
- revaluation of loans by decreasing the carrying amount of loans granted to TAURON Wytwarzanie S.A. and increasing the valuation of loans granted to other subsidiaries and the joint venture,
- increase in EBITDA, for reasons described above.

As at 31 December 2023, the total assets of the Company amounted to PLN 32 054 million, down 6% on 31 December 2022. Fixed assets accounted for the largest share of total assets at 85%. The dominant items were the value of shares and the value of bonds and loans granted, amounting to 48% and 35% of total assets respectively.

As at 31 December 2023 and 31 December 2022, equity amounted to 36% of total liabilities in both periods. Debt liabilities were the most significant liability item, accounting for 55% of total liabilities at the end of 2023, compared with 53% at the end of 2022.

The change in cash reported in the statement of cash flows for the financial year ended 31 December 2023 was positive and amounted to PLN 34 million. The cash balance as at 31 December 2023 was negative and amounted to PLN 287 million. The level of cash presented in the Company's statement of financial position was PLN 484 million, and the difference is the result of the adjustment to cash made up by the balances of loans granted and borrowings executed as part of cash pool transactions, due to the fact that they do not represent cash flows from investing or financing activities, but are mainly used to manage current liquidity.

### **Evaluation of TAURON Capital Group position**

In 2023, TAURON Group conducted operations in the field of generation, distribution and sale of electricity and heat, as well as other products of the energy market, excluding the transmission of electricity which is solely the responsibility of the Transmission System Operator as well as coal mining where assets were disposed of by TAURON Group on 31 December 2022.

The analysis conducted on the basis of the EBITDA result 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 position of the TAURON Group. Despite the factors described above, EBITDA amounted to PLN 6 145 million and is thus higher than the result achieved in 2022. The Net Debt/EBITDA ratio reached 2.1x, thus not exceeding the covenant assumed in the financing agreements (3.5x). In view of the ratios presented above, it can be concluded that the TAURON Capital Group maintains a stable market position and its indebtedness does not cause a current liquidity risk.

The stable financial position is also confirmed by the current rating of the FITCH rating agency, published on 5 October 2023, which assigns the Company a BBB- level, with a stable outlook. Thus, the rating outlook was maintained, taking into account the dominant share of regulated and predictable electricity distribution in the TAURON Group's business profile, the solid market position and the projected level of financial leverage below the amount indicated in the negative rating change factor.

The rating agency highlights the TAURON Group's strong market position as the largest electricity distributor in Poland, covering the southern, densely populated regions of Poland. The high share of the regulated Distribution segment in the EBITDA of the TAURON Group allows the Company to achieve predictable and stable results.

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

**Table no. 12 Financial results of TAURON Group**

PLN million	2022	2023	Growth (2023/2022)	Change (2023-2022)
Revenues on sales on continued operations	36 311	<b>42 657</b>	<b>117%</b>	<b>6 346</b>
EBITDA on continued operations	3 215	<b>6 145</b>	191%	<b>2 930</b>
EBITDA on discontinued operations	801	-	-	<b>(801)</b>
<b>Total EBITDA</b>	4 016	<b>6 145</b>	<b>153%</b>	<b>2 219</b>
Net profit (loss) on continued operations	(209)	<b>1 678</b>	-	<b>1 887</b>
Net profit (loss) on discontinued operations	75	-	-	<b>(75)</b>
<b>Net profit (loss)</b>	(134)	<b>1 678</b>	-	<b>1 812</b>
CAPEX	3 962	<b>4 364</b>	110%	<b>402</b>
Net debt/ EBITDA	2,9x	<b>2,1x</b>	72%	<b>-0,8x</b>

Sales revenues generated are higher y/y mainly as a result of higher sales revenues:

- electricity, mainly as a result of higher prices, which is due on the one hand to the increase in market prices in the forward electricity market, and on the other hand to legislative solutions introduced for 2023 regulating the price level for selected customer groups at a higher level than that applied in 2022,
- distribution and trading services as a consequence of an increase in the rate of the distribution and transmission service, with a simultaneous drop in the volume of the distribution service,
- heat, mainly due to a significant increase in the prices of heat tariffs approved by the President of the ERO,
- gas, mainly due to a significant increase in prices compared to the comparable period, as a consequence of changes in prices contracted during 2022 for deliveries in 2023, with a simultaneous decrease in volume.

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. It should be mentioned that at the end of 2022, TAURON Group ceased its coal mining operations, which is related to the loss of TAURON Group's control over TAURON Wydobywanie S.A. as of 31 December 2022, due to the sale of 100% of shares in the company to the State Treasury. Therefore, the TAURON Group's 2022 result also included the result generated by the aforementioned mining company, which does not continue in the current reporting year.

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

**Table no. 13 Developments in the operating results of TAURON Group Segments and key operating data**

PLN million	2022	2023	Growth (2023/2022)	Change (2023-2022)
<i>Continued operations</i>				
Generation	(779)	<b>1 377</b>	-	<b>2 156</b>
RES	476	<b>431</b>	91%	<b>(45)</b>
Distribution	2 939	<b>3 528</b>	120%	<b>589</b>
Supply	594	<b>568</b>	96%	<b>(26)</b>
Other activities	298	<b>273</b>	92%	<b>(25)</b>
Unallocated items	(313)	<b>-32</b>	10%	<b>281</b>
<b>EBITDA</b> on continued operations	<b>3 215</b>	<b>6 145</b>	<b>191%</b>	<b>2 930</b>
<i>Discontinued activity</i>				
Mining	781	-	-	<b>(781)</b>
Unallocated items	20	-	-	<b>(20)</b>
<b>EBITDA</b> on discontinued operations	801	-	-	<b>(801)</b>
<b>Total EBITDA</b>	<b>4 016</b>	<b>6 145</b>	153%	<b>2 129</b>
Distribution of electricity	53,68	<b>51,30</b>	96%	<b>(2,38)</b>
Production of energy from RES	1,57	<b>1,67</b>	107%	<b>+0,11</b>
Production of energy from coal-fired units	13,9	<b>10,99</b>	79%	<b>(2,91)</b>
Heat production	10,58	<b>10,35</b>	100%	<b>(0,04)</b>
Retail sales of electricity	31,14	<b>30,75</b>	99%	<b>(0,39)</b>
Commercial coal production	5,01	-	-	<b>(5,01)</b>

The following Segments contributed to the 53% higher EBITDA generated in 2023:

- 1) Generation, which achieved an operating result higher by PLN 2 156 million, which is the result of:

- obtaining a higher electricity margin than in 2022, mainly as a result of the stable operation of the 910 MW unit and the lack of significant outages that took place last year, in the period when the record high levels of the price of electricity on the SPOT market and the balancing market were historically recorded. In addition, the margin improvement was affected by the receipt of higher revenues from the power market,

- the recognised payment from the guarantee of RAFAKO S.A. for due performance of the contract for the construction of the 910 MW unit and the compensation obtained from the Insurance Companies under the insurance contract related to the occurrence of property damage arising during the construction of the 910 MW unit,

- lower result in the joint venture, which is related to the insolvency petition filed by TAMEH Czech s.r.o. to the court, resulting from the failure of its main contractor to pay its liabilities. As a consequence of the foregoing, the result of 2023. TAMEH Group was charged with impairment losses and provisions arising from insolvency.

- 2) Distribution, whose result is an improvement of PLN 589 million, mainly as a consequence of a positive change in the balance of the reassessment of grid loss costs, a higher margin on the distribution service and the achievement of higher revenues from other distribution services.

It should be mentioned that the TAURON Group's result for 2022 was affected by the operations of the Extraction Segment, whose EBITDA result for the period amounted to PLN 781 million, which did not continue in the current reporting year.

The most significant investments implemented in 2023 include:

- 1) in the Generation Segment: replacement and modernisation expenditures and components and the 910 MW unit at TAURON Wytwarzanie S.A. (PLN 303 million); construction of a gas boiler at ZW Katowice (PLN 61 million), investments related to the development and maintenance of district heating networks (PLN 82 million), connections of new facilities (PLN 28 million), Low Emission Elimination Programme (PLN 28 million), expansion of the heat market, Katowice Południe - Ligota Project (PLN 30 million) at TAURON Ciepło,
- 2) in the Distribution Segment: modernisation and replacement of grid assets (PLN 1479 million), construction of new connections (PLN 944 million), AMI Plus (PLN 166 million) communications and IT (PLN 102 million),
- 3) in the RES Segment: construction of WF Mierzyn 58.5MW (PLN 73 million), WF Gamów 33MW (PLN 60 million), WF Warblewo 30MW (PLN 81 million), WF Brzeźnica 19.6MW (PLN 31 million), PV Proszówek 55MW (PLN 151 million), PV Mysłowice 37MW (PLN 82 million), WF Sieradz 23.8MW (PLN 24 million), modernisation and restoration of hydropower plants (PLN 19 million),
- 4) in the Supply and Other Activities segment: IT investments in TAURON Obsługa Klienta (PLN 278 million), Business Services Centre (PLN 14 million), Customer 360 Programme (PLN 15 million) in TAURON Obsługa Klienta, street lighting in TAURON Nowe Technologie (PLN 97 million).

Fixed assets represented the largest asset item at the end of December 2023, accounting for 75% of total assets. Compared to the end of 2022, non-current assets increased by 2,300 million, or 7%, mainly due to an increase in fixed assets.

The value of current assets at the balance sheet date of 31 December 2023 is higher by PLN 2 178 million, or 21%, compared to the balance at the end of 2022, mainly due to an increase in compensation receivables and receivables from customers.

In 2023, the share of equity in total liabilities was 36%, 0.6 p.p. lower than the share at the balance sheet date falling on 31 December 2022. External capital in the form of debt obligations was also a significant source of asset financing, with its share in total liabilities at 31 December 2023. 35% and was 1.4 p.p. lower than its share at the end of 2022. In total, debt liabilities amounted to PLN 17,415 million and increased by 6% compared to 2022.

The value of TAURON Group's non-current liabilities in 2023 amounted to PLN 17 576 million and decreased by PLN 935 million, i.e. by 5%, which was mainly due to the change in debt obligations.

The value of the TAURON Group's short-term liabilities increased by PLN 4 074 million, i.e. by 40%, which was mainly due to:

- 1) an increase in the value of debt liabilities of PLN 2 343 million,
- 2) an increase in the value of liabilities from other taxes and charges by PLN 706 million,
- 3) an increase of PLN 536 million in other non-financial liabilities,
- 4) a PLN 489 million increase per balance in other balance sheet items classified as current liabilities.

At 31 December 2023, the statement of financial position of the TAURON Group shows a balance sheet total 10% higher than at the end of 2022.

In the cash flow statement for 2023, TAURON Group reported positive cash flow from operating activities of PLN 4 616 million, i.e. 166% of the 2022 level, negative cash flow from investing activities of PLN (4 794) million, i.e. 121% of the 2022 level, and positive cash flow from financing activities of PLN 286 million, i.e. 19% of the 2022 level.

The net change in cash and cash equivalents reported in the TAURON Group's consolidated statement of cash flows was positive at PLN 108 million. It was lower by PLN 209 million than reported in 2022.

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

In the 2023 financial year, the Supervisory Board of TAURON reviewed the current results of the TAURON Group and the Company in relation to the approved material and financial plan of both entities and the results of the corresponding period of the previous year on at least quarterly basis. The key operating indicators of individual operating segments were discussed on a case-by-case basis, 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 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**

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.

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

While 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 Best 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 assigning the Executive Director for Risk and the Compliance Officer within its organisational structure as 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 applies 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

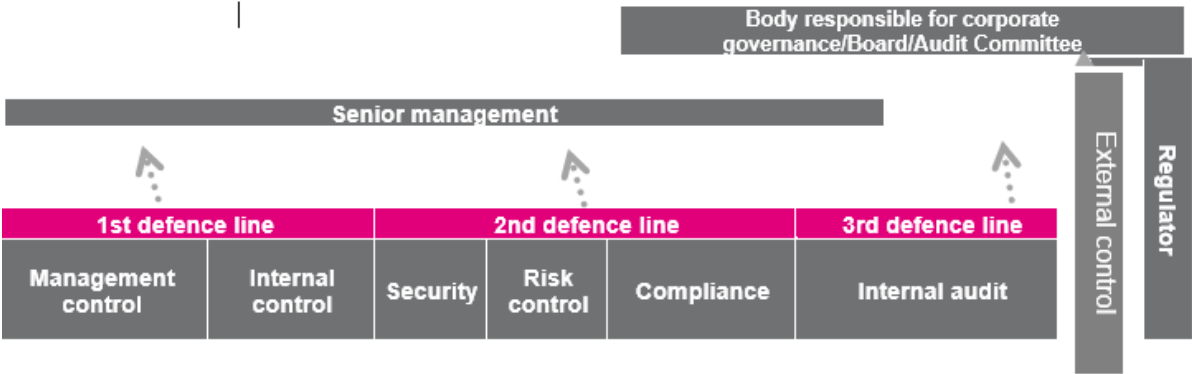
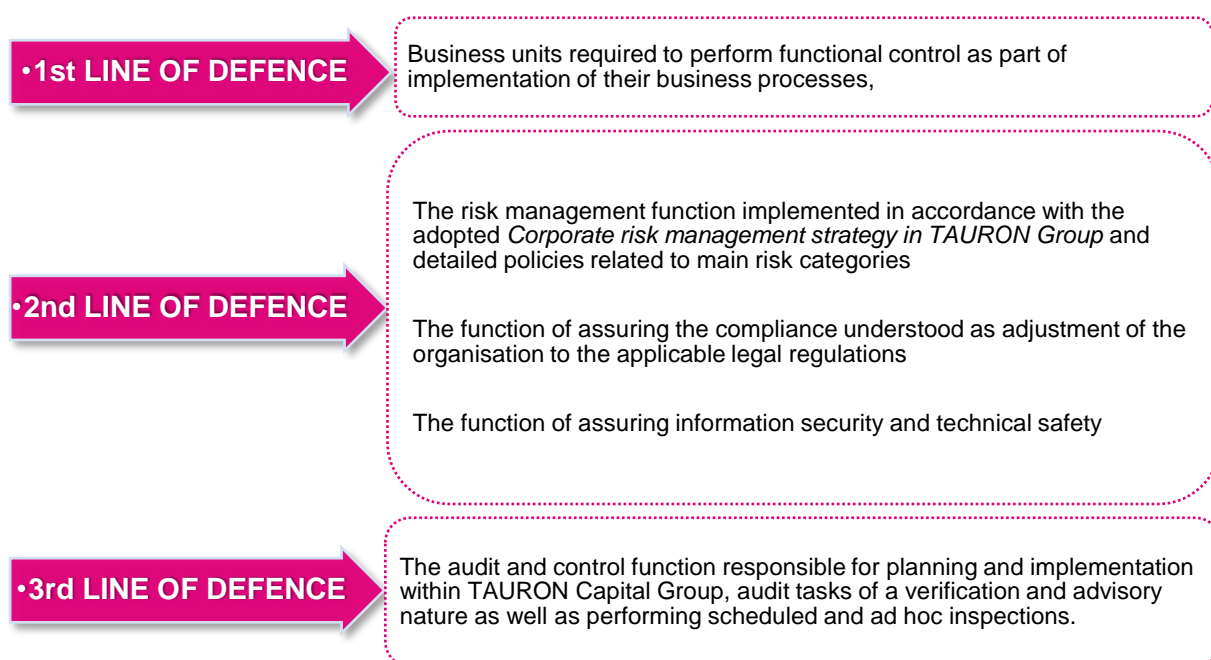




Figure no.2 Functions of individual defence lines



## THE FIRST LINE OF DEFENCE - INTERNAL CONTROL SYSTEMS

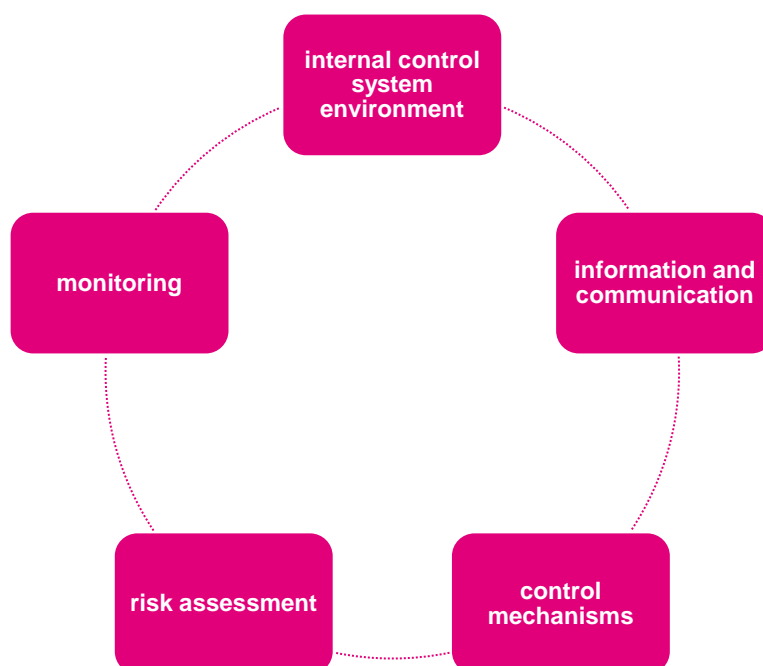
### *Description of the control systems implemented*

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

- effectiveness and efficiency of operations
- reliability of financial reporting
- compliance of the organisation with the applicable legal regulations
- compliance of the organisation with internal and corporate regulations

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 compliance of the organisation 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**

The TAURON Capital Group operates a model for the cyclical evaluation of the Internal Control System. The model, on the initiative of the Audit Committee, was designed as an autonomous tool to provide the TAURON Polska Energia S.A. Management Board and the Company's Supervisory Board with independent and objective information on the functioning of the Internal Control System in business processes.

The evaluation process of the Internal Control System is carried out in a proprietary manner based on a methodology developed with an external consultant. The provisions of the methodology are based on the COSO model, which is the global standard and benchmark for internal control systems.

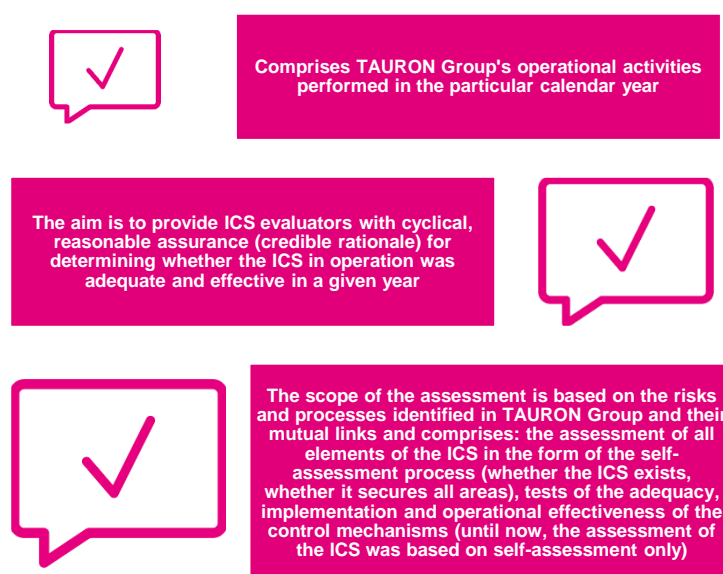
As part of the aforementioned process, an assessment of the Internal Control System in the TAURON Capital Group for 2023 was carried out, consisting of a self-assessment and tests of the adequacy, implementation and operational effectiveness of selected control mechanisms related to risks assessed as significant for the Internal Control System. The performance of the assessment in the aforementioned scope, in the opinion of the Audit Committee, positively influences the effective exercise of supervision over all areas of the Company's operations.

The existing model of cyclical assessment of the Internal Control System enables:

- 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 as well as complements the principles arising from the Best Practice for WSE Listed Companies 2021.

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

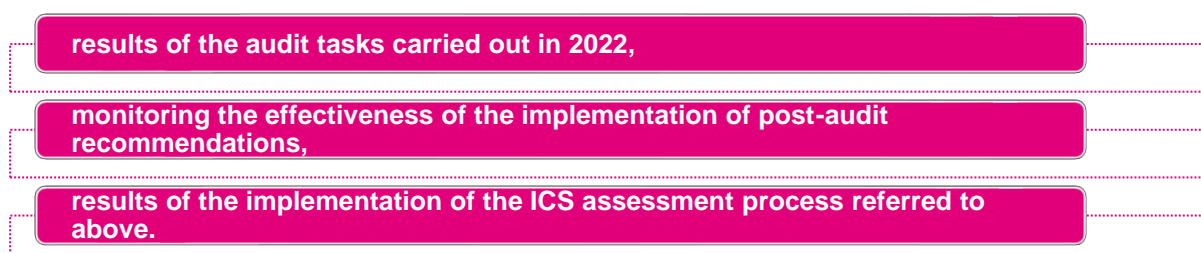


The systemic approach to the assessment of the Internal Control System contributes to the development of the internal control system and improvement of the efficiency of the Company operations.

The Internal Control System Assessment Report for 2023 was presented to the Audit Committee by the Audit and Internal Control Area. The results of the assessment of the Internal Control System indicated that no significant weaknesses in the effectiveness of the Internal Control System affecting the ability to achieve the set objectives were identified. With regard to the identified weaknesses, recommendations were made to implement the corrective actions.

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

The subject of the meetings of the Audit Committee of the Supervisory Board was the ongoing monitoring of the effectiveness of the internal control systems including:



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**

Taking care of the implementation of the existing TAURON Group Strategy, TAURON Capital Group 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.

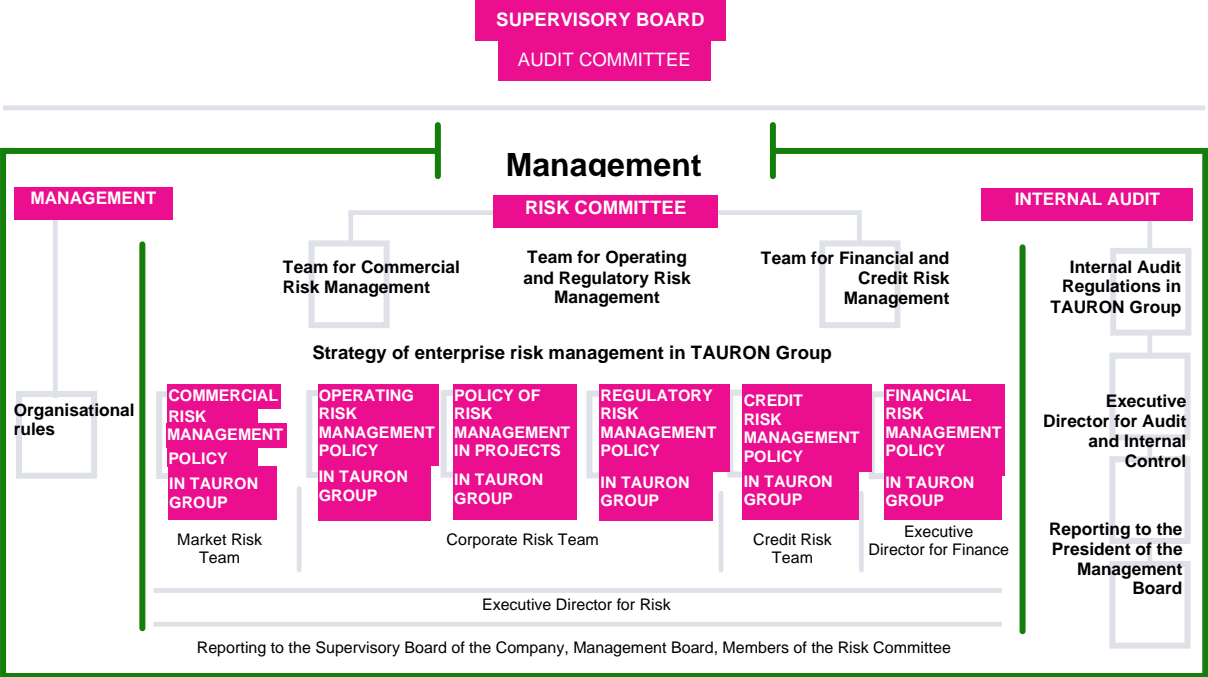
### ***Description of the risk management system applied***

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 assumption 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 a 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.

In the risk management process in place in TAURON Group, the Risk Committee plays a special role which, as an expert team, supervises the functioning of the risk management system in the TAURON Capital Group on a permanent and continuous basis. The Risk Committee is comprised of persons with appropriate knowledge of the Company and its environment and the necessary qualifications and mandates. The Risk Committee's task is to set norms and standards for risk management in the TAURON Capital Group and to supervise the effectiveness of the risk management process. The Risk Committee has three separate teams: for the commercial risk area, for the financial and credit risk area, and for operational and regulatory risk management.

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



In the framework of the ERM Process in place, risk control and monitoring principles have been adopted at the TAURON Group to limit the TAURON Group's exposure to factors that could adversely affect its operations. The primary risk control tool is the Risk Appetite approved by the Company Management Board which defines the basic framework used by the TAURON Group for risk management purposes. In line with the adopted approach, the TAURON Group's priority is to maintain the maximum level of security at a level that allows the TAURON Group to achieve its strategic objectives.

On the basis of the Risk Appetite, a Risk Tolerance is approved which defines the maximum permissible value of risk exposure in the TAURON Group, in particular taking into account the specific nature and scope of its activities. The level of Risk Tolerance is expressed in the form of a set of metrics and boundary conditions limiting risk exposure. Risk Tolerance is a practical translation of Risk Appetite, taking into account the breakdown into key categories of Specific Risks and the related Global Limits.

A complementary tool for risk monitoring and control is the Early Warning System, based on a catalogue of Key Risk Indicators (KRIs) and Early Warning Indicators (EWIs). The purpose of a functioning Early Warning System is to identify risks in good time by monitoring the causes of individual risks. At the same time, the system allows countermeasures to be taken in advance, before individual risks actually materialise.

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 sufficiently early risk identification in TAURON Capital Group areas and, as a consequence, provides a possibility to undertake effective risk response in advance.

The risk management system in place at TAURON Group is described in detail in the *Management Board's Report on Operations of TAURON Polska Energia S.A. and TAURON Capital Group for the 2023 financial year*, 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.

### **Description of TAURON Group's risk exposures and actions taken in 2023**

2023 was another special year due to the ongoing aggression of the Russian Federation on the territory of Ukraine, which continued to translate into the macroeconomic, regulatory and market environment and, consequently, the risk exposure of the TAURON Group. In particular, the effects of the crisis in the energy fuel market, resulting from the reduction in trade with the Russian Federation, and in particular the persistently elevated volatility of fuel, electricity and related product prices, continued to be observed. As a result, elevated levels of market, economic and regulatory risk persisted throughout the year.

Regulatory risk factors included the implementation of government mechanisms aimed at curbing electricity demand, limiting energy price increases for end-users, introducing margin constraints for electricity generators, and changes to the rules of the wholesale electricity market (including the abolition of the exchange obligation and changes to the rules of price setting in the balancing market).

The relatively high level of inflation and the high level of interest rates continued. However, the impact on the TAURON Group's cost of debt servicing was limited due to the anticipatory interest rate risk management policy in place.

Attention should also be drawn to the further dynamic development of RES technologies and the increasing share of this energy in meeting electricity demand, which, in addition to the decreases in demand observed in 2023 and the import balance of cross-border electricity exchange, resulted in the displacement of the TAURON Group's conventional generating units and the need to adapt the operation of these generating sources to the unstable production of renewable sources.

The ongoing process of spinning off the coal assets from the TAURON Group (the creation of the National Energy Security Agency), which was supposed to be completed in 2023 but was ultimately suspended, also had a significant impact on risk exposure (as well as opportunities).

Taking into account the specific market, economic and geopolitical conditions, the organisation continued the active and wide-ranging measures initiated in 2022, both at the operational and strategic level, which were directed at minimising the negative effects of the identified risk factors both in terms of business and maintaining business continuity. A description of the key risks together with an assessment of their materiality and a description of the actions taken as part of the risk response was described in detail in the *Management Board's Report on the operations of TAURON Polska Energia S.A. and the TAURON Capital Group for the 2023 financial year*, including, in particular, the following measures taken in 2023:

- 1) the Risk Appetite and Risk Tolerance in TAURON Group was updated and the list of key risks was updated to adapt to the TAURON Group's current situation and environment,
- 2) enhanced risk control was carried out due to the high volatility of the market and economic environment, as well as risks of key importance for the Group's operations,
- 3) the strategy for hedging the trading position was updated and adapted to market and regulatory conditions,
- 4) monitoring of the regulatory environment was carried out and responses were taken in terms of preparing analyses of the impact of legislative projects on the TAURON Group, participating in consultations within industry associations, preparing regulatory positions,
- 5) monitoring of the risk of exceeding the covenants of the financing agreements was carried out and measures were prepared and implemented to minimise the risk in question,
- 6) activities were carried out to support the Investment Committee in the process of identifying and measuring the risk exposure of significant investment projects in the TAURON Group,
- 7) monitoring of the payment discipline of TAURON Group customers was extended.

In parallel, in order to ensure the adequacy of the risk management system process, changes were made on an ongoing basis to the processes, regulations and tools used in order to adapt them to the changing market, regulatory and macroeconomic environment. In addition, the Audit Committee periodically received information prepared by the Executive Director for Risk on identified risks, the

impact of the aggression of the Russian Federation on the territory of Ukraine, as well as actions taken in response to risks.

The development of the TAURON Group's system of risk control indicators, with particular emphasis on early warning indicators, was continued consistently. The TAURON Group's risk registers were also reviewed and updated annually to identify new risks and to review and implement mitigating actions. As a result of this review, the catalogue of key risks was updated and detailed risk response plans were developed for these risks. Work was also carried out in 2023 to prepare for the production implementation of a dedicated IT system to support risk management processes in the TAURON Group.

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

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

In view of the foregoing, as well as on the basis of the assessment of the situation in 2023 and the evaluation of the effectiveness of the measures taken by the TAURON Group and the Executive Director for Risk, the Audit Committee positively assessed the corporate risk management system implemented at the TAURON Group.

Accordingly, in the Supervisory Board's opinion, the Company maintains and implements an effective ERM System, separating in its structure a unit responsible for risk management. The tools for identifying, measuring, reporting and controlling risks allow for the advance development and implementation of responses to emerging risks and, consequently, the achievement of the TAURON Group's business and strategic objectives, while ensuring an appropriate level of security. The Company ensured adequate resources for the effective functioning of the risk management and control system adapted to the Company's size and the type and scale of its operations. In line with the Best Practice 2021, the remuneration of the Executive Director of Risk was based on the performance of assigned tasks and not on the Company's short-term performance. The risk management process is in line with market best

practice and regulatory requirements, and the organisation of the process itself ensures that the control function is independent of the business. The Executive Director of Risk periodically prepared and submitted for the information of both the Management Board as well as the Audit Committee and the Supervisory Board reports and reports on the risks identified at the TAURON Group level and the mitigating actions taken.

## **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 the Best Practice 2021 published by the Warsaw Stock Exchange.

The Compliance Officer is responsible for the development and maintenance of the compliance system in the TAURON Group, who performs his activities with the support of the Compliance Team and Compliance Coordinators in the TAURON Group companies. The Compliance Officer reports directly to the President of the TAURON Management Board and has the ability to report directly to the TAURON Supervisory Board. Within the framework of the functioning of the Compliance Management System, stages are distinguished:

- 1) Planning - consisting of defining priorities and a timetable for future actions necessary to ensure the proper functioning of the Compliance Management System within the framework of the TAURON Group Compliance Plan.
- 2) Regulatory monitoring - consisting of monitoring compliance with laws, provisions of internal regulations, ethical standards.
- 3) Compliance assurance - involving the implementation of actions to prevent, detect and analyse instances of non-compliance.
- 4) Reporting - which consists of drawing up cyclical reports on the scope of tasks carried out by the Compliance Area for the Audit Committee of the Supervisory Board and the TAURON Supervisory Board.

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***

2023 was characterised by further growth in the expansion of the TAURON Group's Compliance Management System. As part of the monitoring of legal changes, particular attention was paid to the new obligations related to the reporting of information on corporate sustainability. This resulted, among other things, in the publication of the Report on respect for human rights in the TAURON Group. In addition, in 2023, the Compliance Area monitored legislative work on the draft law on whistleblowers in order to adapt the activities of TAURON Group companies to the new requirements for receiving reports and taking follow-up action.

As part of the ongoing educational activities aimed at further developing the compliance culture, the TAURON Group Compliance Academy, comprising training courses, workshops and thematic panels



on compliance, was conducted in 2023. A total of 2,877 TAURON Group employees were trained as part of the Compliance Academy.

The Compliance Management System implemented at the TAURON Group ensures the due implementation of tasks and objectives relevant to the proper functioning and further development of the 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.

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,

With regard to the adequacy of the Compliance Management System at the TAURON Group, it should be stated that the organisational scheme presented in the TAURON Group Compliance Policy and the principles of its operation are appropriate, optimal and proportionate to the scale and scope of the TAURON Group's activities. The actions taken to improve the system and procedures should be assessed as aiming at their continuous improvement.

When assessing the effectiveness of the Compliance Management System in the TAURON Group in 2023, it should be taken into account that the scope of tasks carried out by the Compliance Officer in relation to 2022 has been expanded.

Taking into account the foregoing, it should be stated that the catalogue of measures, tools and tasks carried out by the Compliance Area was diversified, which ensured proper implementation of the tasks under the Compliance Management System in the TAURON Group.

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

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

The internal audit function in TAURON Capital Group is performed 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.

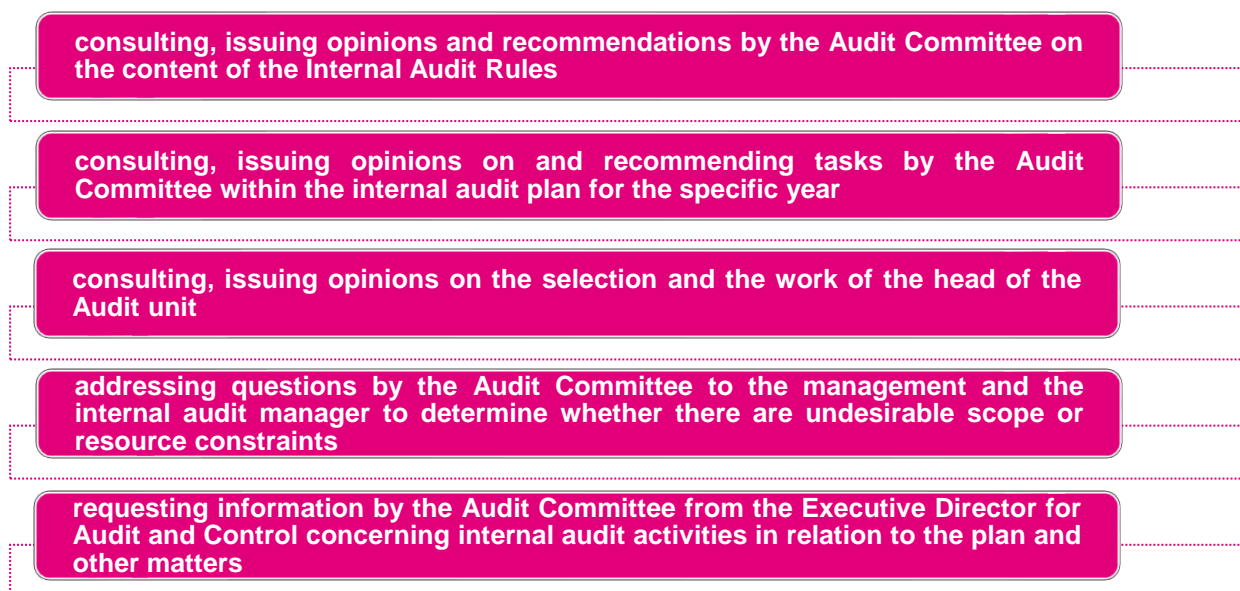
Internal audit activities are carried out by audit teams consisting of employees holding Independent Audit and Internal Control Positions within the Audit and Internal Control Area at TAURON, performing planned and ad hoc audit tasks both in TAURON and in TAURON Capital Group companies. Audit teams act 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 processes audited and the adequacy and implementation of the control mechanisms in the audited processes. Where irregularities are identified, the auditors recommend undertaking 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 (Monitoring of Audit Recommendations) 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:



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 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.

### **7.3. Conclusions of the evaluation**

As a result of the evaluation, the Supervisory Board recognises that the reports concerning TAURON Polska Energia S.A. and the TAURON Capital Group for the financial year 2023 in all material aspects:

- 1) present reliably and clearly all information relevant to the assessment of the economic and financial position of TAURON Polska Energia S.A. and the TAURON Capital Group, as well as its financial result for the financial year 2023,

- 2) comply with the legal provisions affecting the form and content governing the preparation of these reports,
- 3) have been prepared on the basis of properly kept ledgers in accordance with the accounting principles required.

Pursuant to the results of the evaluation contained in this report and the information and positive opinion of the auditor contained in the reports on the audit of the financial statements of TAURON Polska Energia S.A. and the TAURON Capital Group for the financial year 2023, the Supervisory Board recommends that the Ordinary General Meeting should approve:

- 1) Financial Statements of TAURON Polska Energia S.A. for the year ended 31 December 2023 compliant with the International Financial Reporting Standards as approved by the European Union,
- 2) Consolidated Financial Statements of the TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2023 compliant with the International Financial Reporting Standards as approved by the European Union,
- 3) Report of the Management Board on the operations of TAURON Polska Energia S.A. and the TAURON Capital Group for the financial year 2023.

At the same time, due to the positive evaluation of the reports, the Supervisory Board recommends that the Ordinary General Meeting approves the coverage of the net loss of TAURON Polska Energia S.A. for the financial year 2023 in the manner specified in the proposal of the Company's Management Board, i.e. from the Company's supplementary capital.

Having analysed the Company's control, security, risk management, compliance and audit systems within the three lines of defence, and having taken into account the evaluation of the adequacy and effectiveness of these areas, the TAURON Supervisory Board positively evaluates the effectiveness of the internal control, risk management, compliance and internal audit systems, at the same time recommending further implementation of improvements to the existing mechanisms to ensure the proper and effective functioning of TAURON Polska Energia S.A.

The TAURON Supervisory Board considers the model in place at the Company to be comprehensive and, moreover, appropriate to the Company's risk profile and size, and to provide adequate protection against the occurrence of undesirable events. The measures taken enable the most effective countermeasures to be taken to prevent negative impacts, in particular on the Company's operations and financial performance.

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

In 2023, 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 2023, no change in the scope of the principles applied occurred.

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 2023, the Company fulfilled its obligations related to the application of corporate governance rules set out in §29 of the Stock Exchange Regulations 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 2023, 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.

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 2022* 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 2023, 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), constitute a very important aspect of TAURON Capital Group's activity. 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 representing the dominant areas of its operations.

In the framework of corporate regulations, the listed activities are described in the underlying documents adopted by resolution by the Management Board of the Company and implemented by specific substantive areas. The corporate acts mentioned above include:

1. *TAURON brand strategy for 2022-2030,*
2. *TAURON Group's Communication Strategy for 2018-2025,*
3. *TAURON Group's sponsoring strategy for 2018-2025,*
4. *Sponsoring rules in TAURON Group,*
5. *Principles for conducting promotional activities in TAURON Group,*
6. *Principles for running Corporate Social Responsibility (CSR) projects in TAURON Group.*

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

TAURON Capital Group pays special attention 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, implementing them in line with the TAURON Group's Strategy and *the Principles for the Conduct of Corporate Social Responsibility Projects in TAURON Group*. CSR projects implemented by the TAURON Group support local communities and institutions, create a friendly workplace and, above all, care for the education and development of young people. Initiatives and campaigns are focused on several levels: pro-social, educational, sporting, environmental and cultural.

In addition to CSR and sponsoring projects, TAURON 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 raise and consolidate the awareness and range of influence of the TAURON brand. TAURON Capital Group conducts 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. 14 TAURON Group's expenditure on supporting culture, sport, charity institutions, media, social organisations in 2023.**

No.	Category	TAURON Group's expenditure in 2023 (PLN million) <sup>1</sup>
1.	Culture and arts	5,50
2.	Sports	20,00
3.	Education	1,21
4.	TAURON Foundation	4,06
5.	Social organisations / charity institutions	3,81

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

Charity activities in TAURON are implemented through the TAURON Foundation whose statutory objective is to support 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.

Sponsoring activities in TAURON Capital Group were carried out in 2023 on the basis of the sponsoring activity plan positively approved by the Supervisory Board. The Supervisory Board approved the conclusion of sponsoring agreements with a value exceeding PLN 500 000 by separate resolutions. After the closure of the budgetary year 2022, the Supervisory Board issued a positive opinion on the *Report on the implementation of the sponsoring activity by TAURON Group in 2022*,

In terms of corporate social responsibility, TAURON Group carries out both in-house projects and cooperates with charitable organisations and institutions. In 2023, the Group cooperated with, among others: DOM Foundation for the Family Rehabilitation of Children with Cerebral Palsy, Iskierka Foundation for support in the treatment of children with cancer and the Red Noses Foundation, whose medical clowns visited children's rehabilitation, oncology and cardiology wards. As part of joint activities, a special educational project called Supersprawni was run, aimed at hospitalised children with various degrees of disability. In cooperation with the Children and Youth Aid Association Dom Aniołów Stróżów, TAURON also changes the reality of children from post-mining areas by engaging Group employees every year in TAURON Group employees in employee volunteering.

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 sponsoring. In 2022, consolidated net sales revenues amounted to PLN 37 341 million, so PLN 74.68 million could be allocated for sponsorship. In 2023, PLN 19.47 million, i.e. 0.05 % of these revenues, was allocated to sponsorship.

In 2023, the equivalence ratio of sponsoring projects was 20.51. It means that every PLN spent on sponsoring activities generated PLN 20.51 in the form of advertising equivalent. The sponsoring projects carried out by TAURON Capital Group generated the highest TV advertising equivalent in the energy sector.

The TAURON Group's expenditure on supporting sport, culture, education and charity organisations has a significant impact on building the brand image and positive relations with the environment. These activities are positively perceived by customers of TAURON Group and support the sales of TAURON Group's products. It is confirmed by surveys conducted by independent research companies: *Sponsoring Insight Annual report of the TAURON Group's sponsoring activity for 2023*, Ottawa Advisory Group, *TAURON brand image awareness* and ARC Market and Opinion *Sponsoring Monitor 2023*.

#### **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 foregoing, 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.

With reference to its obligations under Article 382 § 4 CCC, the Supervisory Board received information, documents, reports, both those specified in the framework work plan adopted by the Supervisory Board, as well as 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 2023, legal opinions were drawn up for the Supervisory Board by the internal legal area in connection with doubts of a formal and legal nature.

17 April 2024

**Signatures of Members of the Supervisory Board:**

Chair of the Supervisory Board - Sławomir Smyczek .....

Vice Chair of the Supervisory Board - Natalia Klima-Piotrowska .....

Secretary of the Supervisory Board - Piotr Kołodziej .....

Member of the Supervisory Board - Michał Hulbój .....

Member of the Supervisory Board - Beata Kisielewska .....

Member of the Supervisory Board - Leszek Koziorowski .....

Member of the Supervisory Board - Katarzyna Masłowska .....

Member of the Supervisory Board - Karolina Mucha-Kuś .....

Member of the Supervisory Board - Krzysztof Tkaczuk .....