



ANNUAL REPORT

of TAURON Polska Energia S.A.
for the year 2022

Letter of the President of the Management Board of TAURON Polska Energia S.A. presenting TAURON Group's 2022 Annual Report

Ladies and Gentlemen,

On behalf of the Management Board of TAURON Polska Energia S.A., I have the pleasure to present to you the financial and operating results, as well as the most important accomplishments of TAURON Polska Energia S.A. and TAURON Capital Group in 2022.

It was an extremely challenging year, primarily due to the Russian Federation's aggression against Ukraine, which was affecting all spheres of life, including the economy. In the energy industry, this impact proved particularly strong. After all, the aftermath of the war across our eastern border was a deep energy crisis that swept across Europe. There were problems with the availability of energy raw materials, which led to a sharp spike in the commodity prices. With the European Union imposing an embargo on imports of Russian coal, and Russia cutting off gas supplies, ensuring stable operation of the energy system became a major challenge. TAURON Group rose to this challenge and our customers were able to enjoy stable supplies of electricity and heat throughout the year.

In the context of energy security and independence, the green transition process, moving away from fossil fuels and elevating the role of renewable energy sources, is becoming even more important. TAURON Group has responded well to these challenges. In June, the Management Board adopted the Strategy for 2022-2030 with an Outlook until 2050, under which we assumed a major acceleration of the Green Turn of TAURON. By 2025, we will have 1 600 MW of installed capacity in renewable energy sources (RES), and by 2030 this figure will stand at 3 700 MW, which will account for approx. 80 percent of the Group's total generation mix. This plan will reduce our carbon footprint by nearly 80 percent. We will also be developing modern technologies to manage distributed energy sources. Our objective is to achieve climate neutrality in 2050.

The development of renewable energy sources is currently an investment priority for TAURON Group. In 2022, we budgeted more than PLN 400 million for the construction of six wind farms and three photovoltaic farms with a total capacity of approx. 300 MW. We have commissioned wind farms in Piotrków and Majewo, and completed the second phase of the photovoltaic farm in Choszczno. Compared to the previous year, the capital expenditures in the RES segment went up five-fold. Currently, TAURON Group is operating eleven wind farms with a total capacity of 417 MW and three photovoltaic power plants with a capacity of 19 MW. We have more than a dozen projects at an analysis stage, both wind and photovoltaic, with a total capacity of approx. 800 MW, and 1 200 MW in the portfolio of projects to be developed by our in-house ventures. The share of RES sources in TAURON Group's energy mix is steadily rising. At the end of 2022, renewable sources accounted for 13 percent of TAURON Group's installed capacity. Last year, we also launched the first industrial energy storage facilities aimed at ensuring more efficient management of energy generated by RES.

In parallel, as part of the Green Turn of TAURON, the process of spinning off coal assets was under way. At the end of 2022, the State Treasury acquired 100 percent of the shares of TAURON Wydobycie, which included the Sobieski, Janina and Brzeszcze Coal Mines. Work is still under way to spin off coal based generation assets to the National Energy Security Agency. The process should be finalized in the second quarter of this year.

The spinning off of the coal based generating assets out of TAURON Group is the most important process of the Group's energy transition carried out in recent years. Its finalization will unlock investment potential by strengthening the Group's position in relations with financial institutions, expanding options for sourcing external financing and bringing us significantly closer to achieving the strategic assumptions of the Green Turn of TAURON. It should be emphasized that TAURON Group's investment needs are significant and they are not limited to the implementation of the energy transition process. Last year alone, TAURON Group spent nearly PLN 4 billion on investment projects. The largest portion, slightly more than half of this amount, was allocated to the modernization of the distribution grid and the installation of new grid connections as part of the expansion of the Distribution segment.

When evaluating the financial results of TAURON Group in 2022, it is important to take into account the unfavorable market environment outlined in the introduction. The strong surges in electricity, gas and coal prices were reflected in the achieved sales revenue from the continuing operations, which came in at PLN 36.3 billion, i.e. more than 40 percent higher than in 2021. On the other hand, we faced a parallel

significant rise in the operating expenses. In spite of this, TAURON Group's EBITDA result in 2022 came in close to flat versus 2021, clocking in at PLN 4 billion. TAURON Group's financial standing is stable, as confirmed by the Fitch Ratings agency, which maintained TAURON Group's long term domestic and foreign currency rating at "BBB-" with a stable outlook.

Ladies and Gentlemen,

In spite of the numerous challenges facing the Polish energy sector, I am convinced that a steadfast implementation of the Green Turn of TAURON will have a positive impact on TAURON Group's market position. I believe that the high competence level and a wealth of experience of the Group's workforce are adequately utilized to strengthen our market position. TAURON prioritizes dialogue with the social partners, thanks to which we have developed partnerships and long term relations with the workforce and the other stakeholders.

On behalf of the Management Board of TAURON Polska Energia S.A., I would like to thank all stakeholders for their commitment to building TAURON Group's value.

Yours respectfully

Paweł Szczeszek

President of the Management Board of
TAURON Polska Energia S.A.

| SELECTED FINANCIAL DATA | In PLN '000 | | in EUR '000 | |
|--|--|--|--|--|
| | 2022 from 01.01.2022 to 31.12.2022 | 2021 from 01.01.2021 to 31.12.2021 | 2022 from 01.01.2022 to 31.12.2022 | 2021 from 01.01.2021 to 31.12.2021 |
| Selected standalone financial data of TAURON Polska Energia S.A. | | | | |
| Sales revenue | 29 334 | 18 216 | 6 257 | 3 979 |
| Operating profit | 200 | 45 | 43 | 10 |
| Pre-tax profit | 36 | 236 | 8 | 52 |
| Net profit | 67 | 260 | 14 | 57 |
| Other net comprehensive income | 152 | 380 | 32 | 83 |
| Total comprehensive income | 219 | 640 | 46 | 140 |
| Profit per share (in PLN/EUR) (basic and diluted based on net profit) | 0,04 | 0,15 | 0,01 | 0,03 |
| Weighted average number of shares (pcs.) (basic and diluted) | 1 752 549 394 | 1 752 549 394 | 1 752 549 394 | 1 752 549 394 |
| Cash flow from operating activities | (182) | (297) | (39) | (65) |
| Cash flow from investing activities | (472) | 839 | (101) | 183 |
| Cash flow from financing activities | 2 652 | (2 009) | 566 | (438) |
| Increase (decrease) in net cash and equivalents | 1 998 | (1 467) | 426 | (320) |
| | As of 31.12.2022 | As of 31.12.2021 | As of 31.12.2022 | As of 31.12.2021 |
| Fixed assets | 27 329 | 27 087 | 5 827 | 5 889 |
| Current assets | 8 723 | 4 393 | 1 860 | 955 |
| Total assets | 36 052 | 31 480 | 7 687 | 6 844 |
| Share capital | 8 763 | 8 763 | 1 868 | 1 905 |
| Equity | 12 320 | 12 101 | 2 627 | 2 631 |
| Long term liabilities | 14 822 | 10 245 | 3 160 | 2 227 |
| Short term liabilities | 8 910 | 9 134 | 1 900 | 1 986 |
| Total liabilities | 23 732 | 19 379 | 5 060 | 4 213 |

The above financial data was converted to EUR according to the following principles:

- individual items of the statement of financial position – at the average exchange rate of NBP announced as of December 30, 2022 – PLN/EUR 4.6899 (as of December 31, 2021 – PLN/EUR 4.5994),
- Individual items of the statement of comprehensive income and the statement of cash flows – at the exchange rate that is an arithmetic mean of the average exchange rates of NBP announced as of the last day of each month of the financial year running from January 1, 2022 to December 31, 2022 – PLN/EUR 4.6883 (for the period from January 1, 2021 to December 31, 2021 – PLN/EUR 4.5775).



INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

of the annual standalone
financial statements
of TAURON Polska Energia S.A.
for the year 2022

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

To the General Meeting and Supervisory Board of TAURON Polska Energia S.A.

Audit report on the annual financial statements

Opinion

We have audited the annual financial statements of TAURON Polska Energia S.A. (the 'Company') located in Katowice at Ks. Piotra Ściegiennego 3, which comprise the statement of comprehensive income for the period from 1 January 2022 to 31 December 2022, the statement of financial position as at 31 December 2022, the statement of changes in equity, the statement of cash flows for the period from 1 January 2022 to 31 December 2022 and additional information to the financial statements, including a summary of significant accounting policies (the 'financial statements').

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2022 and its financial performance and its cash flows for the period from 1 January 2022 to 31 December 2022 in accordance with required applicable rules of International Financial Reporting Standards approved by the European Union and the adopted accounting policies,
- comply in respect of the form and content with laws applicable to Company and its Statute,
- have been prepared based on properly maintained accounting records, in accordance with chapter 2 of the Accounting Act dated 29 September 1994 ('the Accounting Act').

The opinion is consistent with the additional report to the Audit Committee issued on 29 March 2023.

Basis for opinion

We conducted our audit in accordance with the National Standards on Auditing in the version of International Auditing Standards as adopted by the National Council of Statutory Auditors ("NAS") and pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (the 'Act on Statutory Auditors') and the Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (the 'Regulation 537/2014'). Our responsibilities under those standards are further described in the '*Auditor's responsibilities for the audit of the financial statements*' section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), adopted by the National Council of Statutory Auditors and other ethical responsibilities in accordance with required applicable rules of the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. While conducting the audit, the key certified auditor and the audit firm remained independent of the Company in accordance with the independence requirements set out in the Act on Statutory Auditors and the EU Regulation 537/2014.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. They include the most significant assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we have summarized our reaction to these risks and in cases where we deemed it necessary, we presented the most important observations related to these types of risks. We do not provide a separate opinion on these matters.

| <i>Key Audit Matter</i> | <i>How the matter was addressed in our audit</i> |
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| <p>Impairment of shares and loans receivable</p> <p><i>Why the issue is a key audit matter</i></p> <p>As at 31 December 2022, the Company presented:</p> <ul style="list-style-type: none"> • shares (with a carrying amount of approximately PLN 15 716 million) • loans receivable (with a carrying amount of approximately PLN 13 540 million), <p>constituting approximately 86% of the Company's balance sheet total.</p> <p>According to International Financial Reporting Standards the Management of the entity is obliged to determine the appropriate valuation method of loans receivable and, depending on the valuation method, determine the fair value of these loans receivable or determine the value of expected credit losses that may occur in the period of 12 months or remaining period of existence of receivables from loans depending on classification of assets to the brackets and for shares or joint ventures as a result of the identified assets impairment premise for performing the impairment test.</p> <p>The issue was identified as key audit matter in the audit of the financial statements due to the value of the assets listed above, which is significant for the financial statements, as well as due to the complex element of the professional judgment of the Management Board regarding the valuation of receivables from loans and a complex element of the</p> | <p><i>Audit approach</i></p> <p>Our procedures, in relation to the key audit matter described, included, among others:</p> <ul style="list-style-type: none"> • overview of the process and identification of control mechanisms operating in the Company related to impairment tests of assets, as well as an understanding of the applied accounting policies and procedures, including internal control environment related to the process of assessing impairment indicators and performing of impairment tests; • assessment of the assumptions made with regard to the grouping of assets into cash-generating units (CGU); • analysis of impairments indicators and reconciliation of source data used in impairment test models for financial forecasts approved of the Company • assessment (with the assistance of valuation specialists) of estimates and assumptions made by the Company in order to determine the assets recoverable amount, including: <ul style="list-style-type: none"> ○ the key macroeconomic assumptions adopted by the Company for future years (including: discount rates, projected growth rate) by comparing them to market data and available external data; ○ arithmetical correctness of the discounted cash flows model, and ○ assumptions made to determine cash flows (including, among others, such key assumptions as electricity price paths, emission rights prices, coal prices) and residual values after the period covered by a detailed forecast |

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| <p>professional judgment of the Management Board regarding the estimation of the recoverable amount of shares in joint ventures and subsidiaries.</p> <p>The valuation of receivables from loans requires the application of appropriate valuation model, depending on the classification of assets, in accordance with International Financial Reporting Standard 9 <i>Financial Instruments</i>.</p> <p>The estimation of the recoverable amount of shares in subsidiaries or joint ventures requires the Management Board to adopt a number of assumptions regarding future market and economic conditions, such as, future changes in the prices of raw materials, electricity, property rights arising from certificates of origin of energy, CO2 emission rights and future revenues, costs and cash flows, weighted average cost of capital ("WACC"), as well as the impact of potential and already approved Polish and European regulatory changes, including environmental protection and the anticipated macroeconomic situation.</p> <p><i>A reference to disclosure in the financial statements</i></p> <p>The Company disclosed the information regarding impairment indicators analysis, impairment estimates, as well as impairment losses on shares in note 10 of the explanatory notes to the financial statements for the year ended December 31, 2022.</p> <p>The disclosure regarding the valuation of receivables from loans granted was included in note 20 of the explanatory notes to the financial statements for the year ended December 31, 2022.</p> | <ul style="list-style-type: none"> • inquiries to employees of the financial department and the Management Board of the Company referring to the status of implementation of the adopted assumptions, including the validity of key estimates • assessment of the regulatory changes impact on the assumptions made by the Company's Management Board for impairment tests and an assessment of the risks associated with the implementation of these assumptions; • assessment of the classification of the loan's receivable from joint ventures in accordance with International Financial Reporting Standard 9 <i>Financial Instruments</i>; • assessment of the Company's Management Board's judgment regarding the valuation models used for loan receivables to joint ventures and the existence of objective events affecting the impairment of loans; • assessment of the correctness of recognition of results of impairment tests of assets and the valuation of loans receivable from joint venture in the books; • reconciliation of source data being the basis for valuation of loans; • analysis of the documentation presented for audit confirming the validity of the assumptions made for impairment tests; • obtaining detailed statements of the Company's Management regarding the completeness and correctness of the data and significant assumptions provided to us; • assessment of the completeness of disclosures, in accordance with the International Accounting Standard 36 Impairment of assets, the International Accounting Standard 1 Presentation of financial statements and the International Financial Reporting Standard 7 Financial instruments - disclosure of information in the Company's financial statements regarding impairment and valuation of assets. |
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| <p>Claims, lawsuits and contingent liabilities</p> <p><i>Why the issue as a key audit matter</i></p> <p>The Company is a party to many significant claims and court cases which, depending on the Company Management's assessment, are recognized as provisions or contingent liabilities.</p> <p>The basis for recognizing provisions and contingent liabilities in the financial statements are the Company Management's judgments regarding the likelihood of adverse effects of the claims and court cases that may cause an outflow of economic benefits from the Company. The results of these claims and lawsuits are beyond the Company's control.</p> <p>The issue was identified as key audit matter in the audit of the financial statements due to the significance of the claims and lawsuits, as well as due to the element of the professional judgment of the Management regarding their impact on the financial statements.</p> | <p><i>Audit approach</i></p> <p>Our procedures, in relation to the key audit matter described, included, among others:</p> <ul style="list-style-type: none"> • understanding of the process of making judgments by the Company's Management regarding claims and lawsuits; • monitoring of public information to identify a violation or potential violation of laws and regulations by the Company and to assess the completeness of the effects of identified violations, as well as to assess the completeness of disclosures in the financial statements; • analysis of the documentation regarding court cases presented for the audit purposes and discussion of significant court cases with the Legal Project Management Team of the Company and external lawyers significant claims and lawsuits; • analysis of the costs of legal services incurred during the year including the identification of entities providing legal services to the Company; • obtaining written explanations from the lawyers serving the Company with regard to the court and dispute cases conducted by them, and the analysis of the provided explanations; • analysis and assessment of the level and completeness of provisions for litigation in the context of the existing legal documentation; • discussion of the selected claims and court cases with internal specialists in the field of law; • obtaining detailed statements of the Parent Company's Management Board regarding the completeness and correctness of the data and significant assumptions provided to us; |
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| <p><i>A reference to disclosure in the financial statements</i></p> <p>The disclosure regarding significant contingent liability items from litigation and concluded contracts was presented in note 40 of the explanatory notes to the financial statements for the year ended December 31, 2022.</p> | <ul style="list-style-type: none"> • review of minutes of meetings of the legal bodies of the Company's Management Board as well as control reports of supervisory authorities and correspondence with these authorities; • analysis of the adequacy of disclosures in relation to court and out-of-court proceedings, related provisions and contingent liabilities in the financial statements. |
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Responsibilities of the Company's Management and members of the Supervisory Board for the financial statements

The Company's Management is responsible for the preparation, based on properly maintained accounting records, the financial statements that give a true and fair view of the financial position and the financial performance in accordance with applicable International Financial Reporting Standards adopted by the European Union, the applied accounting policies, other applicable laws, as well as the Company's Statute, and is also responsible for such internal control as the Company's Management Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, The Company's Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless The Company's Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Company's Management and the members of the Company's Supervisory Board are required to ensure that the financial statements meet the requirements of the Accounting Act. The members of the Company's Supervisory Board are responsible for overseeing the Company's financial reporting process.

Auditor's responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with NAS will always detect material misstatement when it exists. Misstatements may arise as a result of fraud or error and are considered material if they, individually or in the aggregate, could be reasonably expected to influence the economic decisions of the users taken on the basis of these financial statements.

The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. Hence all auditor's opinions and statements contained in the auditor's report are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgment.

The scope of the audit does not include assurance on the future profitability of the Company nor efficiency or effectiveness of conducting business matters now and in the future by the Company's Management Board.



As part of an audit in accordance with NAS, we exercise professional judgment and maintain professional skepticism and we also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control,
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control,
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management,
- conclude on the appropriateness of the Company's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report, however, future events or conditions may cause the Company to cease to continue as a going concern,
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Directors' Report

The other information comprises the management report of the Company for the period from 1 January 2022 to 31 December 2022 („Directors' Report") together with the statement on corporate governance, which is a separate section of the Directors' Report, the statement on non-financial information and the Annual Financial Report for the financial year ended 31 December 2022 ('Annual Report') (jointly 'Other Information'). The Other Information does not include the financial statements and our auditor's report thereon.

Responsibilities of the Company's Management and members of the Supervisory Board

The Company's Management is responsible for the preparation of the Other Information in accordance with the law.

The Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report with separate elements meets the requirements of the Accounting Act.

Auditor's responsibilities

Our opinion on the financial statements does not include the Other Information. In connection with our audit of the financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Other Information, we are required to report that fact in our independent auditor's report. Our responsibility in accordance with the Act on Statutory Auditors is also to issue an opinion on whether the Directors' Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the financial statements.

In addition, we are required to inform whether the Company has prepared the statement on non-financial information and to issue an opinion on whether the Company has included the required information in the statement on corporate governance.

Opinion on the Directors' Report

Based on the work performed during our audit, in our opinion, the Directors' Report:

- has been prepared in accordance with the article 49 of the Accounting Act and paragraph 70 of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the 'Decree on current and periodic information'),
- is consistent with the information contained in the financial statements.

Moreover, based on our knowledge of the Company and its environment obtained during our audit, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance statement

In our opinion, in the representation on application of corporate governance, the Company has included information stipulated in paragraph 70, section 6, point 5 of the Decree on current and periodic information.

Moreover, in our opinion, the information stipulated in paragraph 70, section 6, point 5 letter c-f, h and i of the Regulation included in the statement on corporate governance is in accordance with applicable laws and information included in the financial statements.

Information on non-financial information

In accordance with the requirements of the Act on Statutory Auditors, we inform that the Company has included in Directors' Report information on the preparation of a separate report on non-financial information, referred to in art. 49b par. 9 of the Accounting Act and that the Company has prepared such a separate report.

We have not performed any assurance procedures on the separate report on non-financial information and do not provide any assurance thereon.

Report on other legal and regulatory requirements

Information on the audit of regulatory financial information specified in article 44 of the Energy Law

In addition, we have concluded that the presented in note 47 statement of financial position (balance sheet) and statement of comprehensive income (profit and loss account), prepared separately for each type of business activity in the fuel gas trading comply, in all material respects, with the requirements referred to in Article 44 of the Act dated 10 April 1997 Energy Law ("Energy Law").

The scope of regulatory financial information contained in the explanatory note 47 is specified in art. 44 of the Energy Law. Our audit did not include an assessment on whether the information required to be disclosed by the law are sufficient to ensure equal treatment of customers and elimination of cross-subsidization between activities.

Statement on the provision of non-audit services

To the best of our knowledge and belief, we represent that services, which we have provided to the Company and its controlled undertakings, are compliant with the laws and regulations applicable in Poland, and that non-audit services, which are prohibited under article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors, were not provided. The non-audit services, which we have provided to the Company and its controlled undertakings in the audited period, have been disclosed in the Directors' Report.

Appointment of the audit firm

We were appointed for the audit of the Company's financial statements initially based on the resolution of Supervisory Board from 15 March 2017 and reappointed based on the resolution from 28 November 2019 and resolution from 9 November 2021. The financial statements of the Company have been audited by us uninterruptedly starting from the financial year ended on 31 December 2017, i.e. for the past 6 consecutive years.

Warsaw, 29 March 2023

Key Certified Auditor

Artur Żwak

Certified auditor

No in the register: 9894

on behalf of:

Ernst & Young Audyt Polska spółka z ograniczoną
odpowiedzialnością sp.k.

Rondo ONZ 1, 00-124 Warszawa

no on the audit firms list: 130



FINANCIAL STATEMENTS

compliant with the International
Financial Reporting Standards
approved by the European Union
for the year ended 31 December 2022

TAURON Polska Energia S.A.

Financial Statements

compliant with the International Financial Reporting Standards

approved by the European Union

for the year ended 31 December 2022

| | |
|--|-----------|
| STATEMENT OF COMPREHENSIVE INCOME | 4 |
| STATEMENT OF FINANCIAL POSITION | 5 |
| STATEMENT OF CHANGES IN EQUITY | 6 |
| STATEMENT OF CASH FLOWS | 7 |
| GENERAL INFORMATION ABOUT TAURON POLSKA ENERGIA S.A. AND BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS | 8 |
| 1. General Information about TAURON Polska Energia S.A. | 8 |
| 2. Shares in related parties | 9 |
| 3. Statement of compliance | 12 |
| 4. Going concern | 12 |
| 5. Functional currency and presentation currency | 12 |
| 6. Accounting principles (policy) and material values based on professional judgement and estimates | 12 |
| 7. Standards published and amendments to standards which are not effective until the balance sheet day | 13 |
| 8. Changes in the accounting principles applied and change in presentation | 14 |
| 9. Information on operating segments | 16 |
| 9.1. Operating segments | 16 |
| 9.2. Geographical areas of operations | 16 |
| IMPAIRMENT OF SHARES IN SUBSIDIARIES | 16 |
| 10. Impairment of financial assets | 16 |
| EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME | 20 |
| 11. Sales revenue | 20 |
| 12. Costs by type | 21 |
| 13. Employee benefit expenses | 22 |
| 14. Financial revenues and costs | 23 |
| 15. Income Tax | 24 |
| 15.1. Tax burden in the statement of comprehensive income | 24 |
| 15.2. Reconciliation of the effective tax rate | 24 |
| 15.3. Receivables due to income tax | 24 |
| 16. Earnings/(loss) per share | 25 |
| EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION | 25 |
| 17. Investment real estate | 25 |
| 18. Right-of-use assets | 26 |
| 19. Shares and interests | 27 |
| 20. Originated loans | 28 |
| 20.1. Loans granted to subsidiaries | 29 |
| 20.2. Loans to joint ventures | 30 |
| 20.3. Loans granted under the cash pool service | 30 |
| 21. Derivatives and hedge accounting | 31 |
| 22. Other financial assets | 32 |
| 23. Other non-financial assets | 33 |
| 24. Inventories | 33 |
| 25. Receivables from customers | 34 |
| 26. Cash and cash equivalents | 35 |
| 27. Equity | 35 |
| 27.1. Issued capital | 35 |
| 27.2. Major Shareholders | 36 |
| 27.3. Reserve capital | 36 |
| 27.4. Revaluation reserve from valuation of hedging instruments | 36 |
| 27.5. Retained earnings/ (Accumulated losses) | 37 |
| 27.6. Dividends paid and proposed for disbursement | 37 |
| 28. Debt liabilities | 37 |
| 28.1. Bonds issued | 38 |
| 28.2. Bank loans | 39 |
| 28.3. Debt agreement covenants | 39 |
| 28.4. Loan from subsidiary | 40 |
| 28.5. Loans received under the cash pool service | 40 |
| 28.6. Lease liabilities | 40 |
| 29. Other financial liabilities | 40 |
| 30. Liabilities to suppliers | 41 |
| 31. Liabilities due to acquisition of shares in the subsidiary | 41 |
| 32. Other non-financial liabilities | 41 |
| 33. Deferred income tax | 42 |
| 34. Provision for onerous contract | 43 |
| 35. Other provisions, accruals and governmental subsidies | 44 |

| | |
|---|-----------|
| EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS | 44 |
| 36. Significant items of the statement of cash flows | 44 |
| 36.1. Cash flows from operating activities | 44 |
| 36.2. Cash flows from investment activities | 45 |
| 36.3. Cash flows from financial activities | 45 |
| FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT | 46 |
| 37. Financial instruments | 46 |
| 37.1. Carrying amount and fair value of financial instrument classes and categories | 46 |
| 37.2. Revenue, expenses, gain and loss items included in the statement of comprehensive income by category of financial instruments | 48 |
| 38. Objectives and principles of financial risk management | 49 |
| 38.1. Credit risk | 51 |
| 38.1.1 Credit risk related to receivables from customers | 51 |
| 38.1.2 Credit risk related to loans granted | 51 |
| 38.1.3 Credit risk related to other financial assets | 52 |
| 38.2. Liquidity risk | 53 |
| 38.3. Market risk | 54 |
| 38.3.1 Interest rate risk | 54 |
| 38.3.2 Currency risk | 56 |
| 38.3.3 Raw material and commodity price risk related to commodity derivative instruments | 57 |
| 39. Operational risk | 57 |
| OTHER INFORMATION | 58 |
| 40. Contingent liabilities | 58 |
| 41. Collaterals for repayment of liabilities | 61 |
| 42. Investment liabilities | 63 |
| 43. Related party disclosures | 63 |
| 43.1. Transactions with related parties and State Treasury companies | 63 |
| 43.2. Remuneration of the executives | 65 |
| 44. Finance and capital management | 65 |
| 45. Structure of employment | 65 |
| 46. Fee of the certified auditor or the entity authorized to audit financial statements | 65 |
| 47. Structure of financial statements broken down by business activity type in line with Article 44 of the Energy Law | 65 |
| 48. Other material information | 68 |
| 49. Events after the balance sheet date | 71 |

STATEMENT OF COMPREHENSIVE INCOME

| | Note | Year ended 31 December 2022 | Year ended 31 December 2021 |
|---|------|--------------------------------|--------------------------------|
| Sales revenue | 11 | 29 334 | 18 216 |
| Cost of sales | 12 | (28 949) | (18 042) |
| Profit on sale | | 385 | 174 |
| Selling and distribution expenses | 12 | (32) | (25) |
| Administrative expenses | 12 | (145) | (101) |
| Other operating income and expenses | | (8) | (3) |
| Operating profit | | 200 | 45 |
| Dividend income | 14 | 1 797 | 1 852 |
| Interest income on loans | 14 | 544 | 247 |
| Interest expense on debt | 14 | (654) | (330) |
| Revaluation of shares | 14 | (48) | (1 399) |
| Revaluation of loans | 14 | (1 462) | (298) |
| Other finance income and costs | 14 | (341) | 119 |
| Profit before tax | | 36 | 236 |
| Income tax expense | 15 | 31 | 24 |
| Net profit | | 67 | 260 |
| Measurement of hedging instruments | 27.4 | 187 | 455 |
| Income tax expense | 15 | (36) | (76) |
| Other comprehensive income subject to reclassification to profit or loss | | 151 | 379 |
| Actuarial gains | | 1 | 1 |
| Other comprehensive income not subject to reclassification to profit or loss | | 1 | 1 |
| Other comprehensive income, net of tax | | 152 | 380 |
| Total comprehensive income | | 219 | 640 |
| Profit per share (in PLN): | | | |
| - basic and diluted, for net profit | | 0.04 | 0.15 |

STATEMENT OF FINANCIAL POSITION

| | Note | As at 31 December 2022 | As at 31 December 2021 |
|---|------|---------------------------|---------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Investment property | 17 | 19 | 24 |
| Right-of-use assets | 18 | 13 | 22 |
| Shares | 19 | 15 716 | 20 559 |
| Loans granted | 20 | 11 172 | 5 936 |
| Derivative instruments | 21 | 390 | 532 |
| Other non-financial assets | 23 | 19 | 14 |
| | | 27 329 | 27 087 |
| Current assets | | | |
| Inventories | 24 | 72 | 51 |
| Receivables from buyers | 25 | 4 070 | 2 495 |
| Income tax receivables | 15.3 | 79 | 373 |
| Loans granted | 20 | 2 368 | 445 |
| Derivative instruments | 21 | 459 | 465 |
| Other financial assets | 22 | 35 | 70 |
| Other non-financial assets | 23 | 601 | 54 |
| Cash and cash equivalents | 26 | 1 039 | 440 |
| | | 8 723 | 4 393 |
| TOTAL ASSETS | | 36 052 | 31 480 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Issued capital | 27.1 | 8 763 | 8 763 |
| Reserve capital | 27.3 | 3 009 | 2 749 |
| Revaluation reserve from valuation of hedging instruments | 27.4 | 450 | 299 |
| Retained earnings / (Accumulated losses) | 27.5 | 98 | 290 |
| | | 12 320 | 12 101 |
| Non-current liabilities | | | |
| Debt | 28 | 14 754 | 9 801 |
| Derivative instruments | 21 | 10 | 116 |
| Other financial liabilities | 29 | 8 | 11 |
| Other non-financial liabilities | 32 | 4 | 113 |
| Deferred tax liabilities | 33 | 14 | 45 |
| Provision for the onerous contract | 34 | 28 | 154 |
| Other provisions, accruals, deferred income and government grants | 35 | 4 | 5 |
| | | 14 822 | 10 245 |
| Current liabilities | | | |
| Debt | 28 | 3 316 | 4 669 |
| Liabilities to suppliers | 30 | 3 249 | 1 745 |
| Liabilities due to acquisition of shares in the subsidiary | 31 | - | 1 061 |
| Derivative instruments | 21 | 331 | 379 |
| Other financial liabilities | 29 | 146 | 493 |
| Other non-financial liabilities | 32 | 1 593 | 701 |
| Provision for the onerous contract | 34 | 253 | 68 |
| Other provisions, accruals, deferred income and government grants | 35 | 22 | 18 |
| | | 8 910 | 9 134 |
| Total liabilities | | 23 732 | 19 379 |
| TOTAL EQUITY AND LIABILITIES | | 36 052 | 31 480 |

Accounting principles (policy) and additional explanatory notes to the financial statements form an integral part thereof

STATEMENT OF CHANGES IN EQUITY

| | Note | Issued capital | Reserve capital | Revaluation reserve from valuation of hedging instruments | Retained earnings/ (Accumulated losses) | Total equity |
|-----------------------------------|------|----------------|-----------------|---|--|---------------|
| As at 1 January 2021 | | 8 763 | 6 339 | (80) | (3 561) | 11 461 |
| Coverage of prior years loss | | - | (3 590) | - | 3 590 | - |
| Transactions with shareholders | | - | (3 590) | - | 3 590 | - |
| Net profit | | - | - | - | 260 | 260 |
| Other comprehensive income | | - | - | 379 | 1 | 380 |
| Total comprehensive income | | - | - | 379 | 261 | 640 |
| As at 31 December 2021 | | 8 763 | 2 749 | 299 | 290 | 12 101 |
| Prior year profits' distribution | 27.6 | - | 260 | - | (260) | - |
| Transactions with shareholders | | - | 260 | - | (260) | - |
| Net profit | | - | - | - | 67 | 67 |
| Other comprehensive income | | - | - | 151 | 1 | 152 |
| Total comprehensive income | | - | - | 151 | 68 | 219 |
| As at 31 December 2022 | | 8 763 | 3 009 | 450 | 98 | 12 320 |

Accounting principles (policy) and additional explanatory notes to the financial statements form an integral part thereof

This is a translation of the document originally issued and signed in Polish

STATEMENT OF CASH FLOWS

| | Note | Year ended 31 December 2022 | Year ended 31 December 2021 (restated figures) |
|--|------|--------------------------------|--|
| Cash flows from operating activities | | | |
| Profit before tax | | 36 | 236 |
| Depreciation and amortization | | 15 | 13 |
| Interest and dividends | | (1 717) | (1 745) |
| Impairment losses on shares | | 48 | 1 399 |
| Impairment losses on loans | | 1 462 | 298 |
| Exchange differences | | 104 | (10) |
| Other adjustments of profit before tax | | 199 | (57) |
| Change in working capital | 36.1 | (255) | (396) |
| Income tax paid | | (74) | (35) |
| Net cash from operating activities | | (182) | (297) |
| Cash flows from investing activities | | | |
| Purchase of shares in the subsidiary | 36.2 | (1 061) | - |
| Loans granted | 36.2 | (6 659) | (1 567) |
| Purchase of other shares | | (21) | (31) |
| Other | | (1) | - |
| Total payments | | (7 742) | (1 598) |
| Sale of shares | | 4 815 | 53 |
| Dividends received | | 1 796 | 1 852 |
| Interest received from loans granted | | 433 | 208 |
| Repayment of loans granted | | 226 | 324 |
| Total proceeds | | 7 270 | 2 437 |
| Net cash from investing activities | | (472) | 839 |
| Cash flows from financing activities | | | |
| Repayment of loans | 36.3 | (6 061) | (3 462) |
| Interest paid | 36.3 | (515) | (348) |
| Redemption of debt securities | | (170) | (170) |
| Commission paid | | (32) | (19) |
| Payment of lease liabilities | | (10) | (10) |
| Total payments | | (6 788) | (4 009) |
| Contracted loans | 36.3 | 9 440 | 2 000 |
| Total proceeds | | 9 440 | 2 000 |
| Net cash from financing activities | | 2 652 | (2 009) |
| Net increase / (decrease) in cash and cash equivalents | | 1 998 | (1 467) |
| Net foreign exchange difference | | (26) | (3) |
| Cash and cash equivalents at the beginning of the period | 26 | (2 319) | (852) |
| Cash and cash equivalents at the end of the period, of which: | 26 | (321) | (2 319) |
| restricted cash | 26 | 81 | 3 |

Accounting principles (policy) and additional explanatory notes to the financial statements form an integral part thereof

GENERAL INFORMATION ABOUT TAURON POLSKA ENERGIA S.A. AND BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

1. General Information about TAURON Polska Energia S.A.

These financial statements have been prepared by TAURON Polska Energia Spółka Akcyjna (the "Company") with its registered office in Katowice, ul. ks. Piotra Ściegiennego 3, whose shares are publicly traded.

The company was established by a Notarial Deed on 6 December 2006 under the name Energetyka Południe S.A. On 8 January 2007, the District Court for Katowice-Wschód, Commercial Department of the National Court Register, registered the Company under the KRS number 0000271562. The change of its name to TAURON Polska Energia S.A. was registered by the District Court on 16 November 2007.

The entity was assigned the statistical number, REGON 240524697 and the tax identification number, NIP 9542583988.

TAURON Polska Energia S.A. was established for an unlimited period.

The core business of TAURON Polska Energia S.A. focuses on:

- Activities of head office and holding operations, except for financial holdings → PKD 70.10 Z,
- Sales of electricity → PKD 35.14 Z,
- Sales of coal → PKD 46.71.Z,
- Sales of gaseous fuels in a network system → PKD 35.23.Z.

TAURON Polska Energia S.A. is the parent company of the TAURON Polska Energia S.A. Capital Group. ("The Group, the TAURON Group").

The Company has prepared the financial statements covering the year ended 31 December 2022 and including comparative figures for the year ended 31 December 2021. These financial statements were approved for publication by the Management Board on 28 March 2023.

The Company has also prepared consolidated financial statements for the year ended 31 December 2022, which were approved for publication by the Management Board on 28 March 2023.

Composition of the Management Board

As at 1 January 2022, the composition of the Management Board was as follows:

- Artur Michałowski – Acting President of the Management Board, Vice President of the Management Board,
- Patryk Demski – Vice President of the Management Board,
- Krzysztof Surma – Vice President of the Management Board,
- Jerzy Topolski – Vice President of the Management Board.

In the period from 1 January 2022 to the date of approval of these financial statements for publication, the Supervisory Board dismissed:

- Artur Michałowski from the position of Vice President of the Management Board for Trade with effect from 12 August 2022,
- Jerzy Topolski from the position of Vice President of the Management Board for Asset Management with effect from 12 August 2022.

In the period from 1 January 2022 to the date of approval of these financial statements for publication, the Supervisory Board appointed:

- Artur Warzocha to the position of Vice President of the Management Board for Corporate Affairs with effect from 21 January 2022,
- Paweł Szczeszek to the position of President of the Management Board with effect from 11 April 2022,
- Tomasz Szczegieliński to the position of Vice President of the Management Board for Trade with effect from 6 September 2022,
- Bogusław Rybacki to the position of Vice President of the Management Board for Asset Management with effect from 9 September 2022.

As at the date of approval of these financial statements for publication, the Management Board consisted of:

- Paweł Szczeszek – President of the Management Board,

- Patryk Demski – Vice President of the Management Board,
- Bogusław Rybacki – Vice President of the Management Board,
- Krzysztof Surma – Vice President of the Management Board,
- Tomasz Szczegielniak – Vice President of the Management Board,
- Artur Warzocha – Vice President of the Management Board.

2. Shares in related parties

As at 31 December 2022, TAURON Polska Energia S.A. held, directly and indirectly, shares in the following key subsidiaries:

TAURON Polska Energia S.A.
Financial statements for the year ended 31 December 2022 compliant with the IFRS approved by the European Union
(in PLN million)

| Item | Company name of subsidiary | Registered office | Interest in the share capital by TAURON Polska Energia S.A. | Company holding direct equity interests / General partner |
|---------------------------------|---|------------------------------|---|---|
| GENERATION | | | | |
| 1 | TAURON Wytwarzanie S.A. | Jaworzno | 100,00% | TAURON Polska Energia S.A. |
| 2 | TAURON Ciepło Sp. z o.o. | Katowice | 100,00% | TAURON Polska Energia S.A. |
| 3 | TAURON Serwis Sp. z o.o. | Jaworzno | 95,61% | TAURON Wytwarzanie S.A. |
| 4 | Łągisza Grupa TAURON Sp. z o.o. | Katowice | 100,00% | TAURON Wytwarzanie S.A. |
| 5 | TAURON Inwestycje Sp. z o.o. | Będzin | 100,00% | TAURON Polska Energia S.A. |
| 6 | Energetyka Cieszyńska Sp. z o.o. | Cieszyn | 100,00% | TAURON Ciepło Sp. z o.o. |
| RENEWABLE ENERGY SOURCES | | | | |
| 7 | TAURON Ekoenergia Sp. z o.o. | Jelenia Góra | 100,00% | TAURON Polska Energia S.A. |
| 8 | TEC1 Sp. z o.o. | Katowice | 100,00% | TAURON Polska Energia S.A. |
| 9 | TAURON Zielona Energia Sp. z o.o. | Katowice | 100,00% | TAURON Polska Energia S.A. |
| 10 | TEC1 spółka z ograniczoną odpowiedzialnością Mogilno I sp.k. | Katowice | 100,00% | TEC1 Sp. z o.o. |
| 11 | TEC1 spółka z ograniczoną odpowiedzialnością Mogilno II sp.k. | Katowice | 100,00% | TEC1 Sp. z o.o. |
| 12 | TEC1 spółka z ograniczoną odpowiedzialnością Mogilno III sp.k. | Katowice | 100,00% | TEC1 Sp. z o.o. |
| 13 | TEC1 spółka z ograniczoną odpowiedzialnością Mogilno IV sp.k. | Katowice | 100,00% | TEC1 Sp. z o.o. |
| 14 | TEC1 spółka z ograniczoną odpowiedzialnością Mogilno V sp.k. | Katowice | 100,00% | TEC1 Sp. z o.o. |
| 15 | TEC1 spółka z ograniczoną odpowiedzialnością Mogilno VI sp.k. | Katowice | 100,00% | TEC1 Sp. z o.o. |
| 16 | TEC1 spółka z ograniczoną odpowiedzialnością EW Śniatowo sp.k. | Katowice | 100,00% | TEC1 Sp. z o.o. |
| 17 | TEC1 spółka z ograniczoną odpowiedzialnością EW Dobrzyń sp.k. | Katowice | 100,00% | TEC1 Sp. z o.o. |
| 18 | TEC1 spółka z ograniczoną odpowiedzialnością EW Goldap sp.k. | Katowice | 100,00% | TEC1 Sp. z o.o. |
| 19 | TEC1 spółka z ograniczoną odpowiedzialnością Ino 1 sp.k. | Katowice | 100,00% | TEC1 Sp. z o.o. |
| 20 | WIND T1 Sp. z o.o. | Jelenia Góra | 100,00% | TAURON Ekoenergia Sp. z o.o. |
| 21 | AVAL-1 Sp. z o.o. | Jelenia Góra | 100,00% | TAURON Ekoenergia Sp. z o.o. |
| 22 | Polpower Sp. z o.o. | Jelenia Góra | 100,00% | TAURON Ekoenergia Sp. z o.o. |
| 23 | "MEGAWATT S.C." Sp. z o.o. | Katowice | 100,00% | TAURON Zielona Energia Sp. z o.o. |
| 24 | TAURON Inwestycje Sp. z o.o. | Będzin | 100,00% | TAURON Polska Energia S.A. |
| 25 | Wind T4 Sp. z o.o. | Pieńkowo | 100,00% | TAURON Zielona Energia Sp. z o.o. |
| 26 | Wind T30MW Sp. z o.o. | Pieńkowo | 100,00% | TAURON Zielona Energia Sp. z o.o. |
| 27 | FF Park PV 1 Sp. z o.o. | Katowice | 100,00% | TAURON Zielona Energia Sp. z o.o. |
| 28 | Windpower Gamów Sp. z o.o. | Nowy Targ | 100,00% | TAURON Zielona Energia Sp. z o.o. |
| DISTRIBUTION | | | | |
| 29 | TAURON Dystrybucja S.A. | Kraków | 99,77% | TAURON Polska Energia S.A. |
| 30 | TAURON Dystrybucja Pomiary Sp. z o.o. | Tarnów | 99,77% | TAURON Dystrybucja S.A. |
| SALES | | | | |
| 31 | TAURON Sprzedaż Sp. z o.o. | Kraków | 100,00% | TAURON Polska Energia S.A. |
| 32 | TAURON Sprzedaż GZE Sp. z o.o. | Gliwice | 100,00% | TAURON Polska Energia S.A. |
| 33 | TAURON Czech Energy s.r.o. | Ostrawa, Republika Czeska | 100,00% | TAURON Polska Energia S.A. |
| 34 | TAURON Nowe Technologie S.A. | Wrocław | 100,00% | TAURON Polska Energia S.A. |
| OTHER | | | | |
| 35 | TAURON Obsługa Klienta Sp. z o.o. | Wrocław | 100,00% | TAURON Polska Energia S.A. |
| 36 | Kopalnia Wapienia Czatkowice Sp. z o.o. | Krzyszowice | 100,00% | TAURON Polska Energia S.A. |
| 37 | Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. | Warszawa | 100,00% | TAURON Polska Energia S.A. |
| 38 | Finanse Grupa TAURON Sp. z o.o. | Katowice | 100,00% | TAURON Polska Energia S.A. |
| 39 | Bioeko Grupa TAURON Sp. z o.o. | Stalowa Wola | 100,00% | TAURON Wytwarzanie S.A. |
| 40 | Usługi Grupa TAURON Sp. z o.o. (formerly Marselwind Sp. z o.o.) | Tarnów | 99,77% | TAURON Dystrybucja S.A. |

Changes in the status and percentage share in the capital of subsidiaries of TAURON Polska Energia S.A. in the year ended 31 December 2022 include:

Sales of shares in TAURON Wydobyćie S.A.

On 21 October 2022, a conditional agreement for the sales of shares in the subsidiary, TAURON Wydobyćie S.A. was concluded between the Company and the State Treasury. The subject matter of the agreement was the sale of all the shares held by the Company in TAURON Wydobyćie S.A., representing 100% of the company share capital, for the total price of PLN 1, under the condition of joint fulfilment of the following conditions precedent:

- non-exercise of the pre-emptive right by Krajowy Ośrodek Wsparcia Rolnictwa (National Centre for Agricultural Support) ("KOWR") to purchase shares of TAURON Wydobyćie S.A. conferred under the provisions of the Act of 11

April 2003 on the development of the agricultural system. On 14 December 2022, the Company received a declaration from the KOWR that it had not exercised its pre-emptive right to purchase TAURON Wydobycie S.A. shares, as a result of which the condition precedent was fulfilled,

- increase in the share capital of TAURON Wydobycie S.A., performed in order to repay the debt of TAURON Wydobycie S.A. towards the Company. On 21 October 2022, the Extraordinary General Meeting of TAURON Wydobycie S.A. adopted the resolution on increasing the share capital by issuing new 3 977 601 registered shares with a par value of PLN 10 per share, which were offered to the Company under the closed subscription at an issue price of PLN 1 000 per share, i.e. for the total amount of PLN 3 978 million. On 25 October 2022, a set-off agreement was concluded between the Company and TAURON Wydobycie S.A., pursuant to which the parties set off the receivables of TAURON Wydobycie S.A. on account of capital increase against the receivables of the Company arising from the debt in the amount of PLN 3 978 million. On 4 November 2022, the capital increase was registered with the National Court Register, consequently, the condition precedent was fulfilled.

On 31 December 2022 an entry was made in the register of shareholders of TAURON Wydobycie S.A. indicating the State Treasury as the acquirer of shares in TAURON Wydobycie S.A. Pursuant to the agreement, following the aforementioned entry, the ownership of TAURON Wydobycie S.A. shares was transferred from the Company to the State Treasury as of 31 December 2022.

Establishment of TAURON Inwestycje Sp. z o.o. by way of the division of TAURON Wytwarzanie S.A.

On 18 May 2022, a resolution was adopted to divide the company TAURON Wytwarzanie S.A. by separating and transferring the separated assets to the newly established company, TAURON Inwestycje Sp. z o.o. in organisation. After the balance sheet date, on 1 July 2022, the demerger of TAURON Wytwarzanie S.A. and the establishment of the TAURON Inwestycje Sp. z o.o. company was registered.

Merger of TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o.

On 3 October 2022, the merger of TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o. companies was registered. The merger of the companies took place by way of takeover (merger by acquisition) of the company Nowe Jaworzno Grupa TAURON Sp. z o.o. (the Acquired Company) by TAURON Wytwarzanie S.A. (the Acquiring Company). The merger took place without any increase in the share capital of the Acquiring Company.

Acquisition of control over Energetyka Cieszyńska Sp. z o.o.

On 10 October 2022, as a result of an amendment to the articles of association of Energetyka Cieszyńska Sp. z o.o., liquidating the voting preference hitherto enjoyed by part of the shares belonging to the City of Cieszyn, the TAURON Ciepło Sp. z o.o. company acquired the control over Energetyka Cieszyńska Sp. z o.o.

On 7 December 2022, the redemption of all shares belonging to the City of Cieszyn and a simultaneous increase in the share capital of Energetyka Cieszyńska Sp. z o.o. was registered. Shares in the increased capital of the company were taken up by TAURON Ciepło Sp. z o.o. As a result of the above transaction, TAURON Ciepło Sp. z o.o. holds 100% of shares in the share capital of Energetyka Cieszyńska Sp. z o.o.

Demerger of Wsparcie Grupa TAURON Sp. z o.o. company and transfer of a part of the business to Usługi Grupa TAURON sp. z o.o. company (formerly: Marselwind Sp. z o.o.)

On 10 October 2022, TAURON Dystrybucja S.A. acquired 100% of shares in the share capital of Marselwind Sp. z o.o. from TAURON Polska Energia S.A. On 1 November 2022, the demerger of Wsparcie Grupa TAURON Sp. z o.o. company and the transfer of the real estate management and fleet administration business to Marselwind Sp. z o.o. was registered. On 23 December 2022, the change of the company name from Marselwind Sp. z o.o. to Usługi Grupa TAURON Sp. z o.o. was registered.

Loss of control over Wsparcie Grupa TAURON Sp. z o.o. company

On 30 December 2022, the subsidiary, TAURON Dystrybucja S.A. acquired shares in the increased share capital of Polski Holding Obronny Sp. z o.o., taking up for this purpose newly created shares in the increased capital of Polski Holding Obronny Sp. z o.o., constituting 4.2% in the increased capital of the company and covered them with a non-cash contribution (in-kind contribution) in the form of 100% of the shares in the Wsparcie Grupa TAURON Sp. z o.o. company. As a result of the transaction, TAURON Dystrybucja S.A. lost control over the Wsparcie Grupa TAURON Sp. z o.o. company.

Acquisition of control over companies in the Renewable Energy Area

In the year ended 31 December 2022, the subsidiary, TAURON Zielona Energia Sp. z o.o. acquired 100% shares in the following companies within which conducting of investment projects in the area of Renewable Energy Sources is planned:

- “MEGAWATT S.C.” Sp. z o.o.,

- Windpower Gamów Sp. z o.o.,
- Wind T30MW Sp. z o.o.,
- FF Park PV 1 Sp. z o.o.,
- Wind T4 Sp. z o.o.

As at 31 December 2022, the share of TAURON Polska Energia S.A. in the capital and in the governing body of the remaining key subsidiaries and jointly-controlled companies has not changed since 31 December 2021.

As at 31 December 2022, TAURON Polska Energia S.A. held direct and indirect share in the following material jointly-controlled companies in the Generation segment:

| Item | Company name | Registered office | Interest in the share capital and in the decision-making body held by TAURON Polska Energia S.A. | Company holding direct equity interests |
|------|-------------------------------------|----------------------------|--|---|
| 1 | Elektrociepłownia Stalowa Wola S.A. | Stalowa Wola | 50.00% | TAURON Inwestycje Sp. z o.o. |
| 2 | TAMEH HOLDING Sp. z o.o. | Dąbrowa Górnicza | 50.00% | TAURON Polska Energia S.A. |
| 3 | TAMEH POLSKA Sp. z o.o. | Dąbrowa Górnicza | 50.00% | TAMEH HOLDING Sp. z o.o. |
| 4 | TAMEH Czech s.r.o. | Ostrawa, Czech Republic | 50.00% | TAMEH HOLDING Sp. z o.o. |

3. Statement of compliance

These financial statements have been prepared in compliance with the requirements of the International Financial Reporting Standards (“IFRS”) approved by the European Union (“EU”).

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

4. Going concern

These financial statements have been prepared with the assumption of continuation of activities by the Company as a going concern in the foreseeable future, i.e. in the period not shorter than one year following the balance sheet day. As at the date of approval of these financial statements for publication, no circumstances had been identified which would indicate a risk to the Company’s ability to continue as a going concern.

The Company identifies and actively manages liquidity risk, understood as the possibility of losing or limiting the capacity to settle current expenses. The Company has full capacity to settle its liabilities as they become due and payable. As at the balance sheet date, the Company has an access to financing available under financing arrangements, which is described in more detail in Note 38.2 of these financial statements.

In the area of liquidity, financing and securing the continuity of operating activities, the Management Board, having analysed the financial position of the Company does not identify any risk to the continuity of operations as a going concern in the foreseeable future, i.e. within a period of not shorter than 1 year from the balance sheet day, taking into account the impact of the aggression of the Russian Federation against Ukraine and the COVID-19 outbreak on the Group’s operations, as further discussed in Note 48 to these financial statements.

5. Functional currency and presentation currency

Polish zloty is the functional currency of the Company and the presentation currency of these financial statements. These financial statements are presented in the Polish zloty (“PLN”) while all figures are provided in PLN million (“PLN M”), unless indicated otherwise.

6. Accounting principles (policy) and material values based on professional judgement and estimates

The significant accounting principles are presented in the notes to these financial statements.

When applying the accounting policy, the professional judgement of the management, along with accounting estimates, have been of key importance, affecting the figures disclosed in these financial statements and in the additional explanatory notes. The assumptions underlying the estimates are based on the Management Board’s best knowledge of current and future actions and events in individual areas. In the period covered by these financial statements, no significant changes occurred in the estimates or estimation methods applied, which could affect the current or future periods, other than those described hereinafter in these financial statements.

The items of the financial statements which are exposed to the risk of material adjustment of the carrying amounts of assets and liabilities have been presented in individual notes to these financial statements. The most significant estimates relate to the measurement of financial instruments, mainly the write-downs on shares in subsidiaries and intragroup loans and the fair value measurements of loans and derivatives, as discussed further in Notes 10, 19 and 20 of these financial statements.

Additionally, the Company makes significant estimates as regards the contingent liabilities recognised, in particular as regards litigation the Company is a party to (Note 40).

7. Standards published and amendments to standards which are not effective until the balance sheet day

The Company did not choose earlier application of any standards or amendments to standards which were published, however, have not entered into force by 31 December 2022.

- **Standards issued by the International Accounting Standards Board and amendments to standards which have been approved by the European Union and have not entered into force yet**

As at the date of approval of these financial statements for publication, the Management Board has not yet completed work on assessing the impact of the introduction of standards and amendments to standards on the accounting policy applied by the Company. The analyzes carried out so far indicate that the following standards and amendments to standards will not have a significant impact on the accounting policy applied so far:

| Standard | Amendments | Effective in the EU as of (annual periods beginning on or after the date provided) |
|--|---|--|
| Amendments to IAS 1 <i>Presentation of Financial Statements</i> and IFRS Practice Statement 2: <i>Disclosure of Accounting Policies</i> | The amendments are intended to enhance the relevance of the accounting policy disclosures presented by replacing the requirement for entities to disclose significant accounting policies with a requirement to disclose material accounting policies and adding guidance on how entities apply materiality in making accounting policy disclosure decisions. | 1 January 2023 |
| Amendments to IAS 8 <i>Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates</i> | The amendments clarify the distinction between changes in estimates and changes in accounting policies and corrections of errors, and clarify how entities apply valuation techniques and use inputs to determine estimated values. | 1 January 2023 |
| IFRS 17 <i>Insurance Contracts</i> | The standard applies to all types of insurance contracts (i.e. direct insurance, life insurance, non-life insurance and reinsurance contracts), irrespective of the nature of the business of the entity that concludes them, as well as to certain guarantees and financial instruments with discretionary profit-sharing. | 1 January 2023 |
| Amendments to IFRS 17 <i>Insurance contracts: Initial Application of IFRS 17 Insurance Contracts</i> and IFRS 9 <i>Financial Instruments - Comparative Information</i> | The amendment is intended to help entities avoid transitional accounting mismatches between financial assets and insurance contract liabilities, thereby improving the usefulness of comparative information for users of financial statements. | 1 January 2023 |
| Amendments to IAS 12 <i>Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> | The amendments reduced the scope of the exception for initial recognition of assets and liabilities in paragraphs 15 and 24 of IAS 12 <i>Income Taxes</i> , so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. | 1 January 2023 |

- **Standards and amendments to standards issued by the International Accounting Standards Board which have not been endorsed by the European Union and have not entered into force yet**

As at the date of approval of these financial statements for publication, the Management Board has not yet completed work on assessing the impact of the introduction of standards and amendments to standards on the accounting policy applied by the Company. The analyzes carried out so far indicate that the following standards and amendments to standards will not have a significant impact on the accounting policy applied so far:

| Standard | Effective date specified in the Standard, not endorsed by the EU (annual periods beginning on or after the date provided) |
|--|--|
| Amendments to IAS 1 <i>Presentation of Financial Statements: Classification of liabilities as current or non-current and long-term liabilities with covenants</i> | 1 January 2024 |
| IFRS 14 <i>Regulatory Deferral Accounts</i> | 1 January 2016* |
| Amendments IFRS 10 <i>Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between Investor and its Associate or Joint Venture</i> with subsequent amendments | the effective date has been postponed |
| Amendments to IFRS 16 <i>Leases: Lease Liability in a Sale and Leaseback</i> | 1 January 2024 |

* The European Commission decided to refrain from launching the process of endorsement of this interim standard for use in the territory of the EU until the publication of the final version of IFRS 14 *Regulatory Deferral Accounts*.

8. Changes in the accounting principles applied and change in presentation

Changes in the accounting principles applied

The accounting principles (policy) adopted for the preparation of these financial statements are consistent with those used for the preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2021, except for the application of amendments to standards as discussed below.

According to the Management Board, introduction of the following amendments to standards did not materially affect the accounting policy applied so far:

| Standard | Amendments | Effective date in the EU (annual periods beginning on or after the date provided) |
|--|---|---|
| Amendments to IFRS 3 <i>Business Combinations: Changes to references to the Conceptual Framework</i> | The amendments have, among others, replaced the reference to the previous version of the Conceptual Framework issued by the IASB (the 1989 Conceptual Framework) with a reference to the current version published in March 2018, without significantly changing the requirements contained therein. | 1 January 2022 |
| Amendments to IAS 16 <i>Property, Plant and Equipment: Revenues earned before putting into use</i> | The amendments prohibit the reduction of the purchase price or manufacturing cost of an item of property, plant and equipment by the revenue from the sale of goods manufactured in bringing the asset to the desired location and condition necessary for it to be operational. Instead, an entity recognises the revenue from the sale of such goods and the cost of their manufacture in the statement of comprehensive income. | 1 January 2022 |
| Amendments to IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets: Cost of fulfilling a contractual obligations</i> | As part of the amendments, it has been clarified that, in the case of onerous contracts, the costs of fulfilling a contract include both the incremental costs of fulfilling the contract, e.g. labour and materials, as well as the allocation of other costs that relate directly to the fulfilment of the contracts (for example, the allocation of depreciation charges to an item of property, plant and equipment used, inter alia, to fulfil that contract). | 1 January 2022 |
| Changes to various standards: <i>Improvements to IFRS (Cycle 2018-2020):</i> | | |
| IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> | The amendment allows the subsidiary that decides to apply paragraph D16(a) of IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> to measure the cumulative translation differences using the amounts reported in the parent company's consolidated financial statements, based on the parent company's date of transition to IFRS. This change also applies to an associate or joint venture. | 1 January 2022 |
| IFRS 9 <i>Financial Instruments</i> | The amendment clarifies the fees that an entity considers when assessing whether the terms of a new or modified financial liability differ significantly from the terms of the original financial liability. | 1 January 2022 |
| IFRS 16 <i>Leases</i> | The amendment to Illustrative Example 13 regarding payments from the lessor related to investments in the subject of the lease. This will resolve to avoid confusion in the approach to leasing incentives when applying IFRS 16 <i>Leases</i> . | 1 January 2022 |
| IAS 41 <i>Agriculture</i> | The amendment repeals the requirement for entities to exclude tax payments when determining the fair value of assets within the scope of IAS 41 <i>Agriculture</i> . | 1 January 2022 |

Change in presentation

In the year ended 31 December 2022, the Company changed the presentation of collateral transferred on transaction and security deposits as part of settlements with Izba Rozliczeniowa Gield Towarowych S.A. ("IRGiT") in the statement of cash flows. These collaterals were up to this moment presented as cash. After the change of presentation, the change of collaterals is presented as cash flows from the Company's operating activities. Comparable data have been appropriately transformed.

| | Year ended 31 December 2021 | Change of the presentation of collateral transferred to IRGiT | Year ended 31 December 2021 (restated figures) |
|--|--------------------------------|---|--|
| Cash flows from operating activities | | | |
| Change in working capital | (349) | (47) | (396) |
| Net cash from operating activities | (250) | (47) | (297) |
| Net increase / (decrease) in cash and cash equivalents | (1 420) | (47) | (1 467) |
| Cash and cash equivalents at the beginning of the period | (743) | (109) | (852) |
| Cash and cash equivalents at the end of the period, of which: | (2 163) | (156) | (2 319) |
| restricted cash | 159 | (156) | 3 |

9. Information on operating segments

9.1. Operating segments

In accordance with IFRS 8 *Operating Segments*, taking into account the fact that the Company also prepares consolidated financial statements for the year ended 31 December 2022, the Company presents information on operating segments in relation to the Group's operations in the consolidated financial statements.

As part of the adopted classification of the Group's operations into operating segments, the activities of the Company are classified in the Sales segment, excluding the administrative costs of the Company incurred for the Group as a whole, which cannot be directly attributed to a single operating segment and are classified under unallocated expenses, as further described in Note 13 of the consolidated financial statements of the Group for the year ended 31 December 2022.

9.2. Geographical areas of operations

The activity of the Company is mostly carried out on the territory of Poland. Revenues on sales from foreign entities in the years ended 31 December 2022 and 31 December 2021 amounted to PLN 1 239 million and PLN 616 million, respectively.

IMPAIRMENT OF SHARES IN SUBSIDIARIES

10. Impairment of financial assets

SELECTED ACCOUNTING PRINCIPLES

Under IAS 36 *Impairment of Assets*, as at each reporting period end, the Company assesses shares held in subsidiaries and joint ventures for objective impairment indication regarding financial assets or asset groups.

If there is any objective indication that the assets may be impaired, the assets are tested for impairment. Shares in subsidiaries, which constitute the main financial asset of the Company, are tested. The amount of the impairment loss is the difference between the carrying amount of a financial asset or group of financial assets and the recoverable amount, which is the fair value less costs of disposal or the value in use, whichever is higher. The value in use is calculated as the present value of estimated future cash flows from the operations of subsidiaries and the estimated residual value discounted using the weighted average cost of capital.

The Company recognises an allowance for expected credit losses on debt instruments measured at amortised cost in accordance with the approach described in Notes 20 and 38.1.2 to these financial statements and updates the fair value for debt and equity instruments measured at a fair value. The credit risk analyses carried out as at the balance sheet day include, among others, an estimate of future cash flows that may indicate impairment due to credit risk (measurement step 3).

As at 31 December 2022 impairment tests of shares and interests in subsidiaries and joint ventures and the analyses in the scope of valuation of intragroup loans were conducted, taking into account the following premises:

- the Company capitalization remaining below the net asset carrying amount for a long period;
- significant increase in the scope of global prices of energy resources, electricity and CO₂ emission allowances, resulting from the energy crisis caused, inter alia, by the outbreak of war in Ukraine;
- increases in coal fuel prices resulting from a short-term excess of demand over supply in connection with the introduction of an embargo on the import and transport of coal and coke from Russia and Belarus;
- high volatility of energy prices on the forward market (including low liquidity) and persistently high prices on the spot market;
- the introduction, as of 28 October 2022, of a mechanism for limiting bids on the electricity balancing market in accordance with the Regulation of the Minister of Climate and Environment of 27 September 2022 *amending the regulation on detailed conditions for the operation of the power system*;
- publication of the "RePowerEU" package to accelerate Europe's independence from Russian fossil fuels by 2030, temporarily reduce energy consumption and diversify raw material supply sources;
- work on reforming the EU ETS market to adapt the Scheme to the new higher CO₂ emission reduction targets;
- dynamic development of RES, in particular the prosumer and micro-photovoltaic subsectors;
- price and wage pressure resulting from the increase in inflation;
- an increase in the risk-free rate by 4.12% compared to the tests carried out as at 31 December 2021.

Shares and interests and intra-group loans account for approx. 80% of the balance sheet total as at the balance sheet day. The recoverable amount of shares in subsidiaries and joint ventures is the value in use. The calculation method has been presented below.

Tests were conducted based on the current value of estimated cash flows from operations of the key entities, based on detailed projections up till 2032 and the estimated residual value, excluding power generating units for which detailed projections cover the entire period of their operation.

The assumptions concerning the life of the generation units adopted for the impairment tests carried out as at 31 December 2022, including in particular:

- the operation of TAURON Wytwarzanie S.A. generation units was assumed no later than 2060, including four units in Jaworzno III Branch until 2025; two units in Jaworzno III Branch until 2028; two units in Jaworzno II Branch until 2030; a biomass unit in Jaworzno II Branch until 2027; a unit in Łagisza Branch until 2035, units in Łaziska and Siersza Branch until 2025; a unit in Nowe Jaworzno Branch until 2060;
- the operation of hydroelectric power plants was assumed in TAURON Ekoenergia Sp. z o.o. up to 2072, while for wind farms - up to 2040;
- the operation of the generating units in TAURON Ciepło Sp. z o.o. and Energetyka Cieszyńska Sp. z o.o. was assumed until 2049;
- the operation of generation unit of Elektrociepłowni Stalowa Wola S.A. was assumed until the end of June 2050.

The macroeconomic and sector-oriented assumptions underlying the projections are updated as frequently as any indications for their modification are observed on the market. The projections also take into account changes in the regulatory environment known as at the date of the test.

Key assumptions in the scope of tests performed as at 31 December 2022

| Category | Description |
|-----------------------|---|
| Coal | <p>The projected price of hard coal for 2023 has been raised by 111% compared to the result for 2022. This is due to the observed upward trends in the domestic cost of mining and the current situation on global coal markets, in particular the European market at ARA ports.</p> <p>It was assumed that, in the long term, coal prices were expected to fall as a result of the acceleration of the decarbonisation policy driven by the European Union, aimed at achieving climate neutrality for Europe by 2050. After 2026, coal prices in Poland assume a constant value, due to the falling demand and supply of coal, which will be caused by the decreasing generation of electricity from conventional sources and the need to take into account global trends in the national paths of hard coal prices (it was assumed that hard coal mines would be phased out in accordance with a social contract setting deadlines for closing mines).</p> |
| Electricity | <p>During the calculation of price paths, various scenarios were analyzed in terms of predicting commodity prices and the power balance in the National Power System ("NPS"). The adopted forecast of wholesale electricity prices for the period 2023-2040 has been updated and adjusted in the first three years (2023-2025) to levels recorded in the market, taking into consideration the contracting level. In 2023, a significant increase in energy prices of approximately 62.2% as compared to 2022 has been assumed, which results, among others, a significant increase in coal and gas prices and the structure of electricity generation in Poland. In 2024, the price will fall by approximately 9.4% compared to 2023. The forecast of wholesale electricity prices is affected by the current and expected balancing situation in the NPS, forecasts of fuel prices and the costs of purchasing CO₂ emission allowances. No significant impact on the demand for electricity due to climate warming was assumed, and an average increase in demand was assumed, taking into account the forecast indicators of economic development. The observed change in the structure of electricity generation and the increase in the share of renewable energy sources reduces the level of electricity prices and margins achieved when selling electricity from coal-fired sources - this effect is partially compensated by assuming the impact of the Scarcity Pricing mechanism on wholesale electricity prices after 2025. The projected difficult balance situation in Europe is caused by the progressive shutdown of conventional sources.</p> <p>The electricity retail price path has been adopted based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to redeem energy certificates of origin as well as the expected level of margin based on historical values.</p> <p>Regulations on electricity prices were adopted based on the Act of 27 October 2022 <i>on emergency measures aimed at limiting electricity prices and support for certain consumers in 2023</i> and the Regulation of the Council of Ministers of 8 November 2022 <i>on the method of calculating the price limit</i>. The regulations had a negative impact on the estimates of cash flows in 2023 for the Generation segment and the Renewable energy sources segment. In the case of the Sales segment, the above regulations had a neutral impact due to the assumed compensations.</p> |
| CO₂ | <p>CO₂ emission limits for heat generation have been adopted in line with the regulation of the Council of Ministers and adjusted by the level of operations, i.e. generation of heat.</p> <p>The CO₂ emission allowance price growth path has been adopted throughout the forecasting horizon. In the</p> |

| Category | Description |
|--------------------------------------|---|
| | contracting for 2023, a 29.9% higher price of CO ₂ emission allowances was assumed compared to the average price in contracting for 2022. In 2024, compared to 2023, the price of CO ₂ emission allowances is higher by 4.1%. This is the effect of the combined impact of the uncertain economic situation and the additional supply of allowances on the market from the sale of additional allowances to finance the REPowerEU package. Up till 2030, a price increase to the level of approx. EUR 105/Mg in fixed prices (approx. EUR 120/Mg in current prices) has been assumed due to the assumption of an increase in the Linear Reduction Factor (LRF) to the level of 4.2% proposed by the European Commission (from the current 2.2%). A further increase in the price of CO ₂ emission allowances is assumed in the years 2031-2040, compared to 2030, which stems from the assumed increase in the decarbonisation rate of the economy and the target of achieving climate neutrality of Europe in 2050. The price of CO ₂ projected for 2040 amounts to approx. 100 EUR/Mg (approx. 140 EUR/Mg in current prices). |
| Certificates of energy origin | The price path for certificates of energy origin and the obligatory redemption in the subsequent years have been adopted based on the provisions of the RES Act and the system balance forecast. |
| Capacity market | It is assumed that payments for capacity will be maintained until 2025 for existing coal-fired units which do not meet the EPS 550 criterion (for which the unit emission performance exceeds 550 kg/MWh). For units which concluded long-term contracts by 31 December 2019 and do not meet the EPS 550 criterion, maintaining of payments until the end of the contract effectiveness period has been assumed. |
| RES | With regard to the RES Area, existing support systems (certificate of origin scheme, auction scheme, FIT/FIP feed-in tariff system, guarantee of origin scheme) are taken into account, of which the certificate of origin scheme is the most significant. Within this scheme, limited support periods for green energy have been taken into account in accordance with the assumptions of the Act on RES defining new mechanisms of granting the support for electricity generated in sources of this type. The support period has been limited to 15 years from the date of the first injection of electricity to the grid eligible to receive the energy origin certificate. |
| Natural gas | The projected price of natural gas for 2023 has been raised by 81.1% compared to the result for 2022. The main reason for the projected increase is the likely emergence of an unstable supply-side situation during the period of filling gas storage facilities in Europe, as a result of a significant decline in volumes of natural gas supplied from Russia. The forecast also takes into account the risk of rising demand for natural gas in Asian countries and consequently LNG prices, which have a significant impact on the pricing of futures contracts in Western European gas hubs. In addition, the growing uncertainty associated with increasing weather risks and a significant increase in the prices of other related products (oil, coal and CO ₂ emission allowances) add an element of uncertainty associated with gas prices. The factors provided are already reflected in prices of the futures contracts listed for 2023-2024. In the subsequent years, it was assumed that new gas supply directions for the world's gas hubs would gradually become structured, resulting in successively lower prices of this commodity in Europe. |
| WACC | <p>The weighted average cost of capital (WACC) during the projection period for individual companies has been adopted in the range 6.67%-12.24% in nominal terms after tax, taking into account the risk-free rate corresponding to the yield on 10-year Treasury bonds (at a level of 5.9%) and the risk premium for operations relevant for the power industry (6.75%). The growth rate used for extrapolation of projected cash flows going beyond the detailed planning period has been adopted at a level of 2.5% and corresponds to the estimated long-term inflation rate.</p> <p>The WACC level as at 31 December 2022 as compared to the level as at 31 December 2021 increased in individual segments, mainly due to an increase in the risk-free rate and the debt cost.</p> |
| Salaries | An increase in salaries was assumed based on salary agreements signed with the social side and an increase in the minimum wage with an effect for the next years of the financial forecast. |
| Regulated revenue | Regulated revenue of distribution companies has been assumed, ensuring the coverage of justified costs and a reasonable level of return on capital. The return on capital depends on the Regulatory Asset Value. In the years 2023-2032, an average increase in electricity supply by 1% year-on-year has been assumed. WACC adopted for the calculation of regulated revenue in 2023 is 8.478% (gross), in the period 2024-2032 and in the residual period 7.478% (gross). The growth rate used to extrapolate cash flow forecasts beyond the detailed planning period was assumed at 2.5% and corresponds to the assumed long-term inflation rate. |
| 910 MW unit Nowe Jaworzno | <p>In Tauron Wytwarzanie S.A. assumed the most likely operating scenario for the 910 MW unit at the Nowe Jaworzno Branch. In 2023, the unit is assumed to operate at a lower net capacity of 650 MW due to ongoing testing by Polskie Sieci Elektroenergetyczne. Full availability and optimum parameter values were assumed to be achieved from 2024.</p> <p>The target net capacity of 820 MW was assumed. The planned production level assumes a unit failure rate of 6%, which is a standard for this class of generating units. The electricity repurchase taken into account, on the one hand, relates to the emergency shutdown periods of the unit and, on the other hand, results from the adopted shutdown periods planned in connection with maintenance works. The plans also comprise a reduction volume associated with a lower Polskie Sieci Elektroenergetyczne electricity demand during off peak hours.</p> <p>Component overhauls comprising medium and major overhauls are foreseen for the 910 MW unit, alternating in two-year cycles. The aim of component overhauls is to ensure safe and technically and economically compliant operation. In addition, a number of modernisation tasks are planned to improve the current availability rates with the planned lifetime of the unit.</p> |

| Category | Description |
|--|---|
| | As part of the ongoing maintenance of the 910 MW unit assets, the Group has maintenance agreements in place to cover the key technological systems of the generating unit, and funds for this work have been secured within the overhaul costs. |
| Changes in working capital in TAURON Wytwarzanie S.A. | <p>The projected working capital in Tauron Wytwarzanie S.A. is derived from the assumed level of production, the price assumptions adopted and the distribution of revenue and cost payments. A significant component of working capital comprises assets and liabilities associated with the CO₂ settlement obligation.</p> <p>In the first years of the plan, the effects of concluded CO₂ supply contracts in terms of volume, price and payment term were taken into account. For the subsequent non-contracting years, assumptions compliant with the CO₂ purchasing strategy were used, whereby the settlement and purchase of CO₂ allowances takes place in the year following the year of emission. This results in the absence of a recognised CO₂ allowance asset at the end of each year from 2026 onwards, which has reduced the level of projected working capital in subsequent years. The tests assume the simultaneous settlement of CO₂ advances in the years 2023-2025.</p> |
| Sales volume and production capacity | <p>The volume of sales to end customers was assumed taking into account the GDP growth, the competitive situation in the market, the significant increase in financial costs (trade credit costs) incurred by sales companies. This has caused a decrease in the volume in 2023. From 2024, a gradual recovery of the lost volume is planned.</p> <p>The economic useful lives of fixed assets and the maintenance of production capacity as a result of replacement investments were taken into account.</p> |

The assumptions consistent with the impairment tests of shares and stocks were also used in the analyses performed in the scope of measurement of loans granted to Elektrociepłownia Stalowa Wola S.A., the results of which indicated that there was no need to change the carrying value of the loans granted.

Results of conducted tests and analysis of the valuation of loans granted

The result of the impairment tests of shares in subsidiaries and joint ventures carried out as at 31 December 2022, in accordance with IAS 36 *Impairment of Assets*, indicated an impairment of shares in TAURON Inwestycje Sp. z o. o.

| Company | WACC* assumed in tests as at | | Recoverable amount of shares | The amount of the recognized impairment losses on shares |
|------------------------------|------------------------------|------------------|------------------------------|--|
| | 31 December 2022 | 31 December 2021 | As at 31 December 2022 | Year ended 31 December 2022 |
| TAURON Inwestycje Sp. z o.o. | 10.92% | n.a. | (59) | (36) |
| Total | | | | (36) |

* The level of the weighted average cost of capital (WACC) in nominal terms after tax.

The emergence of an impairment loss on the shares held in TAURON Inwestycje Sp. z o.o. results, in particular, from the nature of the business pursued. It is a company that aims to implement projects ensuring new generation capacity on assets separated from TAURON Wytwarzanie S.A.

The analyses carried out with regard to the financing granted to the subsidiaries, based on the subsidiaries' future cash flows, also demonstrated the rationality of reducing the carrying amount of the loans granted by the Company to TAURON Wytwarzanie S.A. and TAURON Inwestycje Sp. z o.o. in the total amount of PLN 960 million, as discussed in more detail in Note 20.1 of these financial statements.

| Company | Recoverable amount of intra-group loans | The amount of the recognized impairment losses on intra-group loans |
|------------------------------|---|---|
| | As at 31 December 2022 | Year ended 31 December 2022 |
| TAURON Wytwarzanie S.A. | 5 986 | (882) |
| TAURON Inwestycje Sp. z o.o. | (59) | (78) |
| Total | | (960) |

EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

11. Sales revenue

SELECTED ACCOUNTING PRINCIPLES

Revenue is recognised when (or as) the performance obligation is fulfilled in the form of transferring the promised goods (i.e. an asset) or providing a service to a client. The asset transfer takes place when a client obtains control over such an asset whereas in the case of sales of electricity and gaseous fuels, the energy is deemed sold when delivered to a consumer.

Revenue should be measured in the amount the Company expects to receive for the goods and services sold, following the reduction by value added tax (VAT), excise duty and other sales taxes or charges and discounts.

The Company has introduced a five-step model of revenue recognition comprising, successively: identifying the contract(s) with a customer; identifying the performance obligations contained in the contract; determining the transaction price; allocating the transaction price to each performance obligation; and recognising the revenue when (or as) the entity satisfies a performance obligation.

In case of goods, revenues are recognised when the Company ceases to be permanently involved in the management and effective control of goods sold to the extent such function is usually implemented in relation to goods, to which the proprietary right applies.

Revenue from sales of goods includes the total positive result on transactions related to CO₂ emission allowances, concluded within the trading portfolio, i.e. intended for sale and to accomplish short-term profit arising from market price fluctuations, including trading in emission allowances, fair value measurement of inventories as well as measurement and settlement of derivative commodity instruments related to CO₂ emission allowances.

Revenue from sales of goods includes gains on change in measurement and on exercising derivative commodity instruments falling within the scope of IFRS 9 *Financial Instruments* and related to the purchase and sales of other commodities.

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|---|--------------------------------|--------------------------------|
| Revenue from sales of goods for resale | 28 934 | 17 537 |
| Electricity | 24 845 | 14 816 |
| CO ₂ emission allowances | 2 775 | 2 107 |
| Gas | 1 287 | 600 |
| Other | 27 | 14 |
| Rendering of services | 400 | 375 |
| Capacity market | 194 | 206 |
| Trade services | 167 | 138 |
| Other | 39 | 31 |
| Total revenue from contracts with customers | 29 334 | 17 912 |
| Restructuration in the portfolio of CO ₂ emission allowances | - | 304 |
| Total sales revenue | 29 334 | 18 216 |

In the year ended 31 December 2022, sales revenues increased in relation to the comparable period, and the main changes referred to sales revenues of the following goods and services:

- Electricity – an increase in revenue by the amount of PLN 10 029 million is mainly associated with electricity sales contracted in the forward market and sales in the SPOT market at a price higher, on average, by 82% at a simultaneously lower volume by 8%. Higher selling prices stem from market conditions and a sharp increase in prices continuing at the end of 2021 and in 2022. The decline in volume is a result of reaching the lower volume of electricity sales to the Sales companies, including TAURON Sprzedaż Sp. z o.o. due to the lower demand in 2022 and the lower volume for the generation companies of the Group in order to secure the performance of contracts they have concluded.
- CO₂ emission allowances – the increase in the revenue from contracts with customers in the scope of CO₂ emission allowances in the current period in relation to the comparable period by the amount of PLN 668 million results mainly from the following events:
 - sales to subsidiaries in the Generation segment of CO₂ emission allowances for redemption purposes in the total amount of PLN 2 141 million. In the comparable period, revenue from sales of CO₂ emission allowances amounted to PLN 1 903 million;
 - in connection with the failure of the 910 MW unit at Jaworzno continuing from mid-2021 till April 2022 and the resulting surplus of allowances acquired over the redemption needs for 2021, a part of the resulting surplus in the amount of 1 717 000 EUAs was allocated for redemption purposes of another Group installation for 2022. Considering the rationality of matching the maturity of the delivery of allowances and the cash expenditure, in the first quarter of 2022, the Company took the decision and sold the aforementioned volume of allowances held and simultaneously bought back this volume in the EUA MAR'23 forward product for the purpose of redemption of 2022 allowances. Revenue from contracts with customers on account of sales of the aforementioned allowances

amounted to PLN 604 million while the result on the transaction amounted to PLN 121 million. The transaction is one-off and incidental in nature and it is a direct result of an unplanned, one-off event such as the failure of the 910 MW unit. According to the Company's judgement, the transaction is subject to exclusion from the scope of IFRS 9 *Financial Instruments* and does not affect the classification of other contracts for the purchase of CO₂ emission allowances for redemption purposes;

- in the comparative period, as part of its efforts to manage the surplus allowances for 2020, due to the delayed commissioning of the 910 MW unit and the consequent lower production, the Company sold a volume of 691 000 CO₂ emission allowances to the market, resulting in the recognition of the revenue from customer contracts in the amount of PLN 135 million.

Under the restructuring of the portfolio of CO₂ emission allowances in the first quarter of 2021, with respect to the volume of 3 258 000 CO₂ emission allowances with the delivery date in March 2021, their rolling was performed by concluding new contracts with the delivery dates in March 2022, 2023 and 2024. The Company recognised the result from the settlement of instruments in accordance with IFRS 9 *Financial Instruments*, thereby increasing revenue on sales and the operating result in the amount of PLN 304 million.

- Gas – an increase in revenue by the amount of PLN 687 million is mainly associated with a significant increase in prices by an average of 140% and the simultaneous achievement of a lower volume of sales by an average of 11%. Higher sales prices result from market conditions and the sharp price increase at the end of 2021, continuing into 2022, while the lower sales volume is due to lower gas demand, mainly in TAURON Sprzedaż Sp. z o.o.

TAURON Polska Energia S.A. acts as an agent responsible for coordinating and supervising activities in the scope of purchase, supply and transport of fuels. The Company buys coal from entities outside TAURON Group and from the Group, whereas the sale is targeted at related companies. The Company recognises revenues from agency services, i.e. the arrangement of supplies in the revenue on sales of trade services. In the year ended 31 December 2022, the value of fuel purchased and subsequently resold as a result of the aforementioned transactions amounted to PLN 3 205 million. The Company recognised revenue of PLN 65 million on account of the agency service.

12. Costs by type

SELECTED ACCOUNTING PRINCIPLES

The Company presents costs by function.

Costs by function include:

- cost of goods, materials and services sold incurred during a given reporting period, including any impairment losses on property, plant and equipment, intangible assets, rights to use assets, receivables and inventories,
- total costs of sales and administrative expenses incurred in the reporting period (recognised separately in the statement of comprehensive income).

The cost of goods sold includes the total positive result on transactions on CO₂ emission allowances, concluded within the trading portfolio, i.e. intended for sale and to accomplish short-term profit arising from market price fluctuations, including trading in emission allowances, fair value measurement of inventories, as well as measurement and settlement of derivative commodity instruments related to sales of CO₂ emission allowances.

Costs of goods sold include losses on change in measurement and on exercising derivative commodity instruments falling within the scope of IFRS 9 *Financial Instruments* and related to purchases and sales of other commodities.

Costs that can be assigned directly to revenue generated by the Company affect profit or loss for the period which the revenue pertains to.

Costs that can only be indirectly assigned to revenue or other benefits obtained by the Company affect the profit or loss in the portion pertaining to the given reporting period, and match the revenue or other economic benefits.

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|--|--------------------------------|--------------------------------|
| Depreciation of property, plant and equipment, right-of-use assets and amortization of intangible assets | (15) | (13) |
| Capacity Market | (193) | (205) |
| Other external services | (50) | (41) |
| Employee benefits expense | (110) | (95) |
| Allowance for expected credit losses on receivables from buyers | (25) | 3 |
| Advertising expenses | (21) | (15) |
| Other costs by type | (13) | (6) |
| Total costs by type | (427) | (372) |
| Selling and distribution expenses | 32 | 25 |
| Administrative expenses | 145 | 101 |
| Value of energy sold | (24 725) | (14 879) |
| Value of other goods sold | (3 974) | (2 917) |
| Cost of sales | (28 949) | (18 042) |

The increase in the cost of purchased electricity by PLN 9 846 million results mainly from purchases made at 68% higher average electricity prices than in the previous year, while at the same time the volume of electricity purchased was 8% lower. In order to secure the Group's needs and to fulfil the contracts concluded by Nowe Jaworzno Grupa TAURON Sp. z o.o., the purchase of electricity was carried out from counterparties outside the Group, on the forward and SPOT markets, at higher prices due to market conditions and rapid price changes continuing since the end of 2021. Moreover, the decrease in the volume of electricity purchased by the Company results from the lower demand for the sales of electricity for contracts executed by the Company.

The increase in the value of other goods sold is mainly related to the higher value of gas sold and CO₂ emission allowances. The increase in the value of gas sold by PLN 703 million is primarily related to a significant increase in gas purchase prices by an average of 144%, with a simultaneous lower purchase volume by an average of 11%. In 2022, the Company recognised a higher value of CO₂ emission allowances sold in the amount of PLN 2 666 million, including the recognition of costs of creating net provisions for onerous contracts in the amount of PLN 133 million, which is mainly a result of restructuring of CO₂ emission allowances in the portfolio of the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o., as further described in Note 34 of these financial statements. In the comparable period, the value of CO₂ emission allowances sold amounted to PLN 2 316 million, including the cost of creating a provision for onerous contracts of PLN 220 million.

13. Employee benefit expenses

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|--|--------------------------------|--------------------------------|
| Wages and salaries | (89) | (77) |
| Social security costs | (14) | (12) |
| Costs of employee retirement plans and post-employment benefits expenses | (3) | (4) |
| Other employee benefits expenses | (4) | (2) |
| Total | (110) | (95) |
| Items included in cost of sales | (20) | (17) |
| Items included in selling and distribution expenses | (8) | (8) |
| Items included in administrative expenses | (82) | (70) |

14. Financial revenues and costs

SELECTED ACCOUNTING PRINCIPLES

Financial revenues and costs comprising, in particular, revenues and costs related to:

- revenues from profit sharing in other entities, including mainly dividends;
- interest,
- revaluation of financial instruments, except financial assets measured at fair value where the effects are recognized in other comprehensive income and charged to revaluation reserve and derivative commodity instruments falling within the scope of IFRS 9 *Financial Instruments* in the case of which gains/losses on change in measurement and on exercising are presented within operating activities where gains/losses on the related trading in goods are also recognized;
- disposal/liquidation of financial assets;
- changes in the balance of a provision resulting from the nearing deadline to incur the expense (discount unwinding effect);
- foreign exchange differences resulting from transactions performed during the reporting period and balance sheet measurement of assets and liabilities at the end of the reporting period, except for differences recognized in the initial value of a fixed asset.

Transactions expressed in a foreign currency are converted to functional currency at initial recognition according to the average exchange rate determined for a given currency by the National Bank of Poland as at the day preceding such a day. As at balance sheet day:

- monetary items expressed in foreign currency are converted applying the closing exchange rate (the average exchange rate determined for a given currency by the National Bank of Poland on that day is deemed the closing exchange rate),
- non-monetary items measured at historical cost in foreign currency are converted applying the exchange rate as at the day of original transaction, and
- non-monetary items measured at the fair value in foreign currency are converted applying the exchange rate as at the day of determining the fair value.

The exchange differences arising from the conversion are recognised, respectively, as financial revenues (expenses) or, in cases specified in the accounting principles (policy), they are capitalised in the value of assets.

For the purpose of balance sheet valuation, the following exchange rates were applied:

| Currency | 31 December 2022 | 31 December 2021 |
|----------|------------------|------------------|
| EUR | 4.6899 | 4.5994 |
| USD | 4.4018 | 4.0600 |
| CZK | 0.1942 | 0.1850 |

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|--|--------------------------------|--------------------------------|
| Dividend income | 1 797 | 1 852 |
| Interest income on loans | 544 | 247 |
| Interest expense | (654) | (330) |
| Revaluation of shares | (48) | (1 399) |
| Revaluation of loans | (1 462) | (298) |
| Other finance income and costs, of which: | (341) | 119 |
| Gain/(loss) on derivative instruments | (219) | 116 |
| The earnings on the transfer ownership of shares in subsidiaries | 56 | - |
| Commissions due to external financing | (24) | (25) |
| Exchange differences | (126) | 14 |
| Other finance income | 47 | 21 |
| Other finance costs | (75) | (7) |
| Total, of which: | (164) | 191 |
| Income and costs from financial instruments | (156) | 190 |
| Other finance income and costs | (8) | 1 |

The increase in the cost of revaluating loans is mainly related to the recognition of impairment losses on loans granted to TAURON Wytwarzanie S.A., which was significantly affected by the increase in the value of loans granted to this company as a result of a loan granted by the Company in the amount of PLN 4 863 million. The loan granted was recognized as a financial asset impaired due to credit risk, and the total amount of the write-down in relation to this loan amounted to PLN 1 242 million, which was described in more detail in Note 20 to these financial statements.

The increase in interest income on loans is mainly due to an increase in the amount of loans granted, as discussed further in Note 20 of these financial statements.

The increase in interest expenses in the year ended 31 December 2022 in relation to the comparable period results from the level of external borrowing and the increase in base rates. The change of the base rates is partially offset by the concluded IRS hedging instruments. The interest expenses shown in the table take into account the above hedging effect.

The loss in the result on derivatives is mainly related to the decline in the measurement of FX derivatives at the end of 2022.

The earnings on the transfer of shares in the subsidiaries results from the datio in solutum agreement concluded on 31 May 2022 between TAURON Polska Energia S.A. and the subsidiary, TAURON Wytwarzanie S.A., which is described in more detail in Note 19 of these financial statements.

15. Income Tax

SELECTED ACCOUNTING PRINCIPLES

Current Tax

Income tax recognised in the result of the period comprises real tax burden for a given reporting period determined by the Company in accordance with the binding provisions of the Act on corporate income tax and potential adjustments of tax settlements for previous years.

Deferred Tax

The accounting policy related to deferred tax is described in Note 33 to these financial statements.

15.1. Tax burden in the statement of comprehensive income

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|---|--------------------------------|--------------------------------|
| Current income tax | (36) | (7) |
| Deferred tax | 67 | 31 |
| Income tax expense in profit or loss | 31 | 24 |
| Income tax expense in other comprehensive income | (36) | (76) |

15.2. Reconciliation of the effective tax rate

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|---|--------------------------------|--------------------------------|
| Profit before tax | 36 | 236 |
| Tax at Poland's statutory tax rate of 19% | (7) | (45) |
| Dividends | 341 | 352 |
| Impairment loss on shares and loans in subsidiaries | (303) | (319) |
| (Recognition)/Reversal of non-tax provisions | 13 | 198 |
| Other non-tax incomes and costs | (11) | (8) |
| Tax effects of reorganization transactions | (3) | - |
| Changes in write-down for deferred income tax | - | 40 |
| Utilisation of tax loss in the Tax Capital Group | - | (194) |
| Other | 1 | - |
| Tax at the effective tax rate of -86.1% (2021: -10.2%) | 31 | 24 |
| Income tax expense in profit/(loss) | 31 | 24 |

15.3. Receivables due to income tax

As at 31 December 2022, the Company had income tax receivables in the amount of PLN 79 million, which mainly comprise the surplus of advances paid by the Company in the amount of PLN 115 million over the tax due for the year 2022 in the amount of PLN 36 million.

Until 31 December 2021, the Company accounted for income tax within the Tax Capital Group ("PGK") whose agreement was registered by the Head of the First Silesian Tax Office in Sosnowiec for the years 2021-2023. On 24 May 2022, the Head of the First Mazovian Tax Office in Warsaw issued a decision on the expiry of the agreement on the establishment of the PGK for 2021-2023 on 31 December 2021. The reason for the above decision was the PGK's failure to meet the legally required condition of maintaining a minimum profitability of 2% for PGK for 2021. As a result of the above decision, the Company accounts for the income tax for 2022 individually.

On 28 December 2022, an agreement of the Tax Capital Group which consists of the Company and selected subsidiaries was registered by the Head of the First Mazovian Tax Office in Warsaw for the years 2023-2025.

Tax settlements and other areas of activity may be subject to inspection by authorities entitled to impose penalties and any additional tax liabilities resulting from final decisions of tax inspection authorities must be paid including interest. Consequently, the amounts presented and disclosed in these financial statements may change in the future.

16. Earnings/(loss) per share

SELECTED ACCOUNTING PRINCIPLES

Net earnings (loss) per share for each period are calculated by dividing the net earnings (loss) for a given reporting period by the weighted average number of shares existing in that period.

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|--|--------------------------------|--------------------------------|
| Basic and diluted net profit (loss) per share (in PLN) | 0.04 | 0.15 |

The figures for calculating the earnings (loss) per share presented in the statement of comprehensive income are presented below.

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|---|--------------------------------|--------------------------------|
| Net profit (loss) attributable to ordinary shareholders | 67 | 260 |
| Number of ordinary shares | 1 752 549 394 | 1 752 549 394 |

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

17. Investment real estate

SELECTED ACCOUNTING PRINCIPLES

The Company holds an investment property generating revenue from rental fees. The property is rented to a subsidiary. At initial recognition, the investment properties are measured at acquisition costs or manufacturing costs including transaction costs. Following the initial recognition, the Company measures all investment real estate held in accordance with the model based on the purchase price or manufacturing cost described in IAS 16 *Property, Plant and Equipment*. This means that the Company gradually depreciates the real estate throughout the period of its useful life.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The fair value measurement of the investment real estate as at 31 December 2022 amounted to PLN 37 million.

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|--|--------------------------------|--------------------------------|
| COST | | |
| Opening balance | 54 | 54 |
| Direct purchase | - | - |
| Closing balance | 54 | 54 |
| ACCUMULATED DEPRECIATION | | |
| Opening balance | (30) | (26) |
| Depreciation for the period | (5) | (4) |
| Closing balance | (35) | (30) |
| NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD | 24 | 28 |
| NET CARRYING AMOUNT AT THE END OF THE PERIOD, of which: | 19 | 24 |
| Buildings and other tangible assets | 12 | 17 |
| Perpetual usufruct of land | 7 | 7 |

The investment real estate is composed of the perpetual usufruct right to land and buildings located in Katowice Szopienice, at ul. Lwowska 23. The lease revenue in the year ended 31 December 2022 amounted to PLN 7 million.

18. Right-of-use assets

SELECTED ACCOUNTING PRINCIPLES

An agreement for rental, lease or a part thereof, or other agreement or a part of an agreement of a similar nature under which the right to control the use of an asset for a given period is transferred in exchange for remuneration is classified as a lease. Lease classification is performed at the date of commencement of the lease, based on the economic content of the agreement, not on its legal form. At the date of commencement of the lease, a right-of-use assets is recognised for use and a liability for the lease.

A right-of-use asset is measured at cost including:

- the amount of the initial measurement of the lease liability,
- all lease payments made at or before the inception of the lease, less any amounts received in respect of the lease or costs paid by the lessor (lease incentives),
- any initial direct costs incurred by the lessee,
- an estimate of the costs of dismantling and removing the underlying asset, restoring the site on which it was located, or restoring it to the condition required by the lease terms.

After the initial recognition, a right-of-use asset is measured at cost less accumulated depreciation and/or amortization and impairment write-down and adjusted for the revaluation of the lease liability. Depreciation and/or amortization principles applied to assets used under leases are consistent with those applied to depreciation and/or amortization of assets owned by the Company.

PROFESSIONAL JUDGEMENT AND ESTIMATES

At the date of commencement of the lease, the Company measures an rights-of-use assets including in the current value of the lease payments remaining to be paid on that date. Lease payments are discounted using the interest rate of the lease if that rate can be easily determined. Otherwise, the Company applies the incremental borrowing rate, in accordance with the adopted methodology.

The Company applies the portfolio approach to similar leases regarding unified assets with similar use. When accounting for leases under the portfolio approach, the Company applies estimates and assumptions corresponding to the size and composition of the portfolio, including estimates of the weighted average lease term.

In order to determine the lease period, e.g. for contracts for an indefinite period, the Company makes an estimate.

Depreciation and/or amortization principles applied to the rights-of-use of assets are consistent with those applied to depreciation and/or amortisation of assets owned by the Company. If there is no reasonable certainty that the Company will obtain ownership by the end of the lease term the asset item is fully depreciated over the shorter of the lease term and its useful life.

| | Year ended 31 December 2022 | | | Year ended 31 December 2021 | | |
|---|--------------------------------|----------------|------------------------------|--------------------------------|----------------|------------------------------|
| | Buildings and premises | Motor vehicles | Total right-of-use assets | Buildings and premises | Motor vehicles | Total right-of-use assets |
| COST | | | | | | |
| Opening balance | 44 | 2 | 46 | 43 | 2 | 45 |
| Increase/(decrease) due to lease changes | - | - | - | 1 | - | 1 |
| Other | - | (1) | (1) | - | - | - |
| Closing balance | 44 | 1 | 45 | 44 | 2 | 46 |
| ACCUMULATED DEPRECIATION | | | | | | |
| Opening balance | (22) | (2) | (24) | (15) | (2) | (17) |
| Depreciation for the period | (9) | - | (9) | (7) | (1) | (8) |
| Other | - | 1 | 1 | - | 1 | 1 |
| Closing balance | (31) | (1) | (32) | (22) | (2) | (24) |
| NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD | 22 | - | 22 | 28 | - | 28 |
| NET CARRYING AMOUNT AT THE END OF THE PERIOD | 13 | - | 13 | 22 | - | 22 |

19. Shares and interests

SELECTED ACCOUNTING PRINCIPLES

Shares in subsidiaries and jointly controlled entities

Shares in subsidiaries and interests in a joint venture are shown at purchase price, less impairment allowances, if any. Impairment allowances are recognized in line with IAS 36 *Impairment of Assets*, where the carrying amount is compared to the higher of the fair value less costs to sell and the value in use.

Shares in other entities

Shares in entities other than subsidiaries and jointly controlled entities held at the balance sheet date are measured by the Company at a fair value through profit or loss.

PROFESSIONAL JUDGEMENT AND ESTIMATES

As at every balance sheet date the Company assesses if there is any objective indication that the shares may be impaired. Should material impairment indications occur, the Company is obliged to carry out impairment tests of shares and recognize an impairment loss or reverse an existing one.

Pursuant to IFRS 9 *Financial Instruments*, the Company classifies and measures at fair value shares in entities other than subsidiaries and jointly-controlled entities.

Change in shares for the year ended 31 December 2022

| No. | Company | Gross value | | | Impairment losses | | | Net value | |
|--|---|-----------------|-----------------------|-----------------|-------------------|-----------------------|-----------------|-----------------|-----------------|
| | | Opening balance | (Decreases) Increases | Closing balance | Opening balance | Decreases (Increases) | Closing balance | Opening balance | Closing balance |
| Consolidated subsidiaries | | | | | | | | | |
| 1 | TAURON Wydobywanie S.A. | 1 342 | (1 342) | - | (1 342) | 1 342 | - | - | - |
| 2 | TAURON Wytwarzanie S.A. | 7 866 | (36) | 7 830 | (7 830) | - | (7 830) | 36 | - |
| 3 | Nowe Jaworzno Grupa TAURON Sp. z o.o. | 6 578 | (6 578) | - | (1 764) | 1 764 | - | 4 814 | - |
| 4 | TAURON Ciepło Sp. z o.o. | 1 928 | - | 1 928 | (1 224) | - | (1 224) | 704 | 704 |
| 5 | TAURON Ekoenergia Sp. z o.o. | 1 940 | - | 1 940 | - | - | - | 1 940 | 1 940 |
| 6 | TAURON Zielona Energia Sp. z o.o. | 600 | - | 600 | - | - | - | 600 | 600 |
| 7 | TAURON Dystrybucja S.A. | 10 512 | - | 10 512 | - | - | - | 10 512 | 10 512 |
| 8 | TAURON Nowe Technologie S.A. | 650 | - | 650 | - | - | - | 650 | 650 |
| 9 | TAURON Sprzedaż Sp. z o.o. | 614 | - | 614 | - | - | - | 614 | 614 |
| 10 | TAURON Sprzedaż GZE Sp. z o.o. | 130 | - | 130 | - | - | - | 130 | 130 |
| 11 | Kopalnia Wapienia Czatkowice Sp. z o.o. | 41 | - | 41 | - | - | - | 41 | 41 |
| 12 | Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. | 90 | - | 90 | (90) | - | (90) | - | - |
| 13 | TAURON Obsługa Klienta Sp. z o.o. | 40 | - | 40 | - | - | - | 40 | 40 |
| 14 | Finanse Grupa TAURON Sp. z o.o. | 28 | - | 28 | (24) | - | (24) | 4 | 4 |
| 15 | Bioeko Grupa TAURON Sp. z o.o. | 1 | (1) | - | - | - | - | 1 | - |
| 16 | TAURON Serwis Sp. z o.o. | 1 | (1) | - | - | - | - | 1 | - |
| 17 | TAURON Inwestycje Sp. z o.o. | - | 36 | 36 | - | (36) | (36) | - | - |
| 18 | Other | 5 | - | 5 | - | - | - | 5 | 5 |
| Joint ventures | | | | | | | | | |
| 19 | TAMEH HOLDING Sp. z o.o. | 416 | - | 416 | - | - | - | 416 | 416 |
| Entities measured at fair value | | | | | | | | | |
| 20 | EEC Magenta Sp. z o.o. ASI spółka komandytowo-akcyjna | 4 | - | 4 | - | - | - | 4 | 4 |
| 21 | EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo-akcyjna | 37 | 9 | 46 | - | - | - | 37 | 46 |
| 22 | Other | 10 | - | 10 | - | - | - | 10 | 10 |
| Total | | 32 833 | (7 913) | 24 920 | (12 274) | 3 070 | (9 204) | 20 559 | 15 716 |

The most significant changes in shareholding in the year ended 31 December 2022 resulted from the following transactions:

- the demerger of TAURON Wytwarzanie S.A. and the incorporation of TAURON Inwestycje Sp. z o.o. registered on 1 July 2022, which were performed as part of the ongoing work to prepare for the spin-off of the TAURON Group's generation coal assets under the governmental programme of Polish power sector transformation (the "NABE Programme");
- the sale of 100% of the stocks in Nowe Jaworzno Grupa TAURON sp. z o.o. held by TAURON Polska Energia S.A. to TAURON Wytwarzanie S.A. on 29 July 2022. The selling price amounted to PLN 4 815 million and was close to the carrying amount of the stocks sold. On the same day, the loan agreement was concluded between the Company as a lender and TAURON Wytwarzanie S.A. as a borrower, for the amount of PLN 4 863 million, to be used for the purchase of stocks in the company Nowe Jaworzno Grupa TAURON Sp. z o.o. by TAURON Wytwarzanie S.A., as described in more detail in Note 20.1 of these financial statements;

- the sale of 100% of the shares held in TAURON Wydobycie S.A. to the State Treasury on 31 December 2022 for a price of PLN 1, as described in more detail in Note 2 of these financial statements. The shares sold were subject to a 100% impairment write-down;
- increase of the share capital in EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo-akcyjna where TAURON Polska Energia S.A. took up a total of 201 062 shares for the total amount of PLN 20 million. As at the balance sheet date, the Company updated the valuation of the fair value of EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo-akcyjna, as a result of which the carrying amount decreased by PLN 11 million;
- transfer of the ownership of shares in the companies TAURON Serwis Sp. z o.o. and Bioeko Grupa TAURON Sp. z o.o. with a carrying amount of PLN 2 million. On 31 May 2022, a datio in solutum agreement was concluded between the Company as debtor and the subsidiary, TAURON Wytwarzanie S.A. as the creditor, pursuant to which the Company, in order to discharge its liability to TAURON Wytwarzanie S.A. in the amount of PLN 58 million, transferred to TAURON Wytwarzanie S.A. its ownership of 100% of shares in the share capital of Bioeko Grupa TAURON Sp. z o.o. and 95.61% of shares in the share capital of TAURON Serwis Sp. z o.o. with the total market value of PLN 58 million. The Company earned a profit of PLN 56 million on the transaction.

Change in shares for the year ended 31 December 2021

| No. | Company | Gross value | | | Impairment losses | | | Net value | |
|--|---|---------------------------------------|--------------------------|--------------------|--|--------------------------|--------------------|--|--------------------|
| | | Opening balance (restated figures) | (Decreases) Increases | Closing balance | Opening balance (restated figures) | Decreases (Increases) | Closing balance | Opening balance (restated figures) | Closing balance |
| Consolidated subsidiaries | | | | | | | | | |
| 1 | TAURON Wydobycie S.A. | 1 342 | - | 1 342 | (1 342) | - | (1 342) | - | - |
| 2 | TAURON Wytwarzanie S.A. | 7 866 | - | 7 866 | (7 830) | - | (7 830) | 36 | 36 |
| 3 | Nowe Jaworzno Grupa TAURON Sp. z o.o. | 5 506 | 1 072 | 6 578 | - | (1 764) | (1 764) | 5 506 | 4 814 |
| 4 | TAURON Ciepło Sp. z o.o. | 1 928 | - | 1 928 | (1 224) | - | (1 224) | 704 | 704 |
| 5 | TAURON Ekoenergia Sp. z o.o. | 1 940 | - | 1 940 | (376) | 376 | - | 1 564 | 1 940 |
| 6 | TAURON Zielona Energia Sp. z o.o. | 600 | - | 600 | - | - | - | 600 | 600 |
| 7 | TAURON Dystrybucja S.A. | 10 512 | - | 10 512 | - | - | - | 10 512 | 10 512 |
| 8 | TAURON Nowe Technologie S.A. | 650 | - | 650 | - | - | - | 650 | 650 |
| 9 | TAURON Sprzedaż Sp. z o.o. | 614 | - | 614 | - | - | - | 614 | 614 |
| 10 | TAURON Sprzedaż GZE Sp. z o.o. | 130 | - | 130 | - | - | - | 130 | 130 |
| 11 | Kopalnia Wapienia Czatkowice Sp. z o.o. | 41 | - | 41 | - | - | - | 41 | 41 |
| 12 | Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. | 79 | 11 | 90 | (79) | (11) | (90) | - | - |
| 13 | TAURON Obsługa Klienta Sp. z o.o. | 40 | - | 40 | - | - | - | 40 | 40 |
| 14 | Finanse Grupa TAURON Sp. z o.o. | 28 | - | 28 | (24) | - | (24) | 4 | 4 |
| 15 | Other | 7 | - | 7 | - | - | - | 7 | 7 |
| Joint ventures | | | | | | | | | |
| 16 | TAMEH HOLDING Sp. z o.o. | 416 | - | 416 | - | - | - | 416 | 416 |
| Entities measured at fair value | | | | | | | | | |
| 17 | EEC Magenta Sp. z o.o. ASI spółka komandytowo-akcyjna | 2 | 2 | 4 | - | - | - | 2 | 4 |
| 18 | EEC Magenta Sp. z o.o. 2 ASI spółka komandytowo-akcyjna | 19 | 18 | 37 | - | - | - | 19 | 37 |
| 19 | Other | 11 | (1) | 10 | - | - | - | 11 | 10 |
| Total | | 31 731 | 1 102 | 32 833 | (10 875) | (1 399) | (12 274) | 20 856 | 20 559 |

20. Originated loans

SELECTED ACCOUNTING PRINCIPLES

Loans granted by the Company include term loans granted to subsidiaries, cash pool loans and loans granted to the joint venture. Loans are classified as financial assets measured at amortized cost or at fair value through profit or loss. Loans with a maturity date exceeding 12 months from the balance sheet date are classified as fixed assets and loans with a maturity date not exceeding 12 months from the balance sheet date as current assets, taking into account the expectations as regards the loan repayment as at the balance sheet day (intentions regarding the maturity period extension or its refinancing).

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Company makes appropriate classification and valuation of the loans granted. Loans granted with a maturity period of less than one year, for which an extension of the repayment period or roll-over is planned, are classified as long-term instruments. As at 31 December 2022, the nominal value of the aforementioned loans amounted to PLN 1 292 million.

In accordance with the requirements of *IFRS 9 Financial Instruments*, in case of loans measured at amortised cost, the Company estimates the amount of impairment losses on loans, as described in detail below and in Note 38.1.2 of these financial statements. The Company estimates the fair value of loans classified as measured at a fair value. The measurement methodology is described in Note 37.1 to these financial statements.

In the case of loans granted to special purpose entities, which are the only source of financing the purchase of a non-financial fixed asset (the borrower's equity is intangible at the time of granting the loan) by these entities, the Company believes that the characteristics of the contractual cash flows do not only correspond to the repayment of the principal amount and interest on the principal amount outstanding and measures such loans at fair value through profit or loss.

Balances of loans granted by the Company as at 31 December 2022 and 31 December 2021 are presented in the table below.

| | As at 31 December 2022 | | | As at 31 December 2021 | | |
|---|------------------------|-----------------|-----------------|------------------------|-----------------|-----------------|
| | Gross value | Impairment loss | Carrying amount | Gross value | Impairment loss | Carrying amount |
| Loans measured at amortized cost | 13 290 | (373) | 12 917 | 6 238 | (86) | 6 152 |
| Loans granted to subsidiaries | 11 093 | (151) | 10 942 | 6 180 | (83) | 6 097 |
| Loans granted to EC Stalowa Wola S.A. | 30 | (5) | 25 | 28 | (3) | 25 |
| Loans granted under cash pool agreement | 2 167 | (217) | 1 950 | 30 | - | 30 |
| Loans measured at fair value | 623 | n.a. | 623 | 229 | n.a. | 229 |
| Loans granted to subsidiaries | 442 | n.a. | 442 | 155 | n.a. | 155 |
| Loans granted to EC Stalowa Wola S.A. | 181 | n.a. | 181 | 74 | n.a. | 74 |
| Total | 13 913 | (373) | 13 540 | 6 467 | (86) | 6 381 |
| Non-current | 11 326 | (154) | 11 172 | 6 015 | (79) | 5 936 |
| Current | 2 587 | (219) | 2 368 | 452 | (7) | 445 |

20.1. Loans granted to subsidiaries

| Company | As at 31 December 2022 | | | | As at 31 December 2021 | | | |
|---|--|---------------|-----------------|-----------------|--|--------------|-----------------|-----------------|
| | Outstanding principal and contractual interest accrued | Gross value | Impairment loss | Carrying amount | Outstanding principal and contractual interest accrued | Gross value | Impairment loss | Carrying amount |
| Loans measured at amortized cost | 12 360 | 11 093 | (151) | 10 942 | 9 868 | 6 180 | (83) | 6 097 |
| TAURON Wytwarzanie S.A. | 5 564 | 4 317 | (96) | 4 221 | 905 | 905 | (66) | 839 |
| TAURON Dystrybucja S.A. | 5 460 | 5 444 | (27) | 5 417 | 4 125 | 4 105 | (10) | 4 095 |
| TAURON Ciepło Sp. z o.o. | 981 | 980 | (17) | 963 | 981 | 981 | (6) | 975 |
| TAURON Ekoenergia Sp. z o.o. | 160 | 157 | (1) | 156 | 160 | 155 | (1) | 154 |
| TAURON Obsługa Klienta Sp. z o.o. | 96 | 96 | (2) | 94 | - | - | - | - |
| TAURON Nowe Technologie S.A. | 51 | 51 | (1) | 50 | - | - | - | - |
| TAURON Wydobycie S.A. | - | - | - | - | 3 663 | - | - | - |
| Other | 48 | 48 | (7) | 41 | 34 | 34 | - | 34 |
| Loans measured at fair value | 452 | 442 | n.a. | 442 | 155 | 155 | n.a. | 155 |
| WIND T1 Sp. z o.o. | 197 | 185 | n.a. | 185 | 131 | 131 | n.a. | 131 |
| "MEGAWATT S.C." Sp. z o.o. | 129 | 139 | n.a. | 139 | - | - | - | - |
| WIND T4 Sp. z o.o. | 40 | 40 | n.a. | 40 | - | - | - | - |
| Polpower Sp. z o.o. | 36 | 30 | n.a. | 30 | 8 | 8 | n.a. | 8 |
| Energetyka Cieszyńska Sp. z o.o. | 22 | 22 | n.a. | 22 | - | - | - | - |
| FF Park PV1 Sp. z o.o. | 12 | 12 | n.a. | 12 | - | - | - | - |
| Aval-1 Sp. z o.o. | 16 | 14 | n.a. | 14 | 16 | 16 | n.a. | 16 |
| Total | 12 812 | 11 535 | (151) | 11 384 | 10 023 | 6 335 | (83) | 6 252 |
| Non-current | | 11 115 | (149) | 10 966 | | 5 913 | (76) | 5 837 |
| Current | | 420 | (2) | 418 | | 422 | (7) | 415 |

On 29 July 2022, the Company and TAURON Wytwarzanie S.A. concluded a loan agreement in the amount of PLN 4 863 million for the purchase by TAURON Wytwarzanie S.A. of shares in Nowe Jaworzno Grupa TAURON Sp. z o.o., as further described in Note 19 of these financial statements. The above loan was recognized as an impaired financial asset due to credit risk. The carrying amount of the loan as at the balance sheet date in the amount of PLN 3 635 million was estimated based on the repayment scenarios assumed by the Company for the loan granted to TAURON Wytwarzanie S.A., taking into account the results of the last impairment test of assets as at 31 December 2022, taking into account the company's forecast of future cash flows. As a result of the above analysis, the total amount of credit loss recognized in the period since the loan was granted amounted to PLN 1 242 million, of which PLN 882 million was updated as at the balance sheet date, which is described in more detail in Note 10 to these financial statements.

On 25 October 2022, the Company and TAURON Wydobycie S.A. concluded the set-off agreement, under which the parties set off the receivables of TAURON Wydobycie S.A. from the capital increase in the amount of PLN 3 978 million against the Company's debt receivable in the same amount. The increase in the share capital of TAURON Wydobycie S.A., carried out by the Company in order to repay the debt of TAURON Wydobycie S.A., was one of the conditions precedent for the entry into force of the agreement for the sale of 100% of the shares in TAURON Wydobycie S.A. to the State Treasury, as described in more detail in Note 2 of these financial statements.

Change in loans measured at amortised cost and impairment losses

| | Year ended 31 December 2022 | | | | Year ended 31 December 2021 | | | | |
|---|---|--|--|--|-----------------------------|---|--|--|-------|
| | Level 1: allowance equal to 12 monthly expected credit losses (no impairment) | Level 2: allowance for expected credit losses over the life period (no impairment) | Level 3: allowance for expected credit losses over the life period - with impairment | Instruments purchased with an impairment | Total | Level 1: allowance equal to 12 monthly expected credit losses (no impairment) | Level 2: allowance for expected credit losses over the life period (no impairment) | Instruments purchased with an impairment | Total |
| Gross value | | | | | | | | | |
| Opening balance | 5 275 | 905 | - | - | 6 180 | 4 559 | 515 | - | 5 074 |
| Loan repayment | - | (226) | - | - | (226) | (113) | (211) | - | (324) |
| Loan granting | 1 452 | - | 7 | 3 621 | 5 080 | 793 | 600 | - | 1 393 |
| Interest accrued | 227 | 42 | - | 201 | 470 | 198 | 47 | - | 245 |
| Interest received | (194) | (43) | - | (174) | (411) | (162) | (46) | - | (208) |
| Closing balance | 6 760 | 678 | 7 | 3 648 | 11 093 | 5 275 | 905 | - | 6 180 |
| Impairment loss | | | | | | | | | |
| Opening balance | (18) | (65) | - | - | (83) | (15) | (56) | - | (71) |
| Recognition | (31) | (36) | (7) | - | (74) | (6) | (12) | - | (18) |
| Reversal | - | 6 | - | - | 6 | 3 | 3 | - | 6 |
| Utilized | - | - | - | - | - | - | - | - | - |
| Closing balance | (49) | (95) | (7) | - | (151) | (18) | (65) | - | (83) |
| Net carrying amount at the beginning of the period | 5 257 | 840 | - | - | 6 097 | 4 544 | 459 | - | 5 003 |
| Net carrying amount at the end of the period | 6 711 | 583 | - | 3 648 | 10 942 | 5 257 | 840 | - | 6 097 |

20.2. Loans to joint ventures

Loans granted to the Elektrociepłownia Stalowa Wola S.A. joint venture as at 31 December 2022 and as at 31 December 2021 are presented in the table below.

| | As at 31 December 2022 | | | | As at 31 December 2021 | | | | Maturity date | Interest rate |
|----------------------------------|--|-------------|-----------------|-----------------|--|-------------|-----------------|-----------------|---------------|---------------|
| | Outstanding principal and contractual interest accrued | Gross value | Impairment loss | Carrying amount | Outstanding principal and contractual interest accrued | Gross value | Impairment loss | Carrying amount | | |
| Loans measured at fair value | 562 | 181 | n.a. | 181 | 409 | 74 | n.a. | 74 | | |
| Loans measured at amortized cost | 123 | 30 | (5) | 25 | 116 | 28 | (3) | 25 | 30.06.2033 | fixed |
| Total, of which: | 685 | 211 | (5) | 206 | 525 | 102 | (3) | 99 | | |
| Non-current | | 211 | (5) | 206 | | 102 | (3) | 99 | | |

On 2 March 2022, the Company concluded a loan agreement with Elektrociepłownia Stalowa Wola S.A. up to the amount of PLN 120 million, for the purpose of settlement by Elektrociepłownia Stalowa Wola S.A. of the liability resulting from the settlement agreement with Abener Energia S.A. concluded on 31 December 2021. On 8 March 2022, the Company paid the full amount of the loan to the borrower. The loan was classified as an asset measured at fair value, and its fair value on the balance sheet date amounts to PLN 107 million.

20.3. Loans granted under the cash pool service

In order to optimise cash and liquidity management, TAURON Group applies the cash pool service mechanism. Cash pooling is implemented under the agreement concluded with the bank for the operation of a cash management system for a group of accounts, with the effective term until 6 December 2024. As a result of the cash pool mechanism, cash is transferred between the accounts of the service participants and the pool leader's account whose function is performed by TAURON Polska Energia S.A.

The balance of receivables arising as a result of cash pooling as at 31 December 2022 and 31 December 2021 is presented in the table below.

| | As at 31 December 2022 | | | As at 31 December 2021 | |
|---|------------------------|-----------------|-----------------|------------------------|-----------------|
| | Gross value | Impairment loss | Carrying amount | Gross value | Carrying amount |
| Receivables from cash pool transactions | 2 150 | (217) | 1 933 | 30 | 30 |
| Interest receivable from cash pool transactions | 17 | - | 17 | - | - |
| Total, of which: | 2 167 | (217) | 1 950 | 30 | 30 |
| Current | 2 167 | (217) | 1 950 | 30 | 30 |

Information concerning cash pool liabilities is presented in Note 28.5 to these financial statements.

21. Derivatives and hedge accounting

SELECTED ACCOUNTING PRINCIPLES

Derivative financial instruments within the scope of IFRS 9 *Financial Instruments* are classified as financial assets/liabilities measured at a fair value through profit or loss, except for derivatives designated as hedging instruments and covered by hedge accounting. Agreements for the purchase or sale of non-financial items that can be settled net, concluded and held in order to receive or deliver non-financial items in accordance with the needs expected by the entity as excluded from the scope of IFRS 9 *Financial Instruments* are not measured at the balance sheet date.

Derivatives classified as “financial assets/financial liabilities measured at fair value through profit or loss” are measured at a fair value, taking into account their market value as at the balance sheet date. Changes in the fair value of these instruments are recognised in the result of the period (commodity derivatives in operating income/expenses, other derivatives in financial income/expenses). Derivatives are disclosed as assets if their value is positive or as liabilities if their value is negative.

As at the end of the reporting period, Interest Rate Swaps (IRS) acquired and held to hedge the interest rate risk relating to debt are subject to hedge accounting. Other derivative instruments held by the Company as at the balance sheet date are not subject to hedge accounting.

Hedge accounting

In order to hedge the interest rate risk, the Company uses IRS (Interest Rate Swap) contracts. These instruments hedge cash flows related to the Company indebtedness. Such transactions are subject to hedge accounting.

At the inception of the hedge the Company formally designates and documents the hedging relationship as well as the risk management objective and the strategy underlying establishing of the hedge.

Cash flow hedges are accounted for as follows:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income; and
- the ineffective portion of the gain or loss on the hedging instrument shall be recognised in profit or loss for the period.

The gains/losses on the revaluation of a hedging instrument recognised in other comprehensive income are recognised directly in the profit or loss of the current period when the hedged item affects profit or loss of the current period or is included in the initial cost of purchasing the asset (capitalisation of external financing costs). For IRS, interest costs arising from debt are adjusted accordingly.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Company estimates fair value at each balance sheet day using the methodology described in the table below. The Group tests the effectiveness of the hedge at each balance sheet date.

| Instrument | Methodology of determining fair value | As at 31 December 2022 |
|---|--|--|
| Derivative instruments subject to hedge accounting | | |
| IRS | The difference between discounted floating-rate interest cash flows and those based on fixed interest rates. Refinitiv interest rate curve is the input data. | <p>IRS (Interest Rate Swap) instruments are used to hedge a portion of the interest rate risk on the cash flows associated with the exposure to WIBOR 6M designated under the dynamic risk management strategy, i.e:</p> <ul style="list-style-type: none"> • interest on a loan with a nominal value of PLN 750 million, for periods commencing respectively from July 2020 and expiring in December 2024; • interest on bonds and a loan with a total nominal value of PLN 3 090 million, for periods commencing in December 2019 and expiring successively from 2023 to 2029. <p>In accordance with the terms of the transaction, the Company pays interest accrued based on a fixed interest rate in PLN, while receiving payments at a floating interest rate in PLN.</p> |
| Derivative instruments measured at a fair value through the profit and loss other than subject to hedge accounting | | |
| CCIRS | The difference between discounted interest cash flows relating to payments and receipts, in two different currencies, expressed in the valuation currency. Interest rate curves, basis spreads and NBP fixing for the relevant currencies from Refinitiv are the input data. | CCIRS (Coupon Only Cross Currency Swap fixed-fixed) derivatives involve an exchange of interest payments on a total notional amount of EUR 500 million. The transaction matures in July 2027. In accordance with the terms of the transaction, the Company pays interest based on a fixed interest rate in PLN, while receiving payments at a fixed interest rate in EUR. CCIRS derivatives aimed at securing the currency flows generated by interest payments on Eurobonds issued. |
| Commodity forward/future | The fair value of forwards for the purchase and sale of CO ₂ emission allowances, electricity and other commodities is based on prices quoted on an active market or based on cash flows being the difference between the price reference index (forward curve) and the contract price. | Derivative instruments (future, forward) comprise forward transactions for the purchase and sale of CO ₂ emission allowances and other commodities. |
| FX forward | The difference between discounted future cash flows: the forward price at the valuation date and the transaction price, multiplied by the nominal value of the contract in a foreign currency. NBP fixing and the implied interest rate curve from FX swap transactions for the relevant currency from Refinitiv are the input data. | FX forward derivative instruments aimed at hedging currency flows generated due to the activities conducted. |

The measurement of derivatives as at the respective balance sheet dates is presented in the table below:

| | As at 31 December 2022 | | | | As at 31 December 2021 | | | |
|---|------------------------|--------------|---------------------------|---------------------------------------|------------------------|--------------|---------------------------|---------------------------------------|
| | Total | | Charged to profit or loss | Charged to other comprehensive income | Total | | Charged to profit or loss | Charged to other comprehensive income |
| | Assets | Liabilities | | | Assets | Liabilities | | |
| Derivative instruments subject to hedge accounting | | | | | | | | |
| IRS | 592 | - | 34 | 558 | 371 | - | - | 371 |
| Derivative instruments measured at fair value through profit or loss | | | | | | | | |
| CCIRS | 21 | - | 21 | - | 26 | (1) | 25 | - |
| Commodity future/forward | 236 | (232) | 4 | - | 485 | (494) | (9) | - |
| Currency forward | - | (109) | (109) | - | 115 | - | 115 | - |
| Total | 849 | (341) | | | 997 | (495) | | |
| Non-current | 390 | (10) | | | 532 | (116) | | |
| Current | 459 | (331) | | | 465 | (379) | | |

The derivatives shown in the table above include futures contracts covered within the scope of IFRS 9 *Financial Instruments*. The derivatives acquired and held to hedge own needs as excluded from the scope of IFRS 9 *Financial Instruments* are not subject to measurement as at the balance sheet date.

22. Other financial assets

SELECTED ACCOUNTING PRINCIPLES

Other financial assets include, inter alia, bid bonds, deposits, security provided, stock exchange settlement deposits and receivables from the disposal of property, plant and equipment and intangible assets.

| | As at 31 December 2022 | As at 31 December 2021 |
|--|---------------------------|---------------------------|
| Initial and variation margin deposits arising from stock exchange transactions | - | 32 |
| Bid bonds, deposits, collateral transferred | 35 | 38 |
| Total, of which: | 35 | 70 |
| Current | 35 | 70 |

23. Other non-financial assets

SELECTED ACCOUNTING PRINCIPLES

The Company recognises mainly advances for deliveries, tax and fee settlements as other non-financial assets, with the exception of income tax which is presented as a separate item of accruals and prepaid settlements in the statement of financial position.

Settlements due to taxes and fees comprise:

- Settlements due to VAT and excise duty;
- Personal income tax and social security settlements;
- Environmental fees and other public law settlements.

Prepayments are determined at a level of expenditure incurred, determined reasonably, referring to future periods, which will result in future inflows of economic benefits to the entity. Write-downs on prepayments of costs may be applied adequately to the lapse of time or the level of benefits.

| | As at 31 December 2022 | As at 31 December 2021 |
|---|---------------------------|---------------------------|
| Advances for deliveries, <i>including</i> : | 598 | 2 |
| Prepaid fee on debt | 14 | 13 |
| VAT receivables | - | 43 |
| Other | 8 | 10 |
| Total | 620 | 68 |
| Non-current | 19 | 14 |
| Current | 601 | 54 |

The increase in advances for deliveries relates to the acquisitions of coal by the Company for the needs of generation companies of the Group. As a result of the impact of the war in Ukraine caused by the aggression of the Russian Federation on the restriction of coal supply in the market in the fourth quarter of 2022, as further described in Note 48 of these financial statements, in order to mitigate the risks arising from the above restrictions, the Company contracted coal deliveries on the domestic and foreign markets, which will be implemented in the subsequent months. Some of the contracted deliveries required advance payments, whose value as at the balance sheet date amounted to PLN 598 million.

24. Inventories

SELECTED ACCOUNTING PRINCIPLES

Within inventories, the Company primarily recognises acquired CO₂ emission rights that are held for trading purposes, including sale to Group companies for redemption purposes.

CO₂ emission allowances recognised in inventories, which are purchased for sale and generation of profit in the short term due to volatility of market prices are measured at a fair value upon their initial recognition and as at each balance sheet date.

Inventories of CO₂ emission allowances purchased for redemption purposes of the Group companies are initially recognised at a purchase price and measured as at the balance sheet day at a lower of the purchase price or the net achievable sales price. If the purchase price is higher than the net achievable sales prices, the Company recognises the relevant allowance, which is charged to operating expenses.

Disposal of purchased CO₂ emission rights is measured using the FIFO method.

| | As at 31 December 2022 | | | As at 31 December 2021 | |
|-------------------------------------|------------------------|--|--------------------|------------------------|--------------------|
| | Gross Value | Measurement to net realisable value | Carrying amount | Gross Value | Carrying amount |
| CO ₂ emission allowances | 74 | (2) | 72 | 51 | 51 |

25. Receivables from customers

SELECTED ACCOUNTING PRINCIPLES

Receivables from customers are recognised and presented at the amounts originally invoiced, except where the effect of the time value of money is material, taking into account an impairment allowance/write-down.

Impairment allowances are recognised for both overdue and current receivables based on probability-weighted credit loss to be incurred should any of the following events occur:

- a material delay in payment,
- a debtor is put in liquidation, declared bankrupt or undergoes restructuring procedures,
- the receivables are claimed at administrative or common court, or undergo enforcement.

The Company has allocated a portfolio of strategic counterparties and a portfolio of other counterparties for receivables from customers.

Revaluation allowances of receivables are recognised in such cost categories which correspond to the function of the assets component, i.e. in costs of operating activity or financial costs - depending on the type of receivables the allowance refers to.

PROFESSIONAL JUDGEMENT AND ESTIMATES

For the portfolio of strategic counterparties, it is expected that the historical performance does not provide full information on the expected credit losses that the Company may be exposed to. The risk of insolvency on the part of strategic counterparties is assessed based on ratings assigned to the counterparties using an internal scoring model and appropriately restated to account for the probability of default. The expected credit loss, in line with IFRS 9 *Financial Instruments*, is calculated based on the estimated potential recoveries from security interests.

It is expected that the historical performance information concerning receivables from other counterparties may reflect the credit risk that will be faced in future periods. The expected credit losses for this group of counterparties were estimated using the receivables ageing matrix and the percentage ratios assigned to the various ranges and groups (including receivables claimed at court, receivables from counterparties in bankruptcy) allowing to estimate the value of receivables from customers expected to be outstanding.

In order to consider future factors, the Company adjusts the historical probability of default using the probability level implied by quotations of annual Credit Default Swap (CDS) instruments for each rating.

| | As at 31 December 2022 | As at 31 December 2021 |
|------------------------------|---------------------------|---------------------------|
| Gross Value | | |
| Receivables from buyers | 4 101 | 2 501 |
| Receivables claimed at court | - | 1 |
| Total | 4 101 | 2 502 |
| Allowance/write-down | | |
| Receivables from buyers | (31) | (6) |
| Receivables claimed at court | - | (1) |
| Total | (31) | (7) |
| Net Value | | |
| Receivables from buyers | 4 070 | 2 495 |
| Total | 4 070 | 2 495 |

As at 31 December 2022 and 31 December 2021, receivables from the subsidiary, TAURON Sprzedaż Sp. z o.o. constituted the highest balance of receivables from customers amounting to PLN 2 891 million and PLN 1 513 million, respectively.

The ageing of receivables from customers is shown in the table below.

| | As at 31 December 2022 | | As at 31 December 2021 | | | |
|---|------------------------|--------------|------------------------|-----------|-----------|--------------|
| | Not past due | Total | Not past due | Past due | | Total |
| | | | | <30 days | >360 days | |
| Value of item before allowance/write-down | 4 101 | 4 101 | 2 448 | 53 | 1 | 2 502 |
| Allowance/write-down | (31) | (31) | (6) | - | (1) | (7) |
| Net Value | 4 070 | 4 070 | 2 442 | 53 | - | 2 495 |

Transactions with related parties and balances of settlements with these entities are presented in note 43.1 of these financial statements.

26. Cash and cash equivalents

SELECTED ACCOUNTING PRINCIPLES

Cash and short-term deposits presented in the statement of financial position comprise, in particular, cash in hand and at bank and short-term deposits with the original maturity period not exceeding three months.

The balance of cash and cash equivalents shown in the cash flow statement consists of cash and cash equivalents as defined above. If the entity uses overdraft facilities as a cash management solution, in line with IAS 7 *Statement of Cash Flows*, the balance of cash is presented in the statement of cash flows less the outstanding balance of such facilities.

| | As at 31 December 2022 | As at 31 December 2021 (restated figures) |
|---|---------------------------|---|
| Cash at bank and in hand | 1 039 | 440 |
| Total cash and cash equivalents presented in the statement of financial position, including: | 1 039 | 440 |
| restricted cash, including: | 752 | 159 |
| collateral of settlements with Izba Rozliczeniowa Gield Towarowych S.A. | 671 | 156 |
| cash on VAT bank accounts (split payment) | 81 | 3 |
| Collateral of settlements with Izba Rozliczeniowa Gield Towarowych S.A. | (671) | (156) |
| Cash pool | (715) | (2 603) |
| Foreign exchange | 26 | - |
| Total cash and cash equivalents presented in the statement of cash flows | (321) | (2 319) |

The balances of short-term loans granted and borrowings incurred under cash pool transactions do not represent cash flows from investment or financial activities but constitute cash adjustments, since they mainly serve to manage the Group's current liquidity.

Collateral of settlements with Izba Rozliczeniowa Gield Towarowych S.A. constitute funds transferred under transaction and security deposits in connection with transactions concluded by the Company on Towarowa Gielda Energii, which in the Group's opinion do not constitute cash and cash equivalents in the statement of cash flows.

Information on balances arising from the cash pool agreement is presented in Notes 20.3 and 28.5 of these financial statements.

27. Equity

SELECTED ACCOUNTING PRINCIPLES

Issued capital

In the financial statements, issued capital is presented at the amount specified in the articles of association and entered in the Company's court register.

Reserve capital

Reserve capital is created, to which at least 8% of profit for each financial year is appropriated in order to offset the loss of the Company, which is joint stock company, until its amount equals at least one-third of the issued capital.

Revaluation reserve from valuation of hedging instruments

Revaluation reserve from valuation of hedging instruments is related to the measurement of Interest Rate Swaps hedging interest rate risk on debt. Its amount is determined as the fair value of the effective portion of cash flow hedging instruments, including deferred tax.

27.1. Issued capital

Issued capital as at 31 December 2022

| Class/ issue | Type of shares | Number of shares | Nominal value of one share (in PLN) | Value of class/issue at nominal value | Method of payment |
|-----------------|-------------------|----------------------|---|--|------------------------------|
| AA | bearer shares | 1 589 438 762 | 5 | 7 947 | cash/in-kind contribution |
| BB | registered shares | 163 110 632 | 5 | 816 | in-kind contribution |
| Total | | 1 752 549 394 | | 8 763 | |

As at 31 December 2022, the value of issued capital, the number of shares and the nominal value of the shares has not changed since 31 December 2021.

27.2. Major Shareholders

Shareholding structure as at 31 December 2022 (to the best of the Company's knowledge)

| Shareholder | Number of shares | Nominal value of shares | % of issued capital | % of total vote* |
|---|----------------------|-------------------------|---------------------|------------------|
| State Treasury | 526 848 384 | 2 634 | 30.06% | 30.06% |
| KGHM Polska Miedź S.A. | 182 110 566 | 911 | 10.39% | 10.39% |
| Nationale - Nederlanden Otworthy Fundusz Emerytalny | 88 742 929 | 444 | 5.06% | 5.06% |
| Other shareholders | 954 847 515 | 4 774 | 54.49% | 54.49% |
| Total | 1 752 549 394 | 8 763 | 100% | 100% |

*The voting rights of the shareholders holding more than 10% of the total votes in the Company have been limited in such a manner that none of them is entitled to exercise the right to more than 10% of votes at the General Shareholders' Meeting of the Company. The limitation does not apply to the State Treasury and State Treasury owned companies in the period when the State Treasury and State Treasury owned companies hold shares in the Company authorising to at least 25% of the total votes in the Company.

To the best of the Company's knowledge, the shareholding structure as at 31 December 2022 has not changed compared to the structure as at 31 December 2021.

27.3. Reserve capital

| | As at 31 December 2022 | As at 31 December 2021 |
|--|---------------------------|---------------------------|
| Amounts from distribution of prior years profits | 3 009 | 2 749 |
| Total reserve capital | 3 009 | 2 749 |

The reserve capital of the Company up to the level of one-third of the Company issued capital, i.e. PLN 2 921 million, may be used only to cover losses.

27.4. Revaluation reserve from valuation of hedging instruments

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|--------------------------------------|--------------------------------|--------------------------------|
| Opening balance | 299 | (80) |
| Remeasurement of hedging instruments | 187 | 455 |
| Deferred income tax | (36) | (87) |
| Write-off of deferred tax assets | - | 11 |
| Closing balance | 450 | 299 |

The revaluation reserve from valuation of hedging instruments results from the measurement of Interest Rate Swaps (IRS) hedging the interest rate risk arising on account of debt, which is discussed in more detail in Note 21 to these financial statements. For the hedging transactions concluded, the Company applies hedge accounting.

As at 31 December 2022, the Company recognised the amount of PLN 450 million of the revaluation reserve from valuation of hedging instruments. This amount represents an asset on account of the measurement of IRS instruments as at the balance sheet day in the amount of PLN 592 million, adjusted by the portion of the measurement relating to debt interest accrued at the balance sheet day, including the deferred tax.

The increase in the Revaluation reserve from valuation of hedging instruments during the year ended 31 December 2022 results from the increase in the positive valuation of IRS instruments, which is mainly related to the increase in the level of market interest rates.

27.5. Retained earnings/ (Accumulated losses)

| | As at 31 December 2022 | As at 31 December 2021 |
|---|---------------------------|---------------------------|
| Financial result for the year ended 31 December 2022 | 67 | - |
| Financial result for the year ended 31 December 2021 | - | 260 |
| Restated profit/(loss) for the year ended 31 December 2020 | 338 | 338 |
| Effects of implementing IFRS 9 <i>Financial Instruments</i> | (388) | (388) |
| Settlement of mergers with subsidiaries | 81 | 81 |
| Actuarial gains and losses on provisions for post-employment benefits | - | (1) |
| Total retained earnings/ (accumulated losses) | 98 | 290 |

27.6. Dividends paid and proposed for disbursement

In the year ended 31 December 2022 and the comparative period, the Company did not propose to pay or paid any dividends to the shareholders of the Company.

On 29 March 2022, the Management Board of the Company decided to recommend that no dividend should be paid from the net profit for 2021 to the Company shareholders and that the entire net profit in the amount of PLN 260 million should be allocated to the reserve capital of the Company. On 24 May 2022 the Ordinary General Meeting of the Company adopted the resolution in compliance with the recommendation of the Management Board.

28. Debt liabilities

SELECTED ACCOUNTING PRINCIPLES

Within debt obligations in the statement of financial position, the Company presents:

- loans, borrowings, bonds issued

At initial recognition, all credits, loans and bonds issued are measured at fair value less the cost incurred to obtain borrowings or loan as well as discounts or bonuses obtained due to the liability. After the initial recognition, interest-bearing facilities, loans and debt securities are subsequently measured at an amortised cost using the effective interest rate method.

- lease

An agreement or part of a rental, lease or other agreement or part of an agreement of a similar nature under which the right to control the use of an asset (underlying asset) for a given period is transferred in exchange for remuneration is classified as a lease. The lease liability is measured at the present value of the outstanding lease payments, discounted using either the contractual interest rate (if determinable) or the incremental borrowing rate. Lease payments included in the measurement of the lease liability include:

- fixed lease payments less any lease incentives payable,
- variable lease payments that depend on an index or a rate, measured initially using that index or rate according to their value at the starting date,
- amounts expected to be paid by the lessee under the residual value guarantee of the underlying asset,
- the strike price of the call option if it can be assumed that the lessee will exercise it,
- financial penalties for lease termination.

PROFESSIONAL JUDGEMENT AND ESTIMATES

When measuring liabilities at amortized cost using the effective interest rate method, the Company estimates future cash flows considering all contractual terms of a given financial instrument, including the early repayment option. As at the reporting period end, early buy-back of bonds was included in the measurement of liabilities arising from issue of hybrid bonds under agreements concluded with the European Investment Bank and Bank Gospodarstwa Krajowego, in relation to the intention to buy back the bonds after the end of the first financing period.

In the case of a loan agreement where the drawing period of the loan tranches may be under or over 12 months or with a repayment date at the end of the interest period, where the financing available under the agreement is revolving and the availability period exceeds 1 year, the Company classifies the tranches according to the intention and ability to maintain the financing under the agreement, i.e. as a long-term or short-term liability.

The lease incremental borrowing rate is estimated as a weighted average cost of TAURON Group's debt adjusted for the Company individual rating, taking into account a breakdown by lease term.

| | As at 31 December 2022 | | | As at 31 December 2021 | | |
|--------------------------|------------------------|--------------|---------------|------------------------|--------------|---------------|
| | Long-term | Short-term | Total | Long-term | Short-term | Total |
| Unsubordinated bonds | 4 253 | 216 | 4 469 | 4 377 | 201 | 4 578 |
| Subordinated bonds | 1 961 | 5 | 1 966 | 1 967 | 5 | 1 972 |
| Bank loans | 7 753 | 201 | 7 954 | 2 676 | 1 819 | 4 495 |
| Loan from the subsidiary | 781 | 2 | 783 | 766 | 2 | 768 |
| Cash pool loans received | - | 2 882 | 2 882 | - | 2 632 | 2 632 |
| Lease | 6 | 10 | 16 | 15 | 10 | 25 |
| Total | 14 754 | 3 316 | 18 070 | 9 801 | 4 669 | 14 470 |

28.1. Bonds issued

| Investor | Interest rate | Currency | Bonds issued at nominal value in currency | Maturity date | Carrying amount | |
|-----------------------------|-----------------------------|----------|---|-------------------|------------------------|------------------------|
| | | | | | As at 31 December 2022 | As at 31 December 2021 |
| Bank Gospodarstwa Krajowego | floating, based on WIBOR 6M | PLN | 600 | 2023-2028 | 602 | 700 |
| | | | 490 | 2023-2029 | 491 | 560 |
| A series bonds (TPE 1025) | floating, based on WIBOR 6M | PLN | 1 000 | 2025 | 1 014 | 1 002 |
| Eurobonds | fixed | EUR | 500 | 2027 | 2 362 | 2 316 |
| Unsubordinated bonds | | | | | 4 469 | 4 578 |
| Bank Gospodarstwa Krajowego | floating, based on WIBOR 6M | PLN | 400 | 2031 ² | 401 | 401 |
| European Investment Bank | fixed ¹ | EUR | 190 | 2034 ² | 851 | 847 |
| | | PLN | 400 | 2030 ² | 381 | 386 |
| | | PLN | 350 | 2030 ² | 333 | 338 |
| Subordinated bonds | | | | | 1 966 | 1 972 |
| Total bonds | | | | | 6 435 | 6 550 |

¹ In the case of hybrid (subordinated) bonds subscribed for by the European Investment Bank, two financing periods are distinguished. In the first period, the interest rate is fixed, while in the second period the interest rate is variable based on the base rate (EURIBOR/WIBOR) plus a fixed margin.

² In the case of subordinated bonds, the maturity date shall take into account two financing periods. The maturity dates presented in the table above are the final terms of redemption according to agreement, after two period of financing. The valuation of the bonds at the balance sheet day takes into account early redemption, due to the intention to redeem the bonds after the end of the first financing period (bonds subscribed by the EIB: EUR issue on 16 December 2024, PLN issue on 17 and 19 December 2025, bonds subscribed by BGK on 29 March 2026).

Unsubordinated bonds

The Eurobonds have been admitted to trading on the regulated market of the London Stock Exchange, while the TPE1025 bonds are listed in the Catalyst alternative trading system operated by the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

Subordinated hybrid bonds

The bonds subscribed by the European Investment Bank ("EIB") with a nominal value of EUR 190 million and PLN 750 million and by Bank Gospodarstwa Krajowego ("BGK") with a nominal value of PLN 400 million are subordinated, which means that in the event of bankruptcy or liquidation of the issuer, the liabilities arising from the bonds will have priority of repayment only over the receivables of the Company shareholders. This, in turn positively affects the level of net debt / EBITDA ratio, since the bonds are excluded from this ratio calculation, a covenant in some of the financing agreements concluded by the Company. Additionally, 50% of the subordinated bond amount has been classified by the rating agency as equity in the rating model, which has had a beneficial effect on the rating of the TAURON Group.

28.2. Bank loans

| Lender | Interest rate | Currency | Maturity date | As at 31 December 2022 | As at 31 December 2021 |
|-----------------------------|---------------|----------|---------------|---------------------------|---------------------------|
| Consortiums of banks | floating | PLN | 2022 | - | 1 700 |
| | | | 2023 * | 3 271 | 161 |
| Bank Gospodarstwa Krajowego | floating | PLN | 2033 | 1 001 | 999 |
| European Investment Bank | fixed | PLN | 2024 | 141 | 222 |
| | | | 2027 | 133 | 162 |
| | 2040 | | 405 | - | |
| | floating | | 2040 | 1 222 | - |
| Intesa Sanpaolo S.p.A. | floating | PLN | 2024 | 775 | 752 |
| SMBC BANK EU AG | fixed | PLN | 2025 | 499 | 499 |
| Erste Group Bank AG | floating | PLN | 2026 | 507 | - |
| Total | | | | 7 954 | 4 495 |

* A tranche classified as non-current liability.

As at the balance sheet date, the Company has loan agreements concluded in 2020 and 2022 with consortiums of banks. The period of drawing individual loan tranches may be below or above 12 months, the financing is renewable and the availability period exceeds 12 months from the balance sheet date. Due to the intention and ability to maintain financing under the aforementioned agreements for a period exceeding 12 months from the balance sheet date, the drawdowns used as at 31 December 2022 in the total amount of PLN 3 271 million are classified as long-term liabilities.

In the year ended 31 December 2022, the Company carried out the following transactions relating to bank loans (at a nominal value), excluding overdraft facilities:

| Lender | Description | Year ended 31 December 2022 | |
|------------------------------------|---|-----------------------------|-----------------|
| | | Drawdown | Repayment |
| Erste Group Bank AG | Drawdowns under the loan agreement | 500 | - |
| European Investment Bank | Drawdowns under the loan agreement | 1 600 | - |
| | Repayment of capital instalments according to schedule | - | (111) |
| Consortiums of banks | Drawdown of new tranches and repayment of tranches according to maturity date | 17 300 | (15 910) |
| Total, including: | | 19 400 | (16 021) |
| Cash flows | | 9 440 | (6 061) |
| Net settlement (without cash flow) | | 9 960 | (9 960) |

After the balance sheet date, the Company performed drawdowns under the available loans in the total amount of PLN 3 410 million and repaid tranches in the total amount of PLN 1 850 million, including disbursement of the loan in the amount of PLN 750 million under the credit agreement concluded after the balance sheet date with Bank Gospodarstwa Krajowego, which is discussed in more detail in the Note 49 of these financial statements.

Signing the syndicated loan agreement

On 15 July 2022, a syndicated loan agreement was signed between the Company as the borrower and Powszechna Kasa Oszczędności Bank Polski S.A., Bank Polska Kasa Opieki S.A., CaixaBank S.A. (Spółka Akcyjna) Oddział w Polsce, Bank Handlowy w Warszawie S.A., Erste Group Bank AG, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, Santander Bank Polska S.A. and China Construction Bank (Europe) S.A. Oddział w Polsce, as lenders for the amount of PLN 4 000 million to refinance the existing exposure, including the syndicated loan of 19 June 2019, to finance the TAURON Group's capital expenditure (excluding the financing of any projects related to coal assets) and to finance the TAURON Group's corporate-wide expenditure (excluding expenditure related to coal assets). Under the agreement, the Company may perform multiple drawdowns of tranches of the loan over the 5-year availability period of the financing, which can be extended to a maximum of 7 years. The interest rate is calculated on the basis of a floating interest rate, adequate to the interest period in question, increased by a margin which depends on the fulfilment of substantial development indicators, i.e. reduction of emissions and increasing the share of renewable energy sources in the generation structure of TAURON Group.

As at 31 December 2022, the liability incurred under the above agreement amounted to PLN 2 766 million.

The syndicated loan agreement of 19 June 2019 has been terminated. Full repayment took place in the fourth quarter of 2022.

28.3. Debt agreement covenants

The agreements signed with banks impose the legal and financial covenants on the Company, standard for this type of transactions. The key covenant is the net debt to EBITDA ratio (for long-term loans agreements and domestic bond issue

schemes) which sets the debt less cash in relation to generated EBITDA. The net debt/EBITDA covenant for banks is examined on the basis of consolidated data as at 30 June and 31 December while its permissible limit value is 3.5.

As at 31 December 2022, the net debt/EBITDA ratio amounted to 2.93, therefore the covenant was respected.

28.4. Loan from subsidiary

The liability of the Company amounting to PLN 783 million (EUR 167 million) as at 31 December 2022 relates to the long-term loan received from the subsidiary, Finanse Grupa TAURON Sp. z o.o. under the agreement concluded between TAURON Polska Energia S.A. and the subsidiary, Finanse Grupa TAURON Sp. z o.o. (formerly TAURON Sweden Energy AB (publ)). The loan agreement was concluded in 2014 and bears interest at a fixed rate while the interest is paid annually, until the full repayment of the loan. The repayment deadline of the loan falls on 29 November 2029.

28.5. Loans received under the cash pool service

As at 31 December 2022 and as at 31 December 2021, the Company had current liabilities on account of cash pool transactions amounting to PLN 2 882 million and PLN 2 632 million, respectively.

The receivables arising from cash pool transactions are presented in Note 20.3 of these financial statements.

28.6. Lease liabilities

Lease liability relates to the right of perpetual usufruct of land, lease of office premises and warehouses, parking spaces and cars.

Ageing of the lease liability

| Maturity within <i>(after the balance sheet date)</i> | As at 31 December 2022 | As at 31 December 2021 |
|---|---------------------------|---------------------------|
| Within 1 year | 11 | 10 |
| Within 1 to 5 years | 4 | 14 |
| More than 5 years | 5 | 5 |
| Gross lease liabilities | 20 | 29 |
| Discount | (4) | (4) |
| Present value of lease payments | 16 | 25 |

29. Other financial liabilities

SELECTED ACCOUNTING PRINCIPLES

Other financial liabilities include, but are not limited to, amounts to companies on account of Tax Capital Group settlements, payroll liabilities, deposits, bid bonds, collateral received and liabilities on account of purchase of tangible and intangible assets which are measured at the amount of the payment due, as a result of the immaterial impact of discounting.

| | As at 31 December 2022 | As at 31 December 2021 |
|--|---------------------------|---------------------------|
| Valuation of guarantees and financial sureties | 74 | 16 |
| Variation margin deposits arising from stock exchange transactions | 41 | 102 |
| Security margin deposits arising from bank settlements | 8 | - |
| Bid bonds, deposits and collateral received | 9 | 24 |
| Wages and salaries as well as other employee related liabilities | 8 | 7 |
| Liabilities arising from income tax settlements of the PGK companies | - | 331 |
| Other | 14 | 24 |
| Total | 154 | 504 |
| Non-current | 8 | 11 |
| Current | 146 | 493 |

In accordance with IFRS 9 *Financial Instruments*, the Company measures guarantees and sureties issued at the amount of expected credit losses.

The value of initial and variation margins due to exchange settlements is related mostly to futures transactions in CO₂ emission allowances concluded on foreign regulated markets. The variation margins represented funds received by the Company in connection with the change in the valuation of the concluded futures contracts open as at the balance sheet date.

Margin deposits due to bank settlements represented funds received by the Company in connection with a significant increase in the positive measurement of the derivative instruments concluded with the bank, mainly IRS transactions.

30. Liabilities to suppliers

SELECTED ACCOUNTING PRINCIPLES

Current liabilities to suppliers are recognised at the amount due.

| | As at 31 December 2022 | As at 31 December 2021 |
|---|---------------------------|---------------------------|
| Liabilities to subsidiaries, <i>including</i> : | 2 587 | 1 547 |
| TAURON Sprzedaż Sp. z o.o. | 1 793 | 638 |
| TAURON Wytwarzanie S.A.* | 520 | 737 |
| TAURON Sprzedaż GZE Sp. z o.o. | 110 | 9 |
| TAURON Ciepło Sp. z o.o. | 117 | 47 |
| Other subsidiaries | 47 | 116 |
| Liabilities to other suppliers | 662 | 198 |
| Total | 3 249 | 1 745 |

* On 3 October 2022, the merger of TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o. companies was registered, as further described in Note 2 of these financial statements. As at 31 December 2021, the total amount of liabilities of PLN 737 million represents liabilities to TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o., amounting to PLN 135 million and PLN 602 million, respectively.

31. Liabilities due to acquisition of shares in the subsidiary

On 22 March 2022, the Company performed a timely repayment of the entire liability to Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZAN (“PFR Fund”) for the acquisition of shares in the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o., in the amount of PLN 1 061 million.

The liability stemmed from the agreement concluded on 22 December 2021 between the Company and the PFR Fund, pursuant to which the Company acquired 176 000 shares in the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. representing 13.71% of the total number of votes at the shareholders' meeting of Nowe Jaworzno Grupa TAURON Sp. z o.o. for the amount of PLN 1 061 million. The transfer of title to the shares took place upon the conclusion of the agreement. Following the transaction, the Company holds 100% of the votes at the general meeting of shareholders of Nowe Jaworzno Grupa TAURON Sp. z o.o.

Upon payment of the price, the shareholders' agreement and the investment agreement concluded in 2018 between the Company, Nowe Jaworzno Grupa TAURON Sp. z o.o. and the PFR Fund, determining the terms and conditions of the PFR Fund capital investment in Nowe Jaworzno Grupa TAURON Sp. z o.o., was terminated.

32. Other non-financial liabilities

SELECTED ACCOUNTING PRINCIPLES

Other non-financial liabilities include, in particular, liabilities on account of advances received which are settled by the delivery of goods as well as tax and fee settlements which include:

- VAT settlements;
- Tax settlements related to civil law transactions;
- Personal income tax and social security settlements;
- Environmental fees and other public law settlements.

| | As at 31 December 2022 | As at 31 December 2021 |
|----------------------------------|---------------------------|---------------------------|
| Advances received for deliveries | 1 536 | 704 |
| VAT | 51 | 89 |
| Tax on civil law transactions | - | 11 |
| Other | 10 | 10 |
| Total | 1 597 | 814 |
| Non-current | 4 | 113 |
| Current | 1 593 | 701 |

Under the advances received for supplies, the Company presents advances received from a subsidiary, TAURON Wytwarzanie S.A. for the delivery of CO₂ emission allowances resulting from transaction agreements concluded.

33. Deferred income tax

SELECTED ACCOUNTING PRINCIPLES

Deferred Tax

In connection with temporary differences between the value of assets and liabilities recognised in the accounts and their tax value as well as tax loss deductible in the future, the Company recognises the liability and determines assets due to deferred income tax.

The carrying amount of a component of assets due to deferred income tax is verified as at each balance sheet date. The Company decreases the carrying amount of a component of assets due to deferred income tax to the extent it is improbable to achieve taxable income sufficient for the partial or full realisation of the component of assets due to deferred income tax. Unrecognised assets due to deferred income tax are subject to verification as at each balance sheet date and recognised to the extent it becomes probable that the future taxable income will enable their realisation. The Company recognises deferred tax assets for deductible temporary differences associated with investments in subsidiaries only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the deductible temporary differences can be utilised.

Assets due to deferred income tax and the liability due to deferred income tax are measured by applying tax rates which, according to the expectations will be applied if the component of assets is realised or if the provision is reversed, adopting as a base tax rates (and tax regulations) which were legally applicable or in relation to which the legislative process has been, in principle, completed as at the balance sheet date.

Income tax relating to items recognised outside the profit or loss, i.e. items recognised in other comprehensive income or directly in equity, is recognised in other comprehensive income or equity, respectively.

The Company sets off deferred tax assets against deferred tax liabilities when it has a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax asset and liability relate to the same tax authority.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Company assesses the realisability and verifies unrecognised deferred tax assets at each balance sheet date. As at the balance sheet day, the Company recognised a partial write-down for deferred tax assets in the amount of PLN 49 million due to the projected inability to fully achieve the asset.

The Company assesses that with regard to the negative temporary differences associated with the recognition of impairment losses on shares and stocks in subsidiaries in the amount of PLN 9 204 million, the conditions indicated above for the recognition of deferred tax assets are not fulfilled.

The Company also did not recognise a tax loss asset for 2022 from the capital gains source due to the lack of projected tax revenue to allow for its achievement.

| | As at 31 December 2022 | As at 31 December 2021 |
|--|---------------------------|---------------------------|
| Deferred tax liabilities | | |
| measurement of derivative instruments | 49 | 119 |
| valuation of hedging instruments | 113 | 71 |
| accrued interest and the valuation of loans granted | 48 | 12 |
| due to a different tax moment for recognizing revenues and costs of selling goods and services | 26 | 2 |
| other | 12 | 4 |
| Total | 248 | 208 |
| Deferred tax assets | | |
| measurement of derivative instruments | 65 | 94 |
| accrued interest and the valuation of debt | 89 | 52 |
| provisions, accruals and deferred income | 57 | 32 |
| different timing of recognition of revenue and cost of sales for tax purposes | 35 | 19 |
| difference between tax base and carrying amount of other financial liabilities | 18 | 9 |
| other | 19 | 5 |
| Total | 283 | 211 |
| Unrecognized deferred tax assets | (49) | (48) |
| Recognized deferred tax assets/(liabilities), net | (14) | (45) |

34. Provision for onerous contract

SELECTED ACCOUNTING PRINCIPLES

Provision for onerous contracts

The Company creates the provision for the onerous contract since it is a party to the agreement under which unavoidable costs of fulfilling the obligation outweigh the benefits to be obtained thereunder. The Company recognises and measures the current obligation under such agreement as a provision. The unavoidable costs arising from the contract comprise, at least, net costs of contract termination, corresponding to the costs of fulfilment of the contract or costs of any damages or penalties arising for the failure to fulfil it, whichever is lower. The unavoidable costs of meeting the obligation shall be increased by the value of the interest due if it can be estimated reliably.

As of 1 January 2022, the amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts - Cost of Fulfilling a Contract* entered into force, which clarify that in the case of onerous contracts, the costs of fulfilling the contract comprise both the incremental costs of fulfilling the contract, e.g. labour and materials, as well as the allocation of other costs that relate directly to fulfilling the contracts (for example, the allocation of depreciation charges to an item of property, plant and equipment used, inter alia, to fulfil this contract). At the same time, in accordance with the transitional provisions, the aforementioned amendments to the standard apply to contracts for which the entity has not yet fulfilled all the obligations, at the beginning of the annual reporting period in which it applies the amendments for the first time. The entity does not restate comparative figures - the cumulative effect of the first application of the amendments is recognised as an adjustment to the opening balance of retained earnings at the date of first application.

As at the balance sheet date of 31 December 2022, the Company calculated the provisions for onerous contracts in accordance with the revised wording of the standard. At the same time, the Company assessed that the above amendment to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* has no impact on the figures as at 1 January 2022 and does not require the impact to be recognised in Company equity.

| | Year ended 31 December 2022 | | Year ended 31 December 2021 | | |
|----------------------------|--|------------|---|--|--------------|
| | Provision for onerous contracts | | Provision for onerous contracts | | |
| | Agreements for the sale of CO ₂ emission allowances | Total | Multi-annual agreement for electricity purchase | Agreements for the sale of CO ₂ emission allowances | Total |
| Opening balance | 222 | 222 | 1 110 | - | 1 110 |
| Unwinding of discount | 13 | 13 | 2 | 2 | 4 |
| Recognition/(Reversal) net | 133 | 133 | (588) | 220 | (368) |
| Utilisation | (87) | (87) | (524) | - | (524) |
| Closing balance | 281 | 281 | - | 222 | 222 |
| Non-current | 28 | 28 | - | 154 | 154 |
| Current | 253 | 253 | - | 68 | 68 |

Provision for agreements for the sale of CO₂ emission allowances

As at 31 December 2022, the Company recognised the provision for onerous contracts in the amount of PLN 281 million since, based on the transaction agreements concluded with the subsidiaries, the unavoidable costs of fulfilment of the obligation to deliver CO₂ emission allowances to subsidiaries outweigh the benefits to be received under these agreements. The provision was calculated as a difference between concluded transaction agreements for sales to subsidiaries and concluded contracts for the purchase of CO₂ emission allowances from the market measured at the current exchange rate.

The provision is mainly a consequence of performed transactions involving the surplus of CO₂ emission allowances of the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. resulting from the failure and shutdown of the 910 MW unit:

- in the first quarter of 2022, the Company sold its surplus of CO₂ emission allowances in excess of the redemption needs of Nowe Jaworzno Grupa TAURON Sp. z o.o. in the amount of 1 717 000 EUAs with a simultaneous repurchase of this volume in the EUA MAR'23 forward product for the purpose of redeeming the allowances for 2022. The repurchase of the volume in the EUA MAR'23 forward product took place at prices higher than the average price of the allowances sold, consequently, the cost of purchasing these CO₂ allowances exceeds the expected revenue of the Company from their sale to the subsidiary. As a result of the foregoing, as at the balance sheet date, the Company created the provision for the onerous contracts in the amount of PLN 78 million charging the operating costs in the amount of PLN 75 million;
- in the first quarter of 2021, the Company rolled over contracts with delivery dates in March 2021 while concluding new contracts with delivery dates in March 2022, 2023 and 2024. New transactions with delivery dates in 2022-2024 were performed at prices higher than the purchase originally contracted, consequently, the costs of purchasing these CO₂ emission allowances exceed the expected revenue of the Company on account of their sales to the subsidiary. As a result of the foregoing, the Company recognised the provision for the onerous contracts which amounted to PLN 222 million as at 31 December 2021 and PLN 169 million as at 31 December 2022. In the year ended 31 December 2022, the Company partially used the provision of PLN 74 million in connection with the settlement of contracts with the

delivery date in March 2022 and the materialisation of a loss on the resale of allowances to the subsidiary and performed the revaluation of the provision to operating expenses in the amount of PLN 15 million.

35. Other provisions, accruals and governmental subsidies

SELECTED ACCOUNTING PRINCIPLES

Accruals and governmental subsidies

The Company recognises accruals mainly for bonuses and unused holiday leave.

Provisions for employee benefits

In accordance with the remuneration system adopted, employees of the Company are entitled to post-employment benefits: retirement and disability severance pay and benefits from the Company Social Benefits Fund. The provision for death compensation to which the family of the deceased employee is entitled is created in accordance with the terms and in the amount included in the Labour Code.

The current value of such liabilities as at the balance sheet day is calculated by an independent actuary. The accrued liabilities are equal to discounted future payments, including employee turnover, and pertain to the time remaining until the balance sheet day. Demographic information and employee turnover data are based on historical data. Actuarial gains and losses on post-employment benefits are fully charged to other comprehensive income.

Other provisions

Provisions are recognised if the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated.

| | As at 31 December 2022 | As at 31 December 2021 |
|--|---------------------------|---------------------------|
| Accruals and governmental subsidies, <i>including:</i> | 19 | 15 |
| <i>Accruals due to premium</i> | 9 | 8 |
| Provision for post-employment employee benefits | 4 | 4 |
| Other provisions | 3 | 4 |
| Total | 26 | 23 |
| Non-current | 4 | 5 |
| Current | 22 | 18 |

EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

SELECTED ACCOUNTING PRINCIPLES

The statement on cash flows is prepared according to the indirect method.

36. Significant items of the statement of cash flows

36.1. Cash flows from operating activities

Changes in working capital

| | Year ended 31 December 2022 | Year ended 31 December 2021 <i>(restated figures)</i> |
|---|--------------------------------|---|
| Change in receivables | (1 539) | (1 197) |
| Change in inventories | (21) | 343 |
| Change in payables excluding loans | 2 309 | 1 436 |
| Change in other non-current and current assets | (554) | (38) |
| Change in deferred income, government grants and accruals | 4 | (4) |
| Change in provisions | 61 | (889) |
| Change in collateral transferred to IRGiT | (515) | (47) |
| Change in working capital | (255) | (396) |

36.2. Cash flows from investment activities

Acquisition of shares in subsidiary

Expenses for the acquisition of shares in the subsidiary in the amount of PLN 1 061 million result from the timely repayment on 22 March 2022 of the total liability to Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZAN on account of the acquisition of shares in the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o., as further described in Note 31 to these financial statements.

Loans granted

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|---|--------------------------------|--------------------------------|
| Loans granted to companies: | | |
| TAURON Wytwarzanie S.A. | (4 863) | (600) |
| TAURON Dystrybucja S.A. | (1 300) | (800) |
| "MEGAWATT S.C." Sp. z o.o. | (133) | - |
| Elektrociepłownia Stalowa Wola S.A. | (120) | - |
| Wind T1 Sp. z o.o. | (106) | (131) |
| TAURON Obsługa Klienta Sp. z o.o. | (95) | - |
| TAURON Nowe Technologie S.A. | (50) | - |
| Polpower Sp. z o.o. | (31) | (8) |
| TAURON Wydobycie S.A. | - | (250) |
| Other companies | (39) | (9) |
| Change in the balance of loans granted to subsidiaries under the long-term exposure cash pool agreement | 78 | 231 |
| Total | (6 659) | (1 567) |

36.3. Cash flows from financial activities

Loans and borrowings repaid

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|--|--------------------------------|--------------------------------|
| Repayment tranches of loans to the Consortium of banks | (5 950) | (3 300) |
| Repayment of the loan installments to the European Investment Bank | (111) | (162) |
| Total | (6 061) | (3 462) |

Interest paid

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|---|--------------------------------|--------------------------------|
| Interest paid in relation to loans and borrowings | (268) | (127) |
| Interest paid in relation to debt securities | (247) | (221) |
| Total | (515) | (348) |

Borrowings

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|--|--------------------------------|--------------------------------|
| The launch of financing under loan agreements: | | |
| Consortium of banks | 7 340 | 2 000 |
| European Investment Bank | 1 600 | - |
| Erste Group Bank AG | 500 | - |
| Total | 9 440 | 2 000 |

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

37. Financial instruments

SELECTED ACCOUNTING PRINCIPLES

Financial assets held by the Company under IFRS 9 *Financial Instruments* are classified into the following classes of financial instruments:

- financial assets measured at amortised cost;
- financial assets measured at a fair value through profit or loss.

As at the balance sheet date, the Company had no financial assets measured at a fair value through other comprehensive income.

Financial assets in accordance with IFRS 9 *Financial Instruments* are classified upon initial recognition based on the cash flow characteristics (SPPI test) and the business model underlying the management of a given financial asset.

The above equity instruments are measured at fair value through profit or loss in line with IFRS 9 *Financial Instruments*.

The Company divides the liabilities into the following classes:

- financial liabilities measured at a fair value through profit or loss;
- other financial liabilities, measured at amortised cost at each subsequent balance sheet date.

PROFESSIONAL JUDGEMENT AND ESTIMATES

The Company makes judgements regarding classification of financial instruments.

As at each reporting period end, the Company measures the fair value of assets and liabilities classified as measured at fair value and discloses the fair value of other financial instruments. The methodology fair value measurement is presented below.

The Company recognises an impairment loss upon initial recognition of a financial asset and then remeasures the loss amount as at each reporting day. The Company recognises the allowance for expected credit losses on financial assets measured at an amortized cost includes mostly receivables from customers and loans granted. The measurement methodology is presented in Notes 25 and 38.1.2. to these financial statements.

37.1. Carrying amount and fair value of financial instrument classes and categories

| Categories and classes of financial assets | As at 31 December 2022 | | As at 31 December 2021 | |
|--|------------------------|---------------|------------------------|--------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| 1 Financial assets measured at amortized cost | 16 987 | 16 736 | 8 647 | 8 734 |
| Receivables from buyers | 4 070 | 4 070 | 2 495 | 2 495 |
| Loans granted to subsidiaries and jointly-controlled entities | 10 967 | 10 716 | 6 122 | 6 209 |
| Loans granted under cash pool agreement | 1 950 | 1 950 | 30 | 30 |
| 2 Financial assets measured at fair value through profit or loss (FVTPL) | 2 014 | 2 014 | 1 416 | 1 416 |
| Derivative instruments | 257 | 257 | 626 | 626 |
| Long-term shares | 60 | 60 | 51 | 51 |
| Loans granted to subsidiaries and jointly-controlled entities | 623 | 623 | 229 | 229 |
| Other financial assets | 35 | 35 | 70 | 70 |
| Cash and cash equivalents | 1 039 | 1 039 | 440 | 440 |
| 3 Derivative hedging instruments | 592 | 592 | 371 | 371 |
| 4 Financial assets excluded from the scope of IFRS 9 <i>Financial Instruments</i> | 15 656 | | 20 508 | |
| Shares in subsidiaries | 15 240 | | 20 092 | |
| Shares in jointly-controlled entities | 416 | | 416 | |
| Total financial assets, of which in the statement of financial position: | 35 249 | | 30 942 | |
| Non-current assets | 27 278 | | 27 027 | |
| Shares | 15 716 | | 20 559 | |
| Loans granted | 11 172 | | 5 936 | |
| Derivative instruments | 390 | | 532 | |
| Current assets | 7 971 | | 3 915 | |
| Receivables from buyers | 4 070 | | 2 495 | |
| Loans granted | 2 368 | | 445 | |
| Derivative instruments | 459 | | 465 | |
| Other financial assets | 35 | | 70 | |
| Cash and cash equivalents | 1 039 | | 440 | |

| Categories and classes of financial liabilities | As at 31 December 2022 | | As at 31 December 2021 | |
|--|------------------------|---------------|------------------------|---------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| 1 Financial liabilities measured at amortized cost | 21 457 | 20 987 | 17 755 | 17 880 |
| Arm's length loans, of which: | 11 619 | 11 465 | 7 895 | 7 910 |
| Bank loans | 7 954 | 7 881 | 4 495 | 4 446 |
| Liability under the cash pool loan | 2 882 | 2 882 | 2 632 | 2 632 |
| Loans from the subsidiary | 783 | 702 | 768 | 832 |
| Bonds issued | 6 435 | 6 119 | 6 550 | 6 660 |
| Liabilities to suppliers | 3 249 | 3 249 | 1 745 | 1 745 |
| Liabilities due to acquisition of shares in the subsidiary | - | - | 1 061 | 1 061 |
| Other financial liabilities | 154 | 154 | 504 | 504 |
| 2 Financial liabilities measured at fair value through profit or loss (FVTPL) | 341 | 341 | 495 | 495 |
| Derivative instruments | 341 | 341 | 495 | 495 |
| 3 Financial liabilities excluded from the scope of IFRS 9 Financial Instruments | 16 | | 25 | |
| Liabilities under leases | 16 | | 25 | |
| Total financial liabilities, of which in the statement of financial position: | 21 814 | | 18 275 | |
| Non-current liabilities | 14 772 | | 9 928 | |
| Debt | 14 754 | | 9 801 | |
| Derivative instruments | 10 | | 116 | |
| Other financial liabilities | 8 | | 11 | |
| Current liabilities | 7 042 | | 8 347 | |
| Debt | 3 316 | | 4 669 | |
| Liabilities to suppliers | 3 249 | | 1 745 | |
| Liabilities due to acquisition of shares in the subsidiary | - | | 1 061 | |
| Derivative instruments | 331 | | 379 | |
| Other financial liabilities | 146 | | 493 | |

The description of the fair value measurement methodology applied to financial instruments and fair value hierarchy levels assigned to these instruments are presented in the following table.

| Financial assets/liabilities classes | Fair value measurement level | Fair value measurement methodology |
|---|------------------------------|--|
| Financial assets/liabilities measured at fair value | | |
| Derivatives, including: | | |
| IRS and CCIRS | 2 | Derivatives have been measured in line with the methodology presented in Note 21 hereto. |
| Currency forwards | 2 | |
| Commodity forwards and futures | 1 | |
| Non-current shares | 3 | The Company estimated the fair value of shares held in other entities using the adjusted net assets method, considering its share in the net assets and adjusting the value by relevant factors affecting the measurement, such as the non-controlling interest discount and the discount for the limited liquidity of the above instruments. In justify cases, the Company assumes that the historical cost is an acceptable approximation of the fair value. |
| Loans granted to subsidiaries and jointly controlled entities | 2 | The fair value measurement of loans granted to subsidiaries and jointly controlled entities classified as measured at a fair value was performed as the present value of future cash flows discounted at the current interest rate. |
| Loan granted to a joint venture | 3 | The measurement of the fair value of the loan was performed as the present value of future cash flows taking into account the credit risk of the borrower. |
| Financial assets/liabilities whose fair value is disclosed | | |
| Loans, borrowings and bonds issued | 2 | Liabilities arising from fixed interest debt are measured at fair value. The fair value measurement was carried out based on the present value of future cash flows discounted using an interest rate applicable to given bonds or loans, i.e. applying market interest rates. |
| Loans granted to subsidiaries and jointly controlled entities | 2 | The fair value measurement of loans granted to subsidiaries and jointly controlled entities classified as measured at an amortised cost was performed as the present value of future cash flows discounted at the current interest rate in force. |

The fair value of other financial instruments as at 31 December 2022 and 31 December 2021 (except from those excluded from the scope of IFRS 9 *Financial instruments*) did not differ considerably from the figures presented in the financial statements for particular periods for the following reasons:

- the potential discounting effect relating to short-term instruments is not significant;
- the instruments are related to arm's length transactions.

Shares in subsidiaries and jointly-controlled entities excluded from the scope of IFRS 9 *Financial Instruments* are measured at cost less any impairment allowances.

In the year ended 31 December 2022 no changes occurred in the measurement methodology applied to the above financial instruments.

Change in the balance of financial assets whose measurement is classified at the 3rd level of the fair value hierarchy

| | Year ended 31 December 2022 | | Year ended 31 December 2021 | |
|---|-----------------------------|---------------|-----------------------------|---------------|
| | Not quoted shares | Loans granted | Not quoted shares | Loans granted |
| Opening balance | 51 | 74 | 85 | 73 |
| Gains (losses) for the period recognized in financial revenue/costs | (11) | - | (1) | 1 |
| Purchased | 20 | - | 20 | - |
| Sold | - | - | (53) | - |
| Closing balance | 60 | 74 | 51 | 74 |

In the year ended 31 December 2022 and in the year ended 31 December 2021, there were no transfers between the levels of the fair value hierarchy.

37.2. Revenue, expenses, gain and loss items included in the statement of comprehensive income by category of financial instruments

Year ended 31 December 2022

| | Assets / liabilities measured at fair value through profit or loss | Financial assets measured at amortized cost | Financial liabilities measured at amortized cost | Hedging instruments | Financial assets / liabilities excluded from the scope of IFRS 9 | Total |
|---|--|---|--|---------------------|--|----------------|
| Dividends | 11 | - | - | - | 1 786 | 1 797 |
| Interest income/(expense) | 29 | 554 | (798) | 145 | (1) | (71) |
| Commissions | - | - | (24) | - | - | (24) |
| Exchange differences | (21) | 2 | (107) | - | - | (126) |
| Impairment / revaluation | (253) | (1 450) | (59) | - | (36) | (1 798) |
| Gain/loss on disposal of investments | - | - | - | - | 56 | 56 |
| Gain/(loss) on realized derivative instruments* | 10 | - | - | - | - | 10 |
| Net financial income/(costs) | (224) | (894) | (988) | 145 | 1 805 | (156) |
| Revaluation | 13 | (25) | - | - | - | (12) |
| Gain/(loss) on realized derivative instruments* | (18) | - | - | - | - | (18) |
| Net operating income/(costs) | (5) | (25) | - | - | - | (30) |
| Remeasurement of IRS | - | - | - | 187 | - | 187 |
| Other comprehensive income | - | - | - | 187 | - | 187 |

*The Company recognises revenues and expense from commodity derivatives in operating activities. Revenue and expenses regarding other derivatives are recognized under financial revenue/expenses.

Year ended 31 December 2021

| | Assets / liabilities measured at fair value through profit or loss | Financial assets measured at amortized cost | Financial liabilities measured at amortized cost | Hedging instruments | Financial assets / liabilities excluded from the scope of IFRS 9 | Total |
|---|--|---|--|---------------------|--|----------------|
| Dividends | 8 | - | - | - | 1 844 | 1 852 |
| Interest income/(expense) | (1) | 248 | (303) | (25) | (1) | (82) |
| Commissions | - | - | (25) | - | - | (25) |
| Exchange differences | (5) | - | 19 | - | - | 14 |
| Impairment / revaluation | 70 | (298) | 12 | - | (1 399) | (1 615) |
| Gain/loss on disposal of investments | (1) | - | - | - | - | (1) |
| Gain/(loss) on realized derivative instruments* | 47 | - | - | - | - | 47 |
| Net financial income/(costs) | 118 | (50) | (297) | (25) | 444 | 190 |
| Revaluation | (11) | 3 | - | - | - | (8) |
| Gain/(loss) on realized derivative instruments* | 114 | - | - | - | - | 114 |
| Net operating income/(costs) | 103 | 3 | - | - | - | 106 |
| Remeasurement of IRS | - | - | - | 455 | - | 455 |
| Other comprehensive income | - | - | - | 455 | - | 455 |

*The Company recognises revenues and expense from commodity derivatives in operating activities. Revenue and expenses regarding other derivatives are recognized under financial revenue/expenses.

38. Objectives and principles of financial risk management

The financial risk is managed on the TAURON Polska Energia S.A. Capital Group level, which means that within the framework of financial risk management, the Company performs the functions assigned to it as a member of the TAURON Group and the management, control and monitoring functions assigned to it as the central unit.

Types of risk arising from financial instruments to which the Company is exposed in the course of its business:

- credit risk;
- liquidity risk;
- market risk, including:
 - interest rate risk,
 - exchange rate risk;
 - raw material and commodity price risk related to commodity derivative instruments.

Risks related to financial instruments which the Company and TAURON Group are exposed to, including a description of the exposure and the risk management method are presented in the table below.

| Risk exposure | Risk management | Regulation |
|--|--|---|
| Credit risk | | |
| <p>Possible loss resulting from the counterparty default on contractual obligations. The credit exposure involves a default risk (the amount that may be lost if a counterparty defaults on its obligations of payment for goods or services) and a replacement risk (the amount that may be lost if a delivery is not made or a service is not provided).</p> | <p>Credit risk management is aimed at limiting losses resulting from the deterioration of the financial situation of the TAURON Group's counterparties and mitigating the risk of credit exposures at risk of impairment.</p> <p>Commercial transactions of significant value are preceded by an assessment of the counterparty's creditworthiness, including an economic and financial analysis of the entity. Based on the assessment, the counterparty is granted a credit limit, which is a limit on the maximum credit exposure understood as the amount that may be lost if the counterparty fails to meet its contractual obligations within a specified period of time (taking into account the value of the collateral provided). Credit exposure is calculated for the current day and divided into exposure due to payment and exposure of replacement.</p> <p>The TAURON Group has a decentralised credit risk management system, which means that each risk owner is actively responsible for managing the credit risks that arise within their business scope, but control, monitoring and reporting is performed at the Company-wide level. The TAURON Group's Credit Risk Management Policy sets out the credit risk management procedures with the view to reduce the impact of the risk on the Group's strategic objectives.</p> <p>Based on the value of exposure and assessment of financial standing of each client, the value of credit risk to which the TAURON Group is exposed is calculated using statistical methods to determine value at risk based on the total loss probability distribution.</p> | <p>Credit risk management policy for the TAURON Group</p> |
| Liquidity risk | | |
| <p>Possible loss or limitation of the ability to make payments on a day-to-day basis due to an inappropriate volume or structure of liquid assets as compared to current liabilities or an insufficient level of the actual net proceeds from operating activities.</p> | <p>The liquidity situation of the Company and TAURON Group is monitored on an on-going basis in terms of potential deviations against the assumed plans while the availability of external sources of financing whose amount significantly exceeds the expected demand in a short term mitigates the risk of losing liquidity.</p> <p>To this end, the Company applies the rules of determining the liquidity position both of individual companies and the entire TAURON Group which helps ensure funds that would cover any potential liquidity gaps by allocating funds between companies (cash-pooling) as well as using external financing, including overdraft facilities.</p> <p>The Company also manages the financing risk, understood as no capability to obtain new funding, an increase in funding costs and the risk of terminating the existing funding agreements. To mitigate the financing risk, the Company's policy assumes obtaining funding for the TAURON Group in advance of the planned time of use, i.e. up to 12 months prior to the planned demand. The key objective of such policy is to ensure flexible selection of funding source, use favourable market conditions and reduce the risk related to the necessity to contract new liabilities on unfavourable financial terms.</p> | <p>Liquidity management policy of TAURON Group</p> |
| Market risk - interest rate and currency risks | | |
| <p>The possibility of an adverse effect on the Group's performance through fluctuations in the fair value of financial instruments or the related future cash flows, driven by changes in interest rates or foreign exchange rates.</p> | <p>TAURON Group manages currency and interest rate risks on the basis of the TAURON Group Financial Risk Management Policy developed and adopted for use, as well as the Risk Tolerance, the Global Limit for Financial Risk and its decomposition into individual types of financial risk approved by the Management Board. The key objective of management of such risks is to minimise the cash flow sensitivity of the Company and TAURON Group to financial risk factors and to minimise financial cost and costs of hedging under transactions with the use of derivative instruments. For interest rate risk hedging transactions where possible and economically justified, the Company uses derivatives whose characteristics allows the application of hedge accounting.</p> <p>The financial risk management policy of the TAURON Group has also introduced hedge accounting principles which set out the terms and conditions and types of hedge accounting, along with the accounting treatment of hedging instruments and hedged items, to be applied as part of hedge accounting under IFRS.</p> | <p>Financial risk management policy for the TAURON Group</p> |
| Market risk - price risk | | |
| <p>Unplanned volatility of the TAURON Group's operating result resulting from fluctuations in commodity market prices in individual areas of the TAURON Group's trading activities.</p> | <p>Effective management is ensured by a commercial risk management system linked in terms of organisation and information with the TAURON Group's strategy of hedging trading positions. The policy has introduced an early-warning system and risk-exposure limiting system in various trading areas. The basic operational measure of the market risk in the TAURON Group is the Value at Risk measure which determines the maximum allowed change in the value of the position over a given time period and with a given probability.</p> | <p>Commercial risk management policy for the TAURON Group</p> |

38.1. Credit risk

Classes of financial assets that give rise to credit risk exposure with different characteristics are presented in the table below.

| Financial asset classes | As at 31 December 2022 | As at 31 December 2021 |
|---------------------------|---------------------------|---------------------------|
| Receivables from buyers | 4 070 | 2 495 |
| Loans granted | 13 540 | 6 381 |
| Derivative instruments | 849 | 997 |
| Cash and cash equivalents | 1 039 | 440 |
| Other financial assets | 35 | 70 |

The credit risk related to financial assets of the Company results from the inability to make payment by the other party to the agreement and the maximum exposure is equal to the carrying amount of these instruments.

38.1.1 Credit risk related to receivables from customers

The Company monitors credit risk related to its operations on an ongoing basis, in line with the *TAURON Group's Credit Risk Management Policy*. As a result of the analysis of credit standing of counterparties with significant credit exposure, the conclusion of trading transactions resulting in an increase in credit exposure above the allocated exposure limit generally requires the establishment of a collateral.

In accordance with IFRS 9 *Financial Instruments*, the Company estimates and recognizes in the profit or loss allowances on expected credit losses. For strategic counterparties, the risk is estimated based on ratings assigned to counterparties using an internal scoring model, appropriately converted to probability of default. The Company expects that the historical performance information concerning other counterparties may reflect the credit risk that will be faced in future periods. The expected credit loss on receivables from buyers is calculated upon recognition of such receivables in the statement of financial position and updated as at each subsequent reporting period end taking into account the forward looking aspect.

The exposure of the Company to credit risk related to receivables from customers, including the ageing of receivables from customers and information regarding impairment and risk concentration are presented in Note 25 to these financial statements.

38.1.2 Credit risk related to loans granted

Loans measured at amortised cost

As far as granted loans measured at amortized cost are concerned, the Company assesses the risk of insolvency on the part of the borrowers based on the ratings assigned to the counterparties using an internal scoring model, appropriately restated to account for the probability of default. The expected credit loss is calculated based on the time value of money.

For the purposes of determining the calculation horizon for expected credit losses, the potential material credit risk increases related to certain financial assets are analysed beginning from the initial recognition of a given asset.

The factors determining the occurrence of a significant increase in credit risk related to such assets:

- the counterparty's internal or external rating as at the reporting day is more than two rating levels lower (worse) compared to the counterparty's rating upon initial recognition;
- the counterparty's probability of insolvency projected within one-year horizon as at the reporting period end being at least twice higher than as at the initial recognition date;
- receivables related to a given asset being overdue by more than 30 days.

If a given counterparty's receivables are overdue by more than 90 days, they are classified as bad debt, i.e. the 100% probability of insolvency is assigned to that counterparty. The loans granted by the Company as at 31 December 2022 and 31 December 2021 were not overdue.

Loans measured at a fair value

Valuation of loans classified as measured at fair value is carried out using the discounted cash flow method, taking into account credit risk. Loans granted by the Company to a joint venture of Elektrociepłownia Stalowa Wola S.A. are secured by a blank promissory note together with a promissory note declaration.

The Company's exposure to credit risk related to loans granted, including information on impairment losses as well as the classification to individual stages of creating the allowances for expected credit losses in line with the ratings used in the Company, is presented below and in Note 20 to these financial statements.

Loans measured at amortised cost by ratings used in the Company

Year ended 31 December 2022

| | Level 1: allowance equal to 12 monthly expected credit losses - no impairment | Level 2: allowance for expected credit losses over the life period - no impairment | Level 3: allowance for expected credit losses over the life period - with impairment | Instruments purchased with an impairment | Total |
|--------------------|---|--|--|--|---------------|
| A- do BBB- | 5 911 | - | - | - | 5 911 |
| BB+ do BB | 1 114 | - | - | - | 1 114 |
| BB- do B | 1 912 | 681 | 37 | 3 635 | 6 265 |
| B- do D | - | - | - | - | - |
| Gross value | 8 937 | 681 | 37 | 3 635 | 13 290 |
| impairment loss | (265) | (96) | (12) | - | (373) |
| Net value | 8 672 | 585 | 25 | 3 635 | 12 917 |

Year ended 31 December 2021

| | Level 1: allowance equal to 12 monthly expected credit losses - no impairment | Level 2: allowance for expected credit losses over the life period -no impairment | Level 3: allowance for expected credit losses over the life period - with impairment | Instruments purchased with an impairment | Total |
|--------------------|---|---|--|--|--------------|
| A- do BBB- | 5 288 | - | - | - | 5 288 |
| BB+ do BB | 17 | - | - | - | 17 |
| BB- do B | - | 905 | 28 | - | 933 |
| B- do D | - | - | - | - | - |
| Gross value | 5 305 | 905 | 28 | - | 6 238 |
| impairment loss | (18) | (65) | (3) | - | (86) |
| Net value | 5 287 | 840 | 25 | - | 6 152 |

38.1.3 Credit risk related to other financial assets

Cash and cash equivalents

The Company manages its cash credit risk by diversifying the banks where surplus cash can be deposited while reducing the cost of holding cash in accounts. These banks receive investment rating.

The share of the three banks where the Company holds its largest cash balances was 99% as at 31 December 2022, of which the largest part of cash was held in accounts with the leading bank - 65%.

Derivatives

The entities with which the Company enters into derivative transactions to hedge the risks associated with changes in interest rates and exchange rates operate in the financial sector. These banks receive investment rating. The Company diversifies banks with whom derivative transactions are concluded.

Derivatives, which basis are non-financial assets, included in IFRS 9 *Financial Instruments*, involve futures (exchange market) and forward transactions (OTC). Exchange markets apply appropriate mechanisms to protect, in the form of initial and variation margin deposits. Under variation margin deposits, the Company provides and receives cash arising from changes in the measurement of the underlying instruments on an ongoing basis, which means that as at the end of the reporting period, credit risk does not occur in relation to futures transactions.

In the case of OTC instruments there is a credit risk related to the possibility of insolvency of the other party to the agreement. Therefore, commercial transactions of significant value are preceded by the assessment of the credit standing counterparty, including the economic and financial analysis of the entity. On the basis of the assessment, the counterparty is granted a credit limit, which is a limit of the maximum credit exposure. Execution of trade transactions resulting in an

increase in credit exposure above the allocated exposure limit generally requires the establishment of collateral in accordance with the *Credit Risk Management Policy in the TAURON Group*.

38.2. Liquidity risk

The Company maintains a balance between continuity, flexibility and cost of financing by using various sources of funding, which enable management of liquidity risk and mitigate adverse effects of its materialisation effectively. The Company pursues a policy of diversification of financing instruments but first of all it seeks to secure and ensure financing to enable TAURON Group companies to meet current and future liabilities in the short and long term. Liquidity risk management is connected with planning and monitoring of cash flows in the short and long term and taking actions to ensure funds for the operation of the Group companies.

The Company carries out a centralized finance management policy, allowing effective management in this respect on the Group level. Among others, the Group has adopted *Liquidity management policy for TAURON Group*, which facilitates optimization of liquidity management of the Group, consequently reducing the risk of liquidity loss in the Group and in each of the companies included in TAURON Group. Having implemented appropriate projection standards, TAURON Group can precisely determine its liquidity position allowing to optimize the time of obtaining funding, maturity and types of deposit instruments, as well as an appropriate level of the liquidity provision.

Additionally, in order to mitigate a possibility of cash flow disruption and liquidity risk, the TAURON Group uses the cash pooling mechanism. The cash pooling structure enables the Group companies that experience short-term shortage of funds to use cash provided by companies with cash surplus, without the need to obtain borrowings from third parties.

The Company has funding available under the concluded agreements. Agreements with funding available as at the balance sheet day and the use of funds are shown in the table below.

| | Borrowing institution | Type of expenses financed | Funds availability termination year | As at 31 December 2022 | |
|-----------------------------------|-----------------------------|--|-------------------------------------|--|-----------------|
| | | | | Available limit according to agreement | Carrying amount |
| subordinated bond issuance scheme | Bank Gospodarstwa Krajowego | current and investment | 2023 | 450 | - |
| loan | Consortiums of banks | current and investment (excluding coal assets) | 2027 | 4 000 | 2 750 |
| | European Investment Bank | investment | 2026 | 500 | 500 |
| overdraft facility | European Investment Bank | investment | 2024 | 2 800 | 1 600 |
| | Bank Gospodarstwa Krajowego | current | 2023 | 250 | - |

After the balance sheet day:

- on the basis of an annex to the overdraft agreement, the amount of the limit was increased to PLN 500 million and the repayment date was extended to 30 September 2023;
- on 10 March 2022, the Company also concluded an annex to the documentation of the subordinated bond issue program up to PLN 450 million concluded in 2021 with Bank Gospodarstwa Krajowego. The annex extends the period enabling the issue of subordinated bonds to 36 months from the date of signing the documentation.

As indicated in the table above, available financing agreements can be used for investment and corporate-wide purposes, including securing the Group's current liquidity position.

The policy pursued with regard to the acquisition of financing sources enables, above all, an increase in the possibility of obtaining financing for general corporate purposes and capital expenditure, a reduction in the cost of external capital, a reduction in the amount and forms of collateral established on TAURON Group assets and covenants required by financial institutions and a reduction in administrative costs. The corporate finance model also makes it possible to acquire sources of financing that are not available to individual companies.

In 2022, the Company demonstrated full capacity to settle its liabilities on their maturity date.

The tables below show the ageing of the Company financial liabilities by non-discounted contractual payments.

Financial liabilities as at 31 December 2022

| | Carrying amount | Contractual undiscounted payments | Including contractual undiscounted payments maturing during the period (from the reporting date) | | | | | |
|--|-----------------|-----------------------------------|--|----------------|----------------|----------------|----------------|----------------|
| | | | less than 3 months | 3 -12 months | 1 - 2 years | 2 - 3 years | 3 - 5 years | over 5 years |
| Financial liabilities other than derivative instruments | | | | | | | | |
| Interest-bearing loans, borrowings and bonds issued | 18 054 | (21 175) | (3 007) | (1 015) | (2 718) | (3 157) | (7 806) | (3 472) |
| Liabilities to suppliers | 3 249 | (3 249) | (3 249) | - | - | - | - | - |
| Other financial liabilities | 154 | (154) | (144) | - | (3) | (3) | (3) | (1) |
| Lease liabilities | 16 | (20) | (3) | (7) | (4) | - | - | (6) |
| Derivative financial liabilities | | | | | | | | |
| Derivative instruments-commodity | 232 | (92) | (69) | (23) | - | - | - | - |
| Derivative instruments-currency | 109 | (109) | (39) | (67) | (3) | - | - | - |
| Total | 21 814 | (24 799) | (6 511) | (1 112) | (2 728) | (3 160) | (7 809) | (3 479) |

Financial liabilities as at 31 December 2021

| | Carrying amount | Contractual undiscounted payments | Including contractual undiscounted payments maturing during the period (from the reporting date) | | | | | |
|--|-----------------|-----------------------------------|--|--------------|--------------|----------------|----------------|----------------|
| | | | less than 3 months | 3 -12 months | 1 - 2 years | 2 - 3 years | 3 - 5 years | over 5 years |
| Financial liabilities other than derivative instruments | | | | | | | | |
| Interest-bearing loans, borrowings and bonds issued | 14 445 | (16 379) | (4 385) | (613) | (679) | (2 377) | (3 846) | (4 479) |
| Liabilities to suppliers | 1 745 | (1 745) | (1 745) | - | - | - | - | - |
| Liabilities due to acquisition of shares in the subsidiary | 1 061 | (1 061) | (1 061) | - | - | - | - | - |
| Other financial liabilities | 504 | (504) | (493) | - | (3) | (3) | (4) | (1) |
| Lease liabilities | 25 | (29) | (3) | (8) | (9) | (4) | - | (5) |
| Derivative financial liabilities | | | | | | | | |
| Derivative instruments-commodity | 494 | (185) | (84) | (26) | (75) | - | - | - |
| Derivate instruments-CCIRS | 1 | (13) | - | (2) | (2) | (2) | (4) | (3) |
| Total | 18 275 | (19 916) | (7 771) | (649) | (768) | (2 386) | (3 854) | (4 488) |

As at 31 December 2022 and 31 December 2021, the Company had guarantees, sureties and collaterals granted to related companies for a total amount of PLN 1 491 million and PLN 1 419 million, respectively (excluding registered and financial pledges on shares). The most significant items are described in Note 40 to these financial statements. Guarantees and collaterals granted by the Company are contingent liabilities and do not significantly affect the Company's liquidity risk.

38.3. Market risk

Market risk is associated with the possibility of a negative impact on the Company's results through fluctuations in the fair value of financial instruments or future cash flows associated with them due to changes in market prices.

The Company identifies the following types of market risk it is exposed to:

- interest rate risk;
- currency risk;
- raw material and commodity price risk related to commodity derivative instruments.

38.3.1 Interest rate risk

The Company is exposed to interest rate risk in connection with raising of floating interest rate capital and depositing floating interest rate cash and granting floating and fixed interest rate loans. The Company is also exposed to the materialisation of the risk of lost benefits on fixed-rate debt if interest rates fall.

The purpose of interest rate risk management is to limit negative effects of market interest rate fluctuations on the Company's cash flows to an acceptable level and to minimize finance costs. In order to hedge interest rate risk related to floating interest rate debt, the Company concluded interest rate swap (IRS) transactions, as described in detail in note 21 of these financial statements. IRS transactions concluded in order to hedge interest rate risk are subject to hedge accounting.

As the Company has adopted a dynamic financial risk management strategy where the hedged item is cash flows relating to the exposure to the floating WIBOR 6M interest rate, the interest rate risk for a portion of interest cash flows has been reduced by the hedging IRS transactions. Thus, a portion of the carrying amount of debt with floating interest cash flow fluctuations hedged with interest rate swaps has been presented in the table below under fixed-rate items, similarly to the valuation of IRS hedging instruments.

Financial instruments measured at a fair value are also exposed to interest rate risk: IRS, CCIRS and selected loans.

Financial instruments by interest rate type

| Financial instruments | Year ended 31 December 2022 | | | Year ended 31 December 2021 | | |
|------------------------------|-----------------------------|------------------------|--------|-----------------------------|------------------------|-------|
| | Fixed interest rate | Floating interest rate | Total | Fixed interest rate | Floating interest rate | Total |
| Financial assets | | | | | | |
| Loans granted | 11 590 | 1 950 | 13 540 | 6 351 | 30 | 6 381 |
| Derivative instruments-IRS | 592 | - | 592 | 371 | - | 371 |
| Derivative instruments-CCIRS | 21 | - | 21 | 26 | - | 26 |
| Cash and cash equivalents | - | 1 039 | 1 039 | - | 440 | 440 |
| Financial liabilities | | | | | | |
| Arm's length loans | 3 736 | 7 883 | 11 619 | 3 401 | 4 494 | 7 895 |
| Bonds issued | 6 034 | 401 | 6 435 | 5 980 | 570 | 6 550 |
| Derivative instruments-CCIRS | - | - | - | 1 | - | 1 |
| Leases liabilities | 16 | - | 16 | 25 | - | 25 |

Other financial instruments of the Company, which are not included in the above table, are not interest-bearing and therefore they are not subject to interest rate risk.

Analysis of sensitivity to interest rate risk

The analysis of sensitivity to changes in market risk factors is conducted by means of a scenario analysis. The Company relies on expert scenarios reflecting its judgment concerning the behaviour of individual market risk factors in the future. The scope of the analysis includes only those items which meet the IFRS definition of financial instruments.

As at 31 December 2022, in its sensitivity analysis of derivatives, the Company measures and monitors interest rate risk using the BPV (Basis Point Value) measure, which shows the change in fair value of derivatives due to a parallel shift of the yield curve by 0.01% (one basis point). In the sensitivity analysis for interest rate risk of other financial instruments, the Company applies a parallel shift of the interest rate curve by the potential possible change in reference interest rates over the horizon to the date of the next financial statements, i.e. by the average levels of reference interest rates in a given year.

As at 31 December 2021, the Company used a parallel shift of the interest rate curve by the potential possible change in reference interest rates over the horizon to the date of the next financial statements in its analysis of sensitivity for interest rate risk of financial instruments. The interest rate risk sensitivity analysis has been carried out based on average reference interest rates in the year.

The Company identifies its exposure to the risk of changes in WIBOR, EURIBOR, ESTRON and LIBOR USD interest rate, whereas as at 31 December 2022 and 31 December 2021, its exposure to changes in EURIBOR, ESTRON and LIBOR USD rates was insignificant.

The table below present sensitivity of the gross profit/loss as well as other comprehensive income (gross) to reasonably potential changes in interest rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

| Classes of financial instruments | 31 December 2022 | | Sensitivity analysis for interest rate risk as at 31 December 2022 | | 31 December 2021 | | Sensitivity analysis for interest rate risk as at 31 December 2021 | |
|----------------------------------|------------------|---------------|--|---------------|------------------|---------------|--|--------------|
| | Carrying amount | Value at risk | WIBOR +630 bp | WIBOR -630 bp | Carrying amount | Value at risk | WIBOR +64 bp | WIBOR -64 bp |
| | | | Profit/(Loss) / Other comprehensive income ¹ | | | | Profit/(Loss) / Other comprehensive income ¹ | |
| Financial assets | | | | | | | | |
| Loans granted | 13 540 | 2 574 | (25) | 139 | 6 381 | 104 | (4) | 4 |
| Cash and cash equivalents | 1 039 | 1 039 | 62 | (62) | 440 | 440 | 2 | (2) |
| Derivatives ² | 849 | 613 | 1 | (1) | 997 | 397 | 82 | (82) |
| Financial liabilities | | | | | | | | |
| Arm's length loans | 11 619 | 9 659 | (609) | 609 | 7 895 | 6 246 | (40) | 40 |
| Bonds issued | 6 435 | 2 507 | (158) | 158 | 6 550 | 2 663 | (17) | 17 |
| Derivatives ² | 341 | - | - | - | 495 | 1 | - | - |
| Total | | | (729) | 843 | | | 23 | (23) |

¹ Refers to Interest Rate Swap financial derivatives subject to hedge accounting, as further discussed in Note 21 to these financial statements.

² As at 31 December 2022, the sensitivity analysis for derivatives applied the BPV (Basis Point Value) measure, presenting the change in fair value of derivatives due to a parallel shift of the yield curve by 0.01% (one basis point), as mentioned above.

The risk exposure as at 31 December 2022 and as at 31 December 2021 is representative of the Company's risk exposure during the preceding one-year period.

38.3.2 Currency risk

The tables below present the Company's exposure to currency risk by particular classes of financial instruments as at 31 December 2022 and 31 December 2021. The Company's significant exposure relates to changes in the EUR/PLN exchange rate, mainly due to external financing incurred in EUR. The Company's exposure to other currencies is immaterial.

| | As at 31 December 2022 | | | As at 31 December 2021 | | |
|------------------------------|------------------------------|-----------------|----------------|------------------------------|-----------------|----------------|
| | Total carrying amount in PLN | EUR in currency | EUR in PLN | Total carrying amount in PLN | EUR in currency | EUR in PLN |
| Financial assets | | | | | | |
| Receivables from buyers | 4 070 | 1 | 4 | 2 495 | - | - |
| Derivatives | 849 | 50 | 236 | 997 | 100 | 460 |
| Other financial assets | 35 | - | 1 | 70 | 7 | 32 |
| Cash and cash equivalents | 1 039 | 13 | 59 | 440 | 20 | 92 |
| Total | 5 993 | 64 | 300 | 4 002 | 127 | 584 |
| Financial liabilities | | | | | | |
| Arm's length loans | 11 619 | 167 | 783 | 7 895 | 167 | 768 |
| Bonds issued | 6 435 | 685 | 3 214 | 6 550 | 688 | 3 164 |
| Derivatives | 341 | 49 | 232 | 495 | 102 | 469 |
| Other financial liabilities | 154 | 9 | 43 | 504 | 22 | 102 |
| Total | 18 549 | 910 | 4 272 | 15 444 | 979 | 4 503 |
| Net currency position | | (846) | (3 972) | | (852) | (3 919) |

As part of its currency risk management, the Company uses forward contracts. The purpose of the transactions concluded was to hedge the Company against foreign exchange risk arising in the course of its commercial activities, primarily from the purchase of CO₂ emission allowances, and in the course of investment activities related to the implementation of projects in the area of renewable energy sources, as well as to hedge the foreign exchange exposure generated by interest payments on acquired financing in EUR.

The fair value measurement of currency forward contracts and CCIRS contracts is exposed to the risk of changes in the EUR/PLN exchange rate. Transactions entered into to hedge against currency risk are not subject to hedge accounting.

Currency risk sensitivity analysis

The analysis of sensitivity to changes in market risk factors is conducted by the Company by means of a scenario analysis. The Company relies on expert scenarios reflecting its judgment concerning the behaviour of individual market risk factors in the future. The scope of the analysis includes only those items which meet the IFRS definition of financial instruments.

The potential changes in foreign exchange rates have been determined within a horizon until the date of the next financial statements and calculated on the basis of annual implied volatility for FX options quoted on the interbank market for a given currency pair as at the end of the reporting period or, in the absence of quoted market prices, on the basis of historical volatility for a period of one year preceding the balance sheet date.

The Company identifies its exposure to foreign currency risk related to EUR/PLN, USD/PLN, GBP/PLN, CZK/PLN. Significant risk exposure occurs for EUR; other currencies do not generate material risk for the Company.

The table below presents sensitivity of the gross financial profit/loss to reasonably possible changes in the EUR/PLN exchange rate within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

| Classes of financial instruments | 31 December 2022 | | Sensitivity analysis for currency risk as at 31 December 2022 | | 31 December 2021 | | Sensitivity analysis for currency risk as at 31 December 2021 | |
|----------------------------------|------------------|---------------|---|------------------------------|------------------|---------------|---|------------------------------|
| | Carrying amount | Value at risk | EUR/PLN | | Carrying amount | Value at risk | EUR/PLN | |
| | | | exchange rate EUR/PLN +8.45% | exchange rate EUR/PLN -8.45% | | | exchange rate EUR/PLN +5.88% | exchange rate EUR/PLN -5.88% |
| Financial assets | | | | | | | | |
| Derivatives | 849 | 257 | 42 | (42) | 997 | 601 | 285 | (285) |
| Other financial assets | 35 | 1 | - | - | 70 | 32 | 2 | (2) |
| Cash and cash equivalents | 1 039 | 59 | 5 | (5) | 440 | 92 | 5 | (5) |
| Financial liabilities | | | | | | | | |
| Arm's length loans | 11 619 | 783 | (66) | 66 | 7 895 | 768 | (45) | 45 |
| Bonds issued | 6 435 | 3 214 | (272) | 272 | 6 550 | 3 164 | (186) | 186 |
| Derivatives | 341 | 341 | 480 | (480) | 495 | 470 | (24) | 24 |
| Other financial liabilities | 154 | 43 | (4) | 4 | 504 | 102 | (6) | 6 |
| Total | | | 185 | (185) | | | 31 | (31) |

The risk exposure as at 31 December 2022 and as at 31 December 2021 is representative of the Company's risk exposure during the preceding one-year period.

38.3.3 Raw material and commodity price risk related to commodity derivative instruments

The Company concludes derivative contracts, with underlying instruments being commodities and raw materials. The exposure of the Company to price risk inherent in commodity derivative instruments is related to a risk of volatility in the fair value of the said instruments, driven by fluctuations of prices of the underlying raw materials/commodities. The Company limits price risk related to commodity derivatives by concluding offsetting transactions. The risk is limited to open long and short positions concerning a given commodity or raw material, i.e. concern unbalanced portfolio.

At 31 December 2022, the portfolio of concluded contracts is fully balanced. This minimises market risk in the commodity derivatives portfolio. This is confirmed by results of the sensitivity analysis conducted, which indicated insignificant effects of potential changes in the prices of CO₂ emission allowances on the gross profit/loss of the Company.

39. Operational risk

The Company is exposed to adverse effects of risks related to changes in cash flows and financial performance in the domestic currency due to changes in prices of goods in the open market position.

Commercial operational risk is managed at the level of TAURON Group, which is discussed in more detail in note 57 to the consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2022. The Company manages its commercial risk following the *Commercial risk management policy developed and adopted in the TAURON Group*.

The Company's exposure to the risk of prices of goods reflects the volume of electricity and gas acquired. The volume and cost of electricity and gas acquired have been presented in the table below.

| Fuel type | Unit | 2022 | | 2021 | |
|--------------|------|------------|---------------|------------|---------------|
| | | Volume | Purchase cost | Volume | Purchase cost |
| Electricity | MWh | 45 640 428 | 24 725 | 49 602 739 | 15 987 |
| Gas | MWh | 4 311 642 | 1 306 | 4 816 878 | 595 |
| Total | | | 26 031 | | 16 582 |

In terms of coal trading, the Company is not exposed to the price risk, as it acts as an agent generating revenue from agency services only.

OTHER INFORMATION

40. Contingent liabilities

As at 31 December 2022 and as at 31 December 2021, the contingent liabilities of the Company mainly resulted from the collaterals and guarantees granted to related parties and included:

| Type of contingent liability | Company in respect of which contingent liability has been granted | Beneficiary | Validity | As at 31 December 2022 | As at 31 December 2021 |
|---|---|---|-------------------------|------------------------|------------------------|
| Corporate guarantees | Finanse Grupa TAURON Sp. z o.o. | Private placement investors | 3.12.2029 | 788 | 773 |
| | Elektrociepłownia Stalowa Wola S.A. | Economic operators and customers who concluded agreements with ECSW S.A. under the license for electricity trading granted by the ERO President | - | - | 7 |
| | TAURON Czech Energy s.r.o. | ČEZ a.s. | 31.01.2024 | 14 | - |
| Liability arising from a bank guarantee issued to a joint subsidiary | Elektrociepłownia Stalowa Wola S.A. | Bank Gospodarstwa Krajowego | 11.03.2023 | 300 | 518 |
| Registered pledges and financial pledge of shares in TAMEH HOLDING Sp. z o.o. | TAMEH Czech s.r.o. TAMEH POLSKA Sp. z o.o. | RAIFFEISEN BANK INTERNATIONAL AG | 31.12.2028 ¹ | 416 | 416 |
| | | | 11.03.2023 | 187 | - |
| Surety contracts | Elektrociepłownia Stalowa Wola S.A. | Bank Gospodarstwa Krajowego | 30.12.2023 | 7 | - |
| | | | - | - | 5 |
| | | | 30.04.2023-indefinite | 57 | 38 |
| Liabilities arising from bank guarantees issued to subsidiaries | various subsidiaries | various entities | 31.12.2022-28.07.2029 | 63 | 38 |
| Blank promissory note with a promissory note declaration ² | TAURON Wytwarzanie S.A. | Regional Fund for Environmental Protection and Water Management in Katowice | 31.07.2023 | 40 | 40 |
| Comfort letter | TAURON Czech Energy s.r.o. | PKO BP S.A., Czech Branch | 31.01.2024 | 35 | - |

¹ The registered pledges apply in the collateral period, i.e. until the full repayment of hedged receivables or until the release of the pledge by the pledgee. The financial pledge is valid in the entire collateral period or until release by the pledgee, not later than on 31 December 2028.

² In 2010, the Company issued a blank promissory note together with a promissory note declaration in order to secure a loan agreement received by the subsidiary from the Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej in Katowice. As at 31 December 2022, the outstanding part of the loan in the amount of PLN 2 million is subject to the conditional redemption procedure. The established collateral will expire after the conditional redemption of the loan is settled.

The most significant items of contingent liabilities include:

- The corporate guarantee granted in 2014 to secure the bonds of Finanse Grupa TAURON Sp. z o.o. (the so-called NSV). The guarantee shall be effective until 3 December 2029, i.e. the redemption date of the bonds and amounts to EUR 168 million (PLN 788 million), while the beneficiaries of the guarantee are the private placement investors who purchased the bonds issued. In connection with the guarantee issued, the Company recognised a liability in the amount of expected credit losses, which amounted to PLN 34 million as at 31 December 2022.
- The liability arising from the issuance of a bank guarantee at the request of the Company up to the amount of PLN 300 million and a surety up to the amount of PLN 187 million as a collateral for the receivables of Bank Gospodarstwa Krajowego ("BGK") resulting from the loan agreement concluded on 8 March 2018 between the borrower, Elektrociepłownia Stalowa Wola S.A. and BGK and PGNiG S.A. The bank guarantee and surety are effective from 12 October 2022 to 11 March 2023. The collateral of the guarantor's receivables against the Company is the declaration on submission to enforcement up to the amount of PLN 360 million. In connection with the guarantee and the surety issued, the Company recognised a liability in the amount of expected credit losses, the value of which amounted to PLN 40 million as at 31 December 2022.

As at 31 December 2021, BGK's receivables were secured by a bank guarantee of up to the amount of PLN 518 million. In connection with the guarantee issued, the Company recognised a liability in the amount of expected credit losses, which amounted to PLN 16 million as at 31 December 2021. The bank guarantee expired on 11 April 2022.

BGK's receivables from 12 April 2022 to 11 October 2022 were secured by a new guarantee, also up to the amount of PLN 518 million.

- The registered pledges and the financial pledge established under the agreement concluded in 2015 on the shares held, representing 50% of the shares in the share capital of TAMEH HOLDING Sp. z o.o., in favour of RAIFFEISEN BANK INTERNATIONAL AG. The registered pledges are pledges with the highest priority of satisfaction on shares up to the highest amount of security in the amount of CZK 3 950 million and PLN 1 370 million, respectively. The agreement for the establishment of registered pledges and financial pledge was concluded in order to secure the transaction involving the agreement for term and working capital loans, which was concluded between TAMEH Czech s.r.o. and TAMEH POLSKA Sp. z o.o. as the original borrowers, TAMEH HOLDING Sp. z o.o. as the parent company and guarantor and RAIFFEISEN BANK INTERNATIONAL AG as the agent and collateral agent. The registered pledges are valid in the collateral period, i.e. until the total repayment or until release of the pledge by the pledgee. The financial pledge is valid in the entire collateral period or until release by the pledgee, not later than on 31 December 2028.

After the balance sheet day, the following events took place:

- on 2 January 2023, the Company granted a surety up to the amount of PLN 6 million for liabilities of Energetyka Cieszyńska Sp. z o.o. to Polska Grupa Górnicza S.A. with the effective term until 31 December 2023;
- on 1 February 2023, at the Company's request, a bank guarantee of PLN 9 million was issued in favour of the Regional Fund for Environmental Protection and Water Management in Katowice, for the liabilities of the subsidiary, TAURON Inwestycje Sp. z o.o., with the effective term from 14 March 2023 to 13 June 2023;
- on 27 February 2023, a bank guarantee was issued up to PLN 457 million to secure BGK's receivables under the loan agreement concluded on 8 March 2018 between the borrower, Elektrociepłownia Stalowa Wola S.A. and BGK and PGNiG S.A. The guarantee is valid from 12 March 2023 to 11 March 2024. The collateral of the guarantor's receivables against the Company is the declaration on submission to enforcement up to the amount of PLN 548 million, signed on 7 March 2023.

Significant items of the Company's contingent liabilities due to court proceedings and concluded agreements:

Claims related to termination of long-term contracts

Claims relating to termination of long-term contracts against subsidiary Polska Energia - Pierwsza Kompania Handlowa Sp. z o.o.

In 2015, companies belonging to the Polenergia and Wind Invest groups filed a case against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. to declare notices of termination of agreements submitted by Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. with regard to power purchase and property rights concluded with these companies ineffective. In the course of court proceedings, plaintiffs extend their scope raising claims for damages and contractual penalty claims related to contract termination or file separate lawsuits for payment of damages.

As at the date of approval of these financial statements for publication, the amount of damages claimed in the lawsuits amounts to: Polenergia Group companies – PLN 136 million (including Amon Sp. z o.o. – PLN 90 million, Talia Sp. z o.o. – PLN 46 million); Wind Invest group companies – PLN 493 million.

In the case filed by Amon Sp. z o.o. and Talia Sp. z o.o., partial and preliminary judgements were issued (judgement of 25 July 2019 in the Amon Sp. z o.o. lawsuit and judgement of 6 March 2020, supplemented by the court on 8 September 2020 in the Talia Sp. z o.o. lawsuit), in which the courts determined that the statements of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. on termination of long-term agreements concluded between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and Amon Sp. z o.o. and those concluded between Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. and Talia Sp. z o.o. for the purchase of electricity and property rights resulting from certificates of origin are ineffective and do not produce legal effect in the form of termination of both agreements, as a result of which the agreements after the notice period, i.e. after 30 April 2015, remain in force in respect of all provisions and are binding on the parties. Moreover, the courts also recognised the claims of Amon Sp. z o.o. and Talia Sp. z o.o. for payment of damages justified as to the merits, without, however, prejudging the amount of potential damages. Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. filed a complaint against the judgements.

In the case brought by Talia Sp. z o.o., on 20 December 2021 on 20 December 2021, the Court of Appeals in Gdańsk announced a judgement dismissing the appeals of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. The judgement of the Court of Appeals and consequently the preliminary and partial judgements and the supplementary judgement indicated above are final. These judgements do not award any damages from Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. to the claimant, i.e. Talia Sp. z o.o. Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. has received a justification of the judgement of the Court of Appeals and filed a cassation appeal within the required deadline. After the balance sheet date, the Supreme Court accepted the cassation appeal on 28 February 2023. In the case brought by Amon Sp. z o.o., on 17 November 2022, the Court of Appeals in Gdańsk announced a judgement dismissing the appeals of Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. The judgement of the Court of Appeals and consequently the preliminary and partial judgement and the supplementary judgement indicated above are final. These judgements do not award any damages from Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. to the claimant, i.e. Amon Sp. z o.o. Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. disagrees in its entirety with the decision of the Court of Appeals, as well as with the decision of the court of first instance. Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. requested the Court of Appeals to serve the judgement of the court of second instance with a written statement of reasons and will proceed to analyse it with a view to challenging it as soon as possible and taking all other legal measures to which it is entitled.

The above-mentioned final, partial and preliminary judgements in the Talia Sp. z o.o. and Amon Sp. z o.o. lawsuits do not change the Group's assessment that the chances of ultimately losing the case for damages in favour of Talia Sp. z o.o. and Amon Sp. z o.o. are not higher than the chances of winning it, and therefore no provision is created for the related costs.

In the case filed by Pękanino Wind Invest Sp. z o.o. for the provision of security for claims for determining that the terminations of long-term contracts submitted by Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. are ineffective, the Court of Appeals in Warsaw on 6 November 2019 partially granted the application for security by ordering Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o. to perform the provisions of the contracts in their entirety on the existing terms and conditions, in accordance with their content, until the proceedings from the suit of Pękanino Wind Invest Sp. z o.o. are legally concluded against Polska Energia-Pierwsza Kompania Handlowa Sp. z o.o., pending before the Regional Court in Warsaw. The decision regarding the security is final. This decision does not prejudge the merits of the action, which can only take place in a binding judgement, but only temporarily regulates the parties' relations for the duration of the proceedings.

Other cases are held at first instance courts (including one remanded for re-examination to the first- instance court by a second-instance court).

Taking into account the current status of the lawsuits and the circumstances surrounding them, the Group believes that the chances of losing the remaining lawsuits related to both declarations of ineffectiveness of termination of agreements and claims for damages are not higher than the chances of winning the lawsuits in question, and therefore it does not recognise a provision for related costs.

Claims relating to termination of long-term contracts against TAURON Polska Energia S.A.

In 2017 and 2018, companies belonging to the Polenergia and Wind Invest groups filed actions against TAURON Polska Energia S.A. regarding payment of damages and determining liability for potential future losses resulting from tort, including unfair competition. According to the plaintiffs notices of termination submitted by Polska - Energia Pierwsza Kompania Handlowa Sp. z o.o. regarding long-term contracts for the purchase of power and property rights related to energy certificates allegedly directed by TAURON Polska Energia S.A., provided the factual basis for these claims.

As at the date of approval of these financial statements for publication, the amount of damages claimed in the lawsuits amounts to: Polenergia Group companies – PLN 131 million, Wind Invest group companies – PLN 272 million.

Moreover, in their claims, the plaintiff companies indicate the following values of estimated damages that may arise in the future: Polenergia Group companies – PLN 265 million, Wind Invest Group companies – PLN 1 119 million.

The District Court in Katowice has jurisdiction to hear the lawsuits. All cases are held before the first instance courts. The proceedings filed by Wind Invest group companies are held in camera. As at the date of approval of these financial statements for publication, the Company's chances of obtaining a favourable resolution of the disputes should be assessed positively, i.e. the chances of losing are not higher than the chances of winning.

Claim towards Polskie Elektrownie Jądrowe Sp. z o.o. (formerly: PGE EJ 1 Sp. z o.o.)

TAURON Polska Energia S.A. as a former shareholder holding 10% of shares in the share capital of Polskie Elektrownie Jądrowe Sp. z o.o. until the date of sale, i.e. 26 March 2021, jointly with the other former shareholders of the company (PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedz S.A. and ENEA S.A.), is a party to the agreement with Polskie Elektrownie Jądrowe Sp. z o.o. regulating the issues of potential liabilities and benefits of the parties resulting from the settlement of the dispute between Polskie Elektrownie Jądrowe Sp. z o.o. and the consortium composed of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc, WorleyParsons Group Inc (hereinafter: "WorleyParsons consortium").

In 2015, the WorleyParsons consortium, which is the research contractor for the investment process related to the construction of a nuclear power plant by Polskie Elektrownie Jądrowe Sp. z o.o., submitted claims against Polskie Elektrownie Jądrowe Sp. z o.o. for the total amount of PLN 92 million in a call for payment and then filed a lawsuit for approximately PLN 59 million, extended in 2017 and 2019 to the amount of approximately PLN 128 million.

In accordance with the agreement, the shareholders in proportion to their previously held number of shares in Polskie Elektrownie Jądrowe Sp. z o.o. are responsible for liabilities or proportionally entitled to benefits potentially arising as a result of the settlement of the dispute with the WorleyParsons consortium up to the maximum level of claims including interest set as at 26 March 2021, amounting respectively to PLN 140 million for claims asserted by the WorleyParsons consortium against Polskie Elektrownie Jądrowe Sp. z o.o. and PLN 71 million for claims asserted by Polskie Elektrownie Jądrowe Sp. z o.o. against the WorleyParsons consortium.

To the best of the Company's knowledge, Polskie Elektrownie Jądrowe Sp. z o.o. has not acknowledged the claims filed against it and considers potential adjudication by the court to be unlikely. The Company does not create a provision in relation to the above-mentioned events.

Claims filed by Huta Łaziska S.A.

In connection with the merger of the Company with Górnośląski Zakład Elektroenergetyczny S.A. ("GZE"), TAURON Polska Energia S.A. became the party to the court dispute with Huta Łaziska S.A. ("Huta") against GZE and the State Treasury represented by the President of the ERO.

By the statement of claim of 12 March 2007 Huta demands from GZE and the State Treasury - the President of the Energy Regulatory Office (in solidum) to adjudicate the amount of PLN 182 million including interest accrued from the date of filing the statement of claim to the date of payment as compensation for the alleged damage caused by the failure of GZE to implement the decision of the ERO President of 12 October 2001 concerning the resumption by GZE of deliveries of electricity to Huta.

In this case, the courts of the first and second instance passed judgements favourable for GZE; however, in its judgement of 29 November 2011 the Supreme Court overruled the judgement of the Court of Appeals and remanded the case for re-examination by that Court. On 5 June 2012, the Court of Appeals overruled the decision of the Regional Court and remanded the case for re-examination by the latter. By judgement of 28 May 2019, the Regional Court in Warsaw dismissed Huta's claim in its entirety and ruled that Huta reimbursed each of the defendant for the costs of the proceedings. Huta appealed (dated 25 July 2019), challenging the above judgement in its entirety and requesting that it be amended by upholding the claim in its entirety and ordering the defendants to pay the costs of the proceedings in favour of Huta, or, in the alternative, that the contested judgement be set aside in its entirety and the case be referred back to the court of first instance. In response to the appeal of 9 August 2019, the Company requested that the appeal be dismissed in its entirety as manifestly unfounded and that the costs of the appeal proceedings be awarded against Huta in favour of the Company. By the judgement of 9 February 2022, the appeal lodged by Huta was dismissed and the Company was awarded, among others, the costs of the appeal proceedings. The judgement is legally binding. On 13 October 2022, Huta filed a cassation appeal with the Supreme Court. Both the Company and the State Treasury lodged replies to this action emphasising, in the first instance, the lack of grounds for its acceptance for examination by the Supreme Court. Until the date of approval of these financial statements, the Company has not been served with an order of the Supreme Court accepting or refusing to accept the cassation appeal of Huta for examination.

Based on the conducted legal analysis of the claims as well as taking into account the aforementioned judgement, the Company believes that

they are unjustified and the risk that they must be satisfied is remote. Consequently, the Company did not create a provision for costs associated with those claims.

Case filed by ENEA S.A.

Case filed by ENEA S.A. ("ENEA") against TAURON Polska Energia S.A., which has been heard by the Regional Court in Katowice since 2016 and currently before the Court of Appeal in Katowice refers to the payment of the amount of PLN 17 million including the statutory interest accrued from 30 June 2015 until the payment date. The actual basis of ENEA's claim are allegations concerning unjust enrichment of the Company in connection with possible errors in the determination of the aggregated measurement and settlement data by ENEA Operator Sp. z o.o. constituting the basis for settlements between ENEA and the Company and Polskie Sieci Elektroenergetyczne S.A. on account of imbalance on the balancing market in the period from January to December 2012. In the course of the proceedings at the request of ENEA additional sellers were summoned, for whom TAURON Polska Energia S.A. acted as an entity responsible for trade balancing, including the Company's subsidiaries, i.e. TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. The claim for payment by the above subsidiaries amounting in total to PLN 8 million, including the statutory interest, was lodged by the claimant in the event the action against TAURON Polska Energia S.A. is dismissed.

On 22 March 2021, the Regional Court in Katowice dismissed the claim of ENEA in its entirety and ruled on ENEA's obligation to reimburse the costs of the proceedings to the Company. The judgement is not legally binding. ENEA has filed an appeal against the above ruling. Until the date these financial statements were authorised for publication, the Company had not been served with a notice setting a date for an appeal hearing.

The Company did not recognize any provision as, in the opinion of the Company, the risk of losing the case is below 50%. Provisions for costs were created by subsidiaries, TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. In 2021, the provisions were fully released due to the position of the companies and the assessment of the chances of positive outcome of the proceedings that ended with a non-final judgement favourable to the companies.

41. Collaterals for repayment of liabilities

As part of its operations, the Company uses a number of instruments to hedge its own liabilities under the concluded agreements and transactions. The main types of collateral, in addition to the collateral for the Group's transactions concluded on the Polish Power Exchange, described due to their materiality later in this note, are presented below.

| Collateral | Collateral amount as at | |
|--|-------------------------|------------------|
| | 31 December 2022 | 31 December 2021 |
| Declarations of submission to enforcement* | 16 050 | 19 185 |
| Pledges on shares in a subsidiary | - | 1 380 |
| Bank account mandates | 600 | 600 |
| Bank guarantees | 109 | 20 |
| Blank promissory notes | 4 | 4 |

*As at 31 December 2022, the item comprises collaterals relating to agreements for which, as at the balance sheet day, the liabilities were repaid in the total amount of PLN 240 million.

As at 31 December 2022 and 31 December 2021, the declarations of submission to enforcement constitute the main item of the collaterals. Significant changes in the scope of the collaterals are described below.

- In connection with the timely repayment on 22 March 2022 of the liabilities for the acquisition of non-controlling interests in the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o. to Fundusz Inwestycji Infrastrukturalnych-Kapitałowy FIZAN (the "PFR Fund"), as discussed in more detail in Note 31 of these financial statements, the declaration of submission to enforcement up to PLN 1 380 million, with the enforcement date of 22 September 2023, expired. The Company received a declaration from the PFR Fund of 4 April 2022 that the collateral had expired and that the declaration of submission to enforcement had not been exercised. Moreover, the collateral expired in the form of pledges on 176 000 shares in the share capital of the subsidiary, Nowe Jaworzno Grupa TAURON Sp. z o.o., i.e., the registered pledge with the first priority of satisfying on the shares up to the maximum amount of security of PLN 1 380 million and the ordinary pledge with the first priority of satisfying equal to the priority of the registered pledge. The pledges remained in force until the date of full satisfaction of the secured claims, i.e. by 22 March 2022.
- On 25 August 2022, the Company signed a declaration of submission to enforcement up to the maximum amount of PLN 4 800 million with the effective date to 30 November 2030, in connection with the conclusion of the syndicated loan agreement in the amount of PLN 4 000 million on 15 July 2022, as further described in Note 28.2 to these financial statements.
- On 29 November 2022, the declaration of submission to enforcement up to the amount of PLN 7 284 million expired in connection with the termination of the syndicated loan agreement of 19 June 2019, as further discussed in Note 28.2 of these financial statements. The Company has fully repaid the exposure and received the confirmation of the absence of any liabilities under the syndicated loan in question.

After the balance sheet day, the following events took place:

- on 13 January 2023, the Company signed a declaration of submission to enforcement up to PLN 600 million as security for the overdraft facility, which, pursuant to the annex of 13 January 2023, was increased to PLN 500 million and the term of the overdraft facility was extended to 30 September 2023. On 27 February 2023, a declaration of submission to enforcement up to PLN 300 million was returned, originally securing a loan in a bank account;
- on 13 January 2023, the Company signed a declaration of submission to enforcement up to PLN 300 million, securing an agreement for guarantee lines up to PLN 250 million. On 27 February 2023, a declaration of submission to enforcement up to PLN 300 million was returned as the primary security;
- on 17 February 2023, the Company signed a declaration of submission to enforcement up to PLN 900 million, securing an agreement for working capital facility up to PLN 750 million, as further described in Note 49 to these financial statements,
- on 21 March 2023, the Company signed two statements on submission to enforcement: up to PLN 300 million as collateral for the guarantee facility agreement up to PLN 250 million and up to PLN 675 million as collateral for the subordinated bond issue program up to PLN 450 million, as described more in Note 38.2 to these financial statements

Collateral for transactions concluded on the Polish Power Exchange [Towarowa Gielda Energii S.A.] in TAURON Group

| Type of collateral | Description |
|---|---|
| Declarations of submission to enforcement | <p>On 27 October 2022, a declaration of submission to enforcement was signed to secure the Company's obligations to Izba Rozliczeniowa Gield Towarowych S.A. ("IRGiT") up to the amount of PLN 4 000 million, with the effective term to 31 October 2023. This declaration was replaced by a new one signed after the balance sheet date, on 3 January 2023, up to the amount of PLN 6 000 million, with the effective term until 31 December 2023.</p> <p>Liabilities of the subsidiary TAURON Wytwarzanie S.A. against IRGiT were secured with a declaration of submission to enforcement signed on 11 October 2022, up to the amount of PLN 2 000 million, valid until 30 June 2023.</p> |
| Bank guarantees | <p>As at 31 December 2022 and 31 December 2021, bank guarantees totalling PLN 176 million and PLN 70 million, respectively, were in force.</p> <p>After the balance sheet date, bank guarantees were issued in favour of IRGiT as collateral for the liabilities of the Company and the subsidiary, TAURON Wytwarzanie S.A. As at the date of approval of these financial statements for publication, bank guarantees in the total amount of PLN 560 million are in force, with the effective dates from 31 March 2023 to 25 April 2023.</p> |
| Agreement for setting off the margins | <p>Pursuant to the Agreement defining the principles for the establishment of financial collateral for the energy Group concluded with the IRGiT, TAURON Group applies a mechanism for setting off the margins. In terms of the transactions performed, the margins required by the IRGiT are calculated against the positions offset within the Group, which translates into the reduction in the funds involved on a Group-wide basis in maintaining the collateral required by the IRGiT.</p> |
| Transfer of CO₂ emission allowances and property rights to certificates of origin | <p>In order to secure the liabilities of the Company and its subsidiary, TAURON Wytwarzanie S.A. on account of due margin deposit payments, in the year ended 31 December 2022 the following agreements were concluded with IRGiT for the transfer of CO₂ emission allowances and property rights to certificates of origin:</p> <ul style="list-style-type: none"> • pursuant to the agreement of 30 June 2022 concluded between the subsidiary, TAURON Wytwarzanie S.A. and IRGiT, on 4 July 2022 the company deposited CO₂ emission allowances owned by it in the IRGiT account in the total amount of 266 086 tonnes; • on 13 October 2022, the Company submitted a declaration to the agreement for the transfer of CO₂ emission allowances as a collateral for its liabilities, to transfer the CO₂ emission allowances in the total amount of 195 000 tonnes. The allowances were returned to the account in the Company on 19 December 2022; • pursuant to the agreement of 18 October 2022 concluded between the subsidiary, TAURON Wytwarzanie S.A. and IRGiT, on 28 October 2022 the company submitted an instruction to the Register of Certificates of Origin kept by the Polish Power Exchange (Towarowa Gielda Energii S.A.) to block its property rights in a total amount of 81 000 MWh; • on 27 December 2022, the Company submitted a declaration to the agreement for the transfer of CO₂ emission allowances as a collateral for its liabilities, to transfer the CO₂ emission allowances in the total amount of 201 000 tonnes to IRGiT. <p>As at 31 December 2022, the subject matter of the collaterals established in favour of IRGiT relates to the transfer of CO₂ emission allowances in the total amount of 467 086 tonnes and the blocking instruction of property rights in the total amount of 81 000 MWh.</p> <p>After the balance sheet day, the following events took place:</p> <ul style="list-style-type: none"> • on 2 January 2023, the Company deposited an additional quantity of CO₂ emission allowances, i.e. 75,000 |

| Type of collateral | Description |
|--------------------|---|
| | tonnes, in the IRGiT account; |
| | <ul style="list-style-type: none"> • on 21 February 2023, CO₂ emission allowances owned by the Company in the total amount of 201 000 tonnes and the subsidiary in the total amount of 266 086 tonnes were returned to the account of the Company and TAURON Wytwarzanie S.A., respectively, and are no longer the subject of the transfer of ownership; • on 27 February 2023, the Company deposited the additional quantity of CO₂ emission allowances, i.e. 339 000 tonnes, in the IRGiT account; • on 27 March 2023, part of the allowances in the total amount of 324 000 tonnes was returned to the Company's account. |
| | As at the date of approval of these financial statements for publication, the subject of the collaterals established relates to the transfer of CO ₂ emission allowances owned by the Company in the total amount of 90 000 tonnes and the blocking order of property rights owned by TAURON Wytwarzanie S.A. in the total amount of 81 000 MWh. |

42. Investment liabilities

As at 31 December 2022 and as at 31 December 2021 the Company did not have any material investment liabilities.

43. Related party disclosures

43.1. Transactions with related parties and State Treasury companies

The Company enters into transactions with related parties, as presented in Note 2 to these financial statements. In addition, due to the fact that the State Treasury of the Republic of Poland is the Company's majority shareholder, State Treasury companies are treated as related parties. Transactions with State Treasury companies are mainly related to the operating activities of the Company and are made on arm's length terms.

The total value of transactions with the aforementioned entities and the balances of receivables and liabilities have been presented in the tables below.

Revenues and costs

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|--|--------------------------------|--------------------------------|
| Revenue from subsidiaries | 28 833 | 17 943 |
| Revenue from operating activities | 26 229 | 15 523 |
| Dividend income | 1 729 | 1 807 |
| Other finance income | 875 | 613 |
| Revenue from jointly-controlled entities | 1 000 | 352 |
| Revenue from State Treasury companies | 784 | 488 |
| Costs from subsidiaries | (9 910) | (8 278) |
| Costs of operating activities | (9 784) | (8 246) |
| Finance costs | (126) | (32) |
| Costs incurred with relation to transactions with jointly-controlled entities | (518) | (447) |
| Costs from State Treasury companies | (1 292) | (621) |

Receivables and liabilities

| | As at 31 December 2022 | As at 31 December 2021 |
|--|---------------------------|---------------------------|
| Loans granted to subsidiaries and receivables from subsidiaries | 18 682 | 12 447 |
| Receivables from buyers | 3 723 | 2 338 |
| Loans granted to subsidiaries | 12 792 | 9 998 |
| Loans granted under cash pool agreement | 2 167 | 109 |
| Other non-financial assets | - | 2 |
| Loans granted to jointly-controlled entities and receivables from jointly-controlled entities | 744 | 606 |
| Receivables from State Treasury companies | 109 | 87 |
| Liabilities to subsidiaries | 7 769 | 5 980 |
| Liabilities to suppliers | 2 587 | 1 547 |
| Loans received under cash pool services | 2 859 | 2 608 |
| Loans from the subsidiary | 783 | 768 |
| Liabilities arising from the Tax Capital Group | - | 330 |
| Other financial liabilities | 4 | 23 |
| Other non-financial liabilities | 1 536 | 704 |
| Liabilities to jointly-controlled entities | 28 | 74 |
| Liabilities to State Treasury companies | 228 | 64 |

The receivables and loans presented in the table above represent values before allowances for expected credit losses or the measurement to the fair value.

Revenues from subsidiaries shown in the table include revenues from coal sales to TAURON Wytwarzanie S.A., Nowe Jaworzno Grupa TAURON Sp. z o.o. (on 3 October 2022, the merger of TAURON Wytwarzanie S.A. and Nowe Jaworzno Grupa TAURON Sp. z o.o. was registered, as further discussed in Note 2 to these financial statements) and TAURON Ciepło Sp. z o.o., which are presented net of acquisition costs in the statement of comprehensive income, at the value of the surplus representing the intermediation fee, as discussed in Note 11 to these financial statements.

The above tables do not include share sale and transfer transactions performed by the Company. The transactions are described in more detail in Note 19 of these financial statements.

In the year ended 31 December 2022, the revenues from the State Treasury companies result, to a large extent, from transactions executed by the Company with Polskie Sieci Elektroenergetyczne S.A.

In the scope of costs incurred in connection with the transactions with the State Treasury companies in the year ended 31 December 2022, the largest counterparties of TAURON Polska Energia S.A. included Polska Grupa Górnicza S.A., Węglkokos S.A. and Polskie Sieci Elektroenergetyczne S.A. Costs in transactions with these counterparties accounted for 86% of the total costs incurred in purchase transactions with the State Treasury companies.

The Company conducts material transactions on the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. Due to the fact that this entity only arranges stock exchange trading, the purchase and sale transactions performed through it are not treated as related party transactions.

The above tables do not include transactions with banks under the control of the State Treasury, which, in accordance with IAS 24 *Related Party Disclosures*, as providers of finance, are not treated as related parties.

Transactions with the State Treasury

On 21 October 2022, a conditional agreement for the sale of shares in the subsidiary TAURON Wydobywanie S.A. was concluded between the Company and the State Treasury, pursuant to which, as of 31 December 2022, the ownership of the shares in TAURON Wydobywanie S.A. was transferred from the Company to the State Treasury and, consequently, control over TAURON Wydobywanie S.A. was lost, as described in more detail in Note 2 to these financial statements.

On 22 March 2021, an agreement was concluded between the State Treasury represented by the Minister of State Assets and the Company, under which the Company is authorised to receive reimbursement of the costs incurred in connection with the implementation of the activities commissioned to it pursuant to the decision of the Prime Minister of 29 October 2020 in the scope of counteracting COVID-19, consisting in organising and establishing a temporary hospital in Krynica - Zdrój and maintaining the operation of this hospital. The total costs incurred for this task amounted to PLN 10 million and by the balance sheet day the Company had received reimbursement of the aforementioned costs.

43.2. Remuneration of the executives

The amount of compensation and other benefits paid or payable to the Management Board, Supervisory Board and other key executives of the Company in the year ended 31 December 2022 and in the comparative period has been presented in the table below.

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|--|--------------------------------|--------------------------------|
| Management Board of the Company | 7 | 4 |
| Short-term benefits (with surcharges) | 6 | 4 |
| Termination benefits | 1 | - |
| Supervisory Board of the Company | 1 | 1 |
| Short-term employee benefits (salaries and surcharges) | 1 | 1 |
| Other members of key management personnel | 13 | 16 |
| Short-term employee benefits (salaries and surcharges) | 12 | 14 |
| Termination benefits | - | 1 |
| Other | 1 | 1 |
| Total | 21 | 21 |

The table above takes into account the amounts paid and due by 31 December 2022. In accordance with the accounting policy adopted, the Company recognises the provisions for benefits on account of termination of management contracts due to members of the Management Board and other key management personnel that may be paid or due in subsequent reporting periods.

There are no transactions in the Company in respect of loans from the Company Social Benefits Fund (ZFSS) granted to members of the Management Board, members of the Supervisory Board and other members of the key management staff.

44. Finance and capital management

Finance and capital management is carried out at the level of TAURON Polska Energia S.A. Capital Group. During the period covered by these financial statements, there were no significant changes in the objectives, principles and procedures of capital and financial management. Capital and finance management at the Group level is discussed in more detail in Note 61 of Explanatory Notes to the Consolidated Financial Statements for the year ended 31 December 2022.

45. Structure of employment

The following note presents the average headcount for the annual periods ended 31 December 2022 and 31 December 2021.

| | Year ended 31 December 2022 | Year ended 31 December 2021 |
|------------------|--------------------------------|--------------------------------|
| Administration | 332 | 337 |
| Sales department | 91 | 97 |
| Total | 423 | 434 |

The above table does not include persons covered by contracts for the provision of management services.

46. Fee of the certified auditor or the entity authorized to audit financial statements

Information on the statutory auditor's remuneration is presented in section 6 of the Management Board report on the activities of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022.

47. Structure of financial statements broken down by business activity type in line with Article 44 of the Energy Law

Under Article 44.2 of the Energy Law Act, TAURON Polska Energia S.A. ("Energy Law"), as an energy company, is obliged to disclose specific items of the balance sheet and the statement of profit or loss broken down by individual types of business activity in notes to these financial statements.

In accordance with Article 44.2 of the Energy Law, the Company has identified the two types of business activities, i.e.: Trade in gaseous fuels and Other activity.

The principles of preparing a statement of comprehensive income (statement of profit or loss) broken down by types of business activity

The Company keeps accounting records which enable separate calculation of expense and revenue and the profit/loss for individual types of activities.

The Company directly distinguished revenues from sales and own cost of goods, materials and services sold related to particular types of business.

Costs of sales related to the entire sales process carried out by the Company have been divided on a pro rata basis against the revenue on sales generated by the Company.

Other operating and financing activities have been identified as those related to other business activities of the Company.

Administrative expenses of the Company are incurred for the benefit of the entire TAURON Group, hence they have been recognized in the statement of comprehensive income as unallocated items and are not directly attributable to a specific business activity, as such attribution would be unjustified. Also CIT charged to profit or loss has been presented under unallocated items.

Statement of comprehensive income by type of activity for the financial year 2022

| | Gas | Other activity | Unallocated items | Total |
|-------------------------------------|-------------|----------------|-------------------|------------|
| Sales revenue | 1 294 | 28 040 | - | 29 334 |
| Cost of sales | (1 315) | (27 634) | - | (28 949) |
| Profit on sale (loss) | (21) | 406 | - | 385 |
| Selling and distribution expenses | (1) | (31) | - | (32) |
| Administrative expenses | - | - | (145) | (145) |
| Other operating income and expenses | - | (8) | - | (8) |
| Operating profit (loss) | (22) | 367 | (145) | 200 |
| Dividend income | - | 1 797 | - | 1 797 |
| Interest income on loans | - | 544 | - | 544 |
| Interest expense on debt | - | (654) | - | (654) |
| Revaluation of shares | - | (48) | - | (48) |
| Revaluation of loans | - | (1 462) | - | (1 462) |
| Other finance income and costs | - | (341) | - | (341) |
| Profit (loss) before tax | (22) | 203 | (145) | 36 |
| Income tax expense | - | - | 31 | 31 |
| Net profit (loss) | (22) | 203 | (114) | 67 |

Statement of comprehensive income by type of activity for the financial year 2021

| | Gas | Other activity | Unallocated items | Total |
|-------------------------------------|----------|----------------|-------------------|------------|
| Sales revenue | 608 | 17 608 | - | 18 216 |
| Cost of sales | (601) | (17 441) | - | (18 042) |
| Profit on sale | 7 | 167 | - | 174 |
| Selling and distribution expenses | (1) | (24) | - | (25) |
| Administrative expenses | - | - | (101) | (101) |
| Other operating income and expenses | - | (3) | - | (3) |
| Operating profit (loss) | 6 | 140 | (101) | 45 |
| Dividend income | - | 1 852 | - | 1 852 |
| Interest income on loans | - | 247 | - | 247 |
| Interest expense on debt | - | (330) | - | (330) |
| Revaluation of shares | - | (1 399) | - | (1 399) |
| Revaluation of loans | - | (298) | - | (298) |
| Other finance income and costs | - | 119 | - | 119 |
| Profit (loss) before tax | 6 | 331 | (101) | 236 |
| Income tax expense | - | - | 24 | 24 |
| Net profit (loss) | 6 | 331 | (77) | 260 |

The principles of preparing a statement of financial position (balance sheet) broken down by types of business activity

The Company directly separated receivables from customers and liabilities to suppliers, other assets and liabilities as well as derivatives related to individual types of business activities carried out by the Company.

Equity, provisions for employee benefits, cash, receivables and liabilities relating to taxes and charges and deferred tax asset / liability have been presented as unallocated items in the statement of financial position.

The remaining assets and liabilities are related to other activities of the Company.

Statement of financial position as at 31 December 2022 by type of activity

| | Gas | Other activity | Unallocated items | Total |
|---|-----------|----------------|-------------------|---------------|
| ASSETS | | | | |
| Non-current assets, of which: | 7 | 27 322 | - | 27 329 |
| Shares | - | 15 716 | - | 15 716 |
| Loans granted | - | 11 172 | - | 11 172 |
| Derivative instruments | 7 | 383 | - | 390 |
| Current assets, of which: | 14 | 7 591 | 1 118 | 8 723 |
| Receivables from buyers | 9 | 4 061 | - | 4 070 |
| Income tax receivables | - | - | 79 | 79 |
| Loans granted | - | 2 368 | - | 2 368 |
| Derivative instruments | 4 | 455 | - | 459 |
| Other financial assets | 1 | 34 | - | 35 |
| Other non-financial assets | - | 601 | - | 601 |
| Cash and cash equivalents | - | - | 1 039 | 1 039 |
| TOTAL ASSETS | 21 | 34 913 | 1 118 | 36 052 |
| EQUITY AND LIABILITIES | | | | |
| Equity | - | - | 12 320 | 12 320 |
| Non-current liabilities, of which: | 7 | 14 811 | 4 | 14 822 |
| Debt | - | 14 754 | - | 14 754 |
| Derivative instruments | 7 | 3 | - | 10 |
| Other financial liabilities | - | 8 | - | 8 |
| Other non-financial liabilities | - | 4 | - | 4 |
| Other provisions, accruals, deferred income and government grants | - | - | 4 | 4 |
| Current liabilities, of which: | 44 | 8 807 | 59 | 8 910 |
| Debt | - | 3 316 | - | 3 316 |
| Liabilities to suppliers | 40 | 3 209 | - | 3 249 |
| Derivative instruments | 4 | 327 | - | 331 |
| Other financial liabilities | - | 146 | - | 146 |
| Other non-financial liabilities | - | 1 534 | 59 | 1 593 |
| Other provisions, accruals, deferred income and government grants | - | 22 | - | 22 |
| TOTAL EQUITY AND LIABILITIES | 51 | 23 618 | 12 383 | 36 052 |

Statement of financial position as at 31 December 2021 by type of activity

| | Gas | Other activity | Unallocated items | Total |
|---|-----------|----------------|-------------------|---------------|
| ASSETS | | | | |
| Non-current assets, of which: | 1 | 27 086 | - | 27 087 |
| Shares | - | 20 559 | - | 20 559 |
| Loans granted | - | 5 936 | - | 5 936 |
| Derivative instruments | 1 | 531 | - | 532 |
| Current assets, of which: | 29 | 3 508 | 856 | 4 393 |
| Receivables from buyers | 14 | 2 481 | - | 2 495 |
| Income tax receivables | - | - | 373 | 373 |
| Loans granted | - | 445 | - | 445 |
| Derivative instruments | 12 | 453 | - | 465 |
| Other financial assets | 3 | 67 | - | 70 |
| Other non-financial assets | - | 11 | 43 | 54 |
| Cash and cash equivalents | - | - | 440 | 440 |
| TOTAL ASSETS | 30 | 30 594 | 856 | 31 480 |
| EQUITY AND LIABILITIES | | | | |
| Equity | - | - | 12 101 | 12 101 |
| Non-current liabilities, of which: | 1 | 10 195 | 49 | 10 245 |
| Debt | - | 9 801 | - | 9 801 |
| Derivative instruments | 1 | 115 | - | 116 |
| Other financial liabilities | - | 11 | - | 11 |
| Other non-financial liabilities | - | 113 | - | 113 |
| Deferred tax liabilities | - | - | 45 | 45 |
| Other provisions, accruals, deferred income and government grants | - | 1 | 4 | 5 |
| Current liabilities, of which: | 36 | 8 988 | 110 | 9 134 |
| Debt | - | 4 669 | - | 4 669 |
| Liabilities to suppliers | 24 | 1 721 | - | 1 745 |
| Derivative instruments | 12 | 367 | - | 379 |
| Other financial liabilities | - | 493 | - | 493 |
| Other non-financial liabilities | - | 591 | 110 | 701 |
| Other provisions, accruals, deferred income and government grants | - | 18 | - | 18 |
| TOTAL EQUITY AND LIABILITIES | 37 | 19 183 | 12 260 | 31 480 |

48. Other material information

Conclusion of a settlement between Abener Energia S.A. and Elektrociepłownia Stalowa Wola S.A.

On 31 December 2021 Elektrociepłownia Stalowa Wola S.A. (the contracting authority) ("ECSW") and Abener Energia S.A. (general contractor) ("Abener") signed a settlement agreement to define the terms and conditions under which ECSW and Abener will perform mutual settlements arising from any court and arbitration disputes pending between the parties and resulting from ECSW's withdrawal from the contract concluded for the construction of a CCGT unit in Stalowa Wola. Pursuant to the settlement, ECSW paid to Abener the amount of EUR 93 million (based on the judgement of the Court of Arbitration at the Polish Chamber of Commerce in Warsaw of 25 April 2019 in the case brought by Abener against ECSW and other settlements), of which the amount of EUR 32 million was settled in the form of release of funds previously deposited in the escrow account due to the lawsuit won by ECSW in 2017 with the performance guarantor of the Abener contract. Upon the entry into force of the terms provided for in the settlement agreement, the parties agree to discontinue all pending litigation and arbitration proceedings between them and acknowledge the absence of any further or future claims arising from the contract. The conditions of the settlement have been fulfilled, accordingly, all court and arbitration proceedings between ECSW and Abener were first suspended at the concerted request of the parties, and subsequently, on 9 and 10 March 2022, the parties filed motions to resume the suspended proceedings, to withdraw the actions and the cassation complaint and to discontinue all proceedings. Consequently, on 14 March 2022, the Court of Arbitration at the Polish Chamber of Commerce issued a decision to discontinue the proceedings in the action of Abener against ECSW and on 21 March 2022 - a decision to discontinue the proceedings in the action of ECSW against Abener. By the order of 2 June 2022, the Supreme Court discontinued the cassation proceedings relating to the cassation appeal filed by ECSW in 2020.

The contract concluded between ECSW and Abener does not contain any provisions obliging the Company to pay any form of the remuneration to Abener for ECSW.

Implementation of the Government Programme of the Transformation of the Polish Electricity Sector

In April 2021, the government programme of the transformation of the Polish electricity sector (the "NABE Programme") was initiated by the Ministry of State Assets ("MAP"). The programme aims to separate coal assets from state-owned energy companies under the terms and conditions set out by the MAP in the document entitled "*The transformation of the electricity sector in Poland. Separation of coal generation assets from the companies with the State Treasury shareholding*". On 1 March 2022, the Council of Ministers passed the resolution adopting the aforementioned document.

The NABE programme stipulates the acquisition of all assets related to the generation of energy in coal and lignite-fired power plants, including service companies providing services to them by the State Treasury from PGE Polska Grupa Energetyczna S.A., ENEA S.A., TAURON Polska Energia S.A. and Energa S.A. The State Treasury will integrate the acquired assets into a single entity. The acquisition will be preceded by an internal reorganisation of the energy corporations.

In connection with the NABE Programme, in the year ended 31 December 2022, work was carried out in the Group in order to perform the reorganisation changes necessary for the execution of the transaction, aimed at integrating the assets to be separated into a single entity, i.e. TAURON Wytwarzanie S.A. company in TAURON Group. In particular, as part of the work performed:

- on 18 May 2022, a resolution was adopted to divide the TAURON Wytwarzanie S.A. company by separating and transferring the separated assets to the newly established company, TAURON Inwestycje Sp. z o.o. in organisation. Assets other than those related to the production of electricity from coal assets, such as the photovoltaic farm, which are not planned to be transferred under the NABE Programme, were transferred to TAURON Inwestycje Sp. z o.o. The value of the separated net assets amounted to PLN 75 million. The demerger of TAURON Wytwarzanie S.A. and the incorporation of TAURON Inwestycje Sp. z o.o. were registered on 1 July 2022,
- on 31 May 2022, the Company transferred the ownership of 100% of shares in the share capital of Bioeko Grupa TAURON Sp. z o.o. and 95.61% of shares in the share capital of TAURON Serwis Sp. z o.o. to TAURON Wytwarzanie S.A., with a total market value of PLN 58 million, under the datio in solutum agreement concluded,
- on 29 July 2022, an agreement was concluded for the sale of 100% of the shares in Nowe Jaworzno Grupa TAURON Sp. z o.o. held by the Company to TAURON Wytwarzanie S.A. for the price of PLN 4 815 million,
- on 3 October 2022 the merger of companies TAURON Wytwarzanie S.A. (the acquiring company) with Nowe Jaworzno Grupa TAURON Sp. z o.o. (the acquired company) through the transfer of the entire assets of Nowe Jaworzno Grupa TAURON Sp. z o.o. to TAURON Wytwarzanie S.A. was registered.

As at 31 December 2022, the Company believes that the criteria of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* have not been met in the scope of classification of the shares of TAURON Wytwarzanie S.A. held by the Company as disposable assets classified as held for sale.

Impact of the COVID-19 pandemic on the operations of the Company and TAURON Group

2022 was the time of the continuing conditions of the COVID-19 pandemic (5th wave), which initially (in the first quarter of 2022) saw persistently high levels of SARS-CoV-2 virus infections, which gradually decreased later throughout the year. Some restrictions still applied in the country with the aim to contain the spread of the pandemic which were gradually eased as the number of recorded cases of infection decreased. In 2022, this situation triggered certain turbulences in the economic and administrative system in Poland and worldwide. The restrictions are currently considerably less severe, nevertheless, in the medium and long term, it should be expected – taking into account the probability of emergence of new waves of increased infections – that the COVID-19 pandemic may still affect, although to a lesser extent than before, the national, European and global economic situation, exerting a negative impact on macroeconomic factors. Material issues relating to the impact of the pandemic on TAURON Group are set out below:

- despite the restrictions initially in force, no material impact of the COVID-19 pandemic on the level of demand for electricity among TAURON Group customers was observed in 2022,
- in 2022, no significant changes and sustained trends were observed in the level of overdue receivables and volatility in prices of electricity and related products resulting from the COVID-19 pandemic,
- no significant changes in the level of prices in the markets of electricity and related products resulting from the COVID-19 pandemic were observed,
- the situation related to the COVID-19 pandemic in 2022 (especially in the first quarter of 2022) affected the operating activities of the individual Business Areas of TAURON Group through increased employee absenteeism, which, however, did not have a significant impact on operational continuity.

TAURON Group, being aware of the risks associated with the epidemiological situation, continued and adapted its activities adequately to the level of risks and the development of the epidemiological situation in the analysed period. In connection with the foregoing, the Management Board of the Company continues to monitor the pandemic situation and takes any feasible steps to mitigate the negative impact of the pandemic on TAURON Group.

Impact of the military aggression of the Russian Federation against Ukraine on the current and future activities of the Company and TAURON Group

In February 2022, the aggression of the Russian Federation started in territory of Ukraine. In the TAURON Group's assessment, the key consequences of the aggression and the resulting risks that affected TAURON Group in 2022 are as follows:

- crisis in the energy fuels market resulting from the reduction in trade exchange with the Russian Federation, causing supply disruptions in fossil fuels and consequently affecting spikes in the volatility and price levels of raw materials quoted on commodity markets (including oil, gas and coal); This situation (mainly in the second half of the year) had an impact on increasing the variable costs of generation with limited possibilities to transfer the cost to increased revenues from sales and electricity production,
- a reduction in the supply of coal in terms of agreements concluded with external suppliers, logistical disruptions in the transport of coal, as well as regulatory changes that affected the level of compliance with statutory required hard coal stocks,
- high level of volatility of electricity prices in all market segments both in Poland and in the European markets, resulting in continuing high level of market risk. In commercial terms, a high volatility in the cost of securing (including profiling and trade balancing) the end-customers' demand in the Sales Area was also recorded,
- continuing high volatility in the prices of electricity and related products, causing an increase in trading margins resulting from contracts concluded on the exchange market for electricity,
- the rise in inflation in Poland, as a result of which the Monetary Policy Council cyclically introduced increases in the NBP reference rate. The volatility of interest rates affected the cost of servicing financing in TAURON Group and it will also affect the return of capital employed in the Distribution Area in 2023. As a result of the economic turbulence, an increased volatility of exchange rates and a depreciation of the zloty were also recorded, which mainly affected the cost of purchasing CO₂ emission allowances and an increase in the cost of purchasing hard coal from foreign directions, as well as the valuation of debt denominated in EUR,
- observed gradual downturn of the economic situation in Poland, and consequently a decrease in the volume of energy sales and distribution (observed in particular in the third and fourth quarter of 2022), which affected the value of revenues of the Distribution Area and the Sales Area,
- escalation of wage claims and potential social unrest in TAURON Group as a result of rising inflation in Poland,

- implementation of significant national regulations aimed at limiting electricity demand, introducing mechanisms to limit increases in electricity prices for end users, introducing margin restrictions for electricity generators and trading companies, as well as changes to the rules of operation of the wholesale electricity market (abolition of the exchange obligation, changes to the rules of price setting in the balancing market). The introduction of the above regulations affected the TAURON Group's trading activities in 2022 and will also affect the results of the Sales Area, the conventional Generation Area, the RES Area, the Heat Area and the Distribution Area in 2023.

In the subsequent periods, at least some of the above-mentioned risk factors are expected to continue and their impact on the TAURON Group's liquidity and results will depend on the impact of the aggression of the Russian Federation on the developments in the market, economic and geopolitical environment. It should be indicated that the situation associated with the aggression of the troops of the Russian Federation against Ukraine and its impact on the market and regulatory environment is highly volatile and its future consequences are difficult to estimate precisely. They will depend, in particular, on the scale and duration of the aggression, further developments including the potential escalation of hostilities as well as the impact on the condition of the economy in Poland and worldwide. The impact of the risks identified may also depend on further regulatory action at the European Union level and at the national level in terms of implementing intervention measures as well as shaping the future energy market.

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

- economic turbulences which may trigger financial difficulties for some customers and counterparties of TAURON Group and, at the same time, an increase in credit risk,
- continued high volatility of raw material prices and prices of electricity and related products, persistent high inflation, as well as possible disruptions to the supply chains of goods and services, which may affect the timing and profitability of ongoing and planned investment processes,
- changes in the EU energy balance and, as a consequence, a potential increased level of operation of TAURON Capital Group's generating units, which may result in a decrease in their availability in the future and risks resulting from capacity obligations imposed on some of them,
- threats in the scope of security and cyber security, including potential restrictions in the access to IT/ OT infrastructure, the internet and GSM networks as well as physical security of critical infrastructure elements, the disruption of which may cause disturbances in the scope of functioning of operational processes and business continuity. At the national level, alert degrees were maintained, indicating an increased risk associated with the possibility of occurrence of terrorist events.

In other areas, as of the date of drawing up this information, TAURON Group has not identified any direct effects of the aggression on its own operating and business activities, while the continuity of business processes was not at risk. TAURON Group had no assets located in Ukraine, Russia or Belarus. No significant changes were recorded in balances of overdue receivables. In 2022, no significant risks were identified with regard to the implementation of long-term development directions and TAURON Group Strategy. Current and potential challenges identified in investment and restructuring processes related to the volatility of commodity prices, disruption in supply chains for goods and services as well as inflation were analysed in detail based on updated knowledge and forecasts before any liabilities had been incurred and significant funding had been raised.

Recognising the scale of the risks associated with the current situation, TAURON Group continuously monitored the impact of the war in Ukraine and undertook measures to mitigate the potential effects of risk materialisation as well as to maintain the continuity of critical infrastructure operations. In view of the situation at TAURON Group companies, dedicated Crisis Teams have been established to monitor the impact of the current situation on business processes and to take action in the event of identification of a threat of their interruption or disruption.

Conclusion of a letter of intent on cooperation in the area of generation sources in the Small Modular Reactor (SMR) technology

On 20 April 2022, the Company concluded a letter of intent with KGHM Polska Miedź S.A., in which the parties consider strategic cooperation related to research and development and future investment projects in the scope of construction of generation sources in the Small and Micro Modular Reactor (SMR) technology, i.e. nuclear power reactors with the capacity of 5 to 300 MWe. The purpose of the cooperation between the parties to the Letter of Intent is to identify the possibility, nature and details of potential joint involvement in the implementation of investment projects in the scope of SMR. The subject of the cooperation will cover, among others, the analysis of available technologies and the possibility of installing a generating installation in the vicinity of the receiving infrastructure and the possibility of using the existing infrastructure of existing power units as well as identification of the possibility of acquiring an optimal technology, investing in another way or establishing other forms of cooperation with third parties already implementing or planning to implement investment projects in the field of SMR.

The letter of intent is an expression of the parties' intention to cooperate, while the provisions of the letter of intent are not binding on the parties. The letter of intent shall remain in force until the date on which one of the parties expresses its willingness to renounce further cooperation.

49. Events after the balance sheet date

Signing the working capital loan agreement

After the balance sheet date, on 16 February 2023, the Company concluded the working capital loan agreement with Bank Gospodarstwa Krajowego under a revolving credit line for the amount of PLN 750 million with a repayment date of 30 September 2023. On 24 February 2023, the Company drew down all available funding.

Information concerning the construction of the 910 MW unit in Jaworzno

After the balance sheet date, on 11 January 2023, the subsidiary, TAURON Wytwarzanie S.A. decided to send to the members of the consortium consisting of: RAFAKO S.A. and Mostostal Warszawa S.A. and the subcontractor, E003B7 Sp. z o.o. (a subsidiary of RAFAKO S.A.) (jointly "the Contractor") the summons for contractual penalties and damages ("the Summons"), resulting from the performance of the contract for the construction of a 910 MW power unit in Jaworzno. The decision of TAURON Wytwarzanie S.A. – in accordance with its powers under the contract – to issue the Summons resulted from the failure to obtain or confirm the contractual technical parameters, the occurrence of an objective delay on the part of the Contractor in the performance of the contract, the occurrence of the damage on the part of TAURON Wytwarzanie S.A. as a result of failure to achieve the availability parameter and identified and non-remedied physical defects in the subject of the contract. The Summons were accompanied by the note issued for the total amount of PLN 1 312 million, as the total amount of penalties and damages.

On 13 January 2023, TAURON Wytwarzanie S.A. and the Company received summons for payment from RAFAKO S.A. ("the Summons for Payment"). The subject of the Summons for Payment addressed to TAURON Wytwarzanie S.A. are the claims for payment of the total amount of PLN 606 million under the titles listed in the Summons for Payment. At the same time, RAFAKO S.A. indicated that in the event of the failure of the investor process concerning the acquisition of an investor for RAFAKO S.A., for reasons attributable, in RAFAKO S.A.'s opinion, to TAURON Wytwarzanie S.A., RAFAKO S.A. would claim an amount of compensation not lower than PLN 300 million. Moreover, RAFAKO S.A. reserved that if RAFAKO S.A.'s contractors and business partners - as a result of an act or omission by TAURON Wytwarzanie S.A. - file claims for contractual penalties or damages against RAFAKO S.A., RAFAKO S.A. would file claims for damages/recourse against TAURON Wytwarzanie S.A. in an amount not lower than PLN 483 million. The subject of the Summons addressed to the Company are the claims for payment of the total amount of PLN 251 million under the titles listed in the Summons for Payment. At the same time, RAFAKO S.A. indicated that it would seek damages from the Company in the amount of no less than PLN 483 million resulting from potential penalties and damages claimed by entities for which contracts are performed or which are business partners of RAFAKO S.A. This amount may increase due to further claims by the parties to the contracts, related to breach of contracts and delays in their implementation. RAFAKO S.A. has further reserved, that in the event of the failure of the investor process concerning the acquisition of an investor for RAFAKO S.A. due to reasons lying - in the opinion of RAFAKO S.A. - on the part of TAURON Wytwarzanie S.A., RAFAKO S.A. will claim damages in the amount of not less than PLN 300 million. The preliminary analysis of the Summons for Payment carried out by the Company and TAURON Wytwarzanie S.A. indicated that they were unfounded.

On 7 February 2023, an agreement was concluded between TAURON Wytwarzanie S.A. and the Contractor. The agreement established the terms of cooperation for the period up to 8 March 2023 and was concluded in order to ensure a constructive mediation process before the Court of Arbitration at the Office of Attorney General of the Republic of Poland, aimed at working out a solution to the disputes arising from the implementation of the contract for the construction of the 910 MW unit. According to the agreement, the parties declared their intention to continue mediating in good faith, with the intention of amicably settling the claims covered by the summons and notes on each side. The parties strive to reach a settlement agreement under which they would decide on the method of completion of the contract and performance of mutual settlements on this account. The parties agreed that completion of the contract would take place within 5 days of the verification and joint assessment of the guaranteed technical parameters A and B under the terms of the settlement agreement, but no later than 31 December 2023 and that the Contractor's liability under the contract would be limited to the amount set in the settlement agreement. On 7 March 2023, the parties signed an annex amending the agreement by extending the maturity date of their mutual claims to 22 March 2023. The extension of the deadline was performed without the waiver of claims.

On 20 March 2023, TAURON Wytwarzanie S.A., RAFAKO S.A., Mostostal Warszawa S.A. and E003B7 Sp. z o.o. signed the assumptions of the settlement agreement (the "Settlement") under which they would decide on the method of completion of the contract for the construction of the 910 MW unit in Jaworzno and performance of mutual settlements on this account.

In accordance with the most significant findings:

- subject to RAFAKO S.A. reaching an agreement with the guarantors, TAURON Wytwarzanie S.A. will limit its claims against RAFAKO S.A., Mostostal Warszawa S.A. and E003B7 sp. z o.o. to the amount of PLN 240 million and this amount will be satisfied by drawing on the performance bond granted request of E003B7 Sp. z o.o. and will be paid by the guarantors;
- in the framework of exercising of RAFAKO S.A.'s claims against TAURON Wytwarzanie S.A., TAURON Wytwarzanie S.A. will pay RAFAKO S.A. and E003B7 Sp. z o.o. the total amount of PLN 65 million under the titles set forth in the assumptions of the Settlement;
- on the day of entry into force of the Settlement, TAURON Wytwarzanie S.A. will discharge RAFAKO S.A., Mostostal Warszawa S.A. and E003B7 Sp. z o.o. from their obligations resulting from technical guarantees, the parties will terminate the contract for construction of the 910 MW unit extinguishing the liabilities arising from the contract and will mutually waive all claims against above those subject to the Settlement,
- on the date of signing of these assumptions to the Settlement Agreement, RAFAKO S.A. and Mostostal Warszawa S.A. will submit and deliver to TAURON Wytwarzanie S.A. a statement on extending, until 28 April 2023, the deadline for issuing and delivering the payment guarantee requested by RAFAKO S.A. from TAURON Wytwarzanie S.A. and on 21 March 2023 the parties will conclude another annex to the agreement concluded between them on 7 February 2023, pursuant to which the deadlines for standstill arrangements will be extended to 28 April 2023.

In addition, the parties agreed that they would unanimously seek approval of the Settlement from the common court. The conditions precedent to the entry into force of the Settlement include: obtaining corporate approvals by TAURON Wytwarzanie S.A., RAFAKO S.A. and Mostostal Warszawa S.A. by 20 April 2023; and conclusion by RAFAKO S.A. of an agreement with the guarantors on the immediate payment of PLN 240 million to TAURON Wytwarzanie S.A. by 24 April 2023, adoption by the general meeting of RAFAKO S.A. by 24 April 2023, of a resolution to increase the company's share capital by the amount indicated in the notice convening the general meeting, submission by MS Galleon GmbH, by 24 April 2023, of a declaration of further interest in continuing the investor process of RAFAKO S.A., and conclusion by RAFAKO S.A., by 24 April 2023, of a settlement with Ignitis Grupė AB or its subsidiary entity/s regarding the Vilnius project.

On 21 March 2023, the parties signed Annex No 2 to the agreement. Under the Annex concluded, the parties agreed to extend:

- to 24 April 2023, the due date of the claim of TAURON Wytwarzanie S.A. against the Contractor in the amount of PLN 550 million (the total amount of the performance bond in respect of the performance of the contract for the construction of the unit with the capacity of 910 MW in Jaworzno) and the obligation of TAURON Wytwarzanie S.A. to refrain from asserting any claims against the Contractor arising from or in connection with the performance of the contract in respect of the above amount;
- until 28 April 2023: the maturity date of RAFAKO S.A.'s claim against the Company and RAFAKO S.A.'s claim against TAURON Wytwarzanie S.A. referred to above, the obligation of TAURON Wytwarzanie S.A. to refrain from asserting any claims against the Contractor arising from or in connection with the performance of the contract in the scope of the amount of PLN 763 million, as well as the obligation of the parties to refrain from asserting against each other and the financing institutions any pecuniary and non-pecuniary claims, including requests/calls for payment and non-pecuniary claims, and to refrain from submitting motions, notices and claims to judicial and administrative authorities.

The Annex shall enter into force on the condition precedent that the Contractor delivers to TAURON Wytwarzanie S.A. by 23 March 2023 annexes to the guarantees extending the validity of these guarantees until at least 28 April 2023. The annexes signed by the guarantors to all the guarantees issued under the contract constituting instruments of securing the performance bond, extending the guarantee validity period until 30 April 2023, have been delivered. Thus, the condition precedent of the annex was met, which means that the provisions of the annex entered into force.

Management Board of the Company

Katowice, 28 March 2023

Paweł Szczeszek – President of the Management Board

Patryk Demski – Vice President of the Management Board

Bogusław Rybacki – Vice-President of the Management Board

Krzysztof Surma – Vice President of the Management Board,

Tomasz Szczegielniak – Vice President of the Management Board

Artur Warzocha – Vice President of the Management Board

Oliwia Tokarczyk – Executive Director for Accounting and Taxes



REPORT OF THE MANAGEMENT BOARD

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

TABLE OF CONTENTS

| | | |
|-----------|--|-----------|
| 1. | TAURON POLSKA ENERGIA S.A. AND TAURON CAPITAL GROUP | 5 |
| 1.1. | General information | 5 |
| 1.2. | Segments of operations | 6 |
| 1.3. | Organization of TAURON Capital Group and the changes thereof, as well as the entities subject to consolidation..... | 7 |
| 1.4. | Organizational or equity ties with other entities | 12 |
| 1.5. | Major domestic and foreign investments, as well as equity investments | 12 |
| 1.6. | TAURON Group's Strategy for the years 2022-2030 with an outlook until 2050 and the implementation thereof | 13 |
| 1.7. | Description of the expansion policy and directions | 20 |
| | Implementation of the strategic investment (CAPEX) projects | 21 |
| | Evaluation of the capability to complete the intended investment projects | 25 |
| 1.8. | Major achievements in in the field of research, development and innovation | 25 |
| 1.9. | TAURON Group's Business and Operational Model | 28 |
| 1.10. | Principles of management of TAURON Polska Energia S.A. and TAURON Capital Group and the changes thereof..... | 30 |
| 2. | OPERATIONS OF TAURON POLSKA ENERGIA S.A. AND TAURON CAPITAL GROUP | 33 |
| 2.1. | Core products, goods and services | 33 |
| 2.2. | Markets and sources of supply | 35 |
| 2.3. | Assessment of the factors and non-typical (one-off) events that have a significant impact on the financial result achieved | 40 |
| | Market environment | 42 |
| | Regulatory environment | 48 |
| | Competitive environment..... | 56 |
| 2.4. | Factors important for growth..... | 59 |
| 2.5. | Timeline..... | 60 |
| 2.6. | Major events having a significant impact on the operations in 2022 and after the balance sheet date, i.e. December 31, 2022 | 61 |
| 2.7. | Prizes and accolades (honorable mentions)..... | 65 |
| 2.8. | Employment information | 67 |
| 2.9. | Expenditures to provide support for culture, sports, charity institutions, media, social organizations, trade unions..... | 69 |
| 3. | TAURON CAPITAL GROUP'S RISK MANAGEMENT | 71 |
| 3.1. | Risk management strategy | 71 |
| 3.2. | Risks in the individual operating Segments | 73 |
| 3.3. | Description of the most material risk categories and their mitigation examples..... | 75 |
| 3.4. | The impact of the COVID-19 pandemic on the operations of TAURON Capital Group in 2022 | 82 |
| 3.5. | The impact of the Russian Federation's aggression against Ukraine on the current and future operations of TAURON Capital Group | 82 |
| 4. | ANALYSIS OF THE FINANCIAL POSITION AND ASSETS OF TAURON POLSKA ENERGIA S.A.... | 85 |
| 4.1. | Overview of the economic and financial data disclosed in the annual financial statements | 85 |
| 4.2. | Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier..... | 89 |
| 4.3. | Key financial ratios and the Alternative Performance Measures..... | 89 |
| 4.4. | Principles of preparing annual financial statements..... | 89 |
| 5. | ANALYSIS OF THE FINANCIAL POSITION AND ASSETS OF TAURON CAPITAL GROUP | 91 |
| 5.1. | TAURON Capital Group's financial results | 91 |
| 5.2. | TAURON Capital Group's financial results per Segment of operations | 92 |
| 5.3. | Characteristics of the structure of assets and liabilities in the consolidated statement of financial position | 101 |
| 5.4. | Discussion of the economic and financial figures disclosed in the annual consolidated financial statement | 106 |
| 5.5. | Material off-balance sheet items..... | 111 |
| 5.6. | Differences between the financial results reported in the annual report and the forecasts of results for the given year published earlier..... | 111 |

| | | |
|------------|--|------------|
| 5.7. | Key financial ratios and the Alternative Performance Metrics..... | 111 |
| 5.8. | Key financial and operating data for the last 5 years..... | 113 |
| 5.9. | What can we expect in 2023..... | 117 |
| 5.10. | Current and forecast financial and assets situation..... | 117 |
| 5.11. | Principles of preparing annual consolidated financial statements..... | 118 |
| 6. | INFORMATION ON THE AUDIT FIRM..... | 120 |
| 7. | FINANCIAL RESOURCES AND INSTRUMENTS..... | 122 |
| 7.1. | Proceeds from security issues..... | 122 |
| 7.2. | Financial instruments..... | 122 |
| 7.3. | Assessment of the financial resources management..... | 123 |
| 8. | SHARES AND SHAREHOLDERS OF TAURON POLSKA ENERGIA S.A..... | 125 |
| 8.1. | Shareholding structure..... | 125 |
| 8.2. | Dividend policy..... | 125 |
| 8.3. | Number and nominal value of TAURON Polska Energia S.A.'s shares, as well as of the shares and interests in the related units, held by the Members of the Management Board and the Supervisory Board..... | 125 |
| 8.4. | Agreements related to potential changes to the shareholding structure..... | 126 |
| 8.5. | Share buybacks..... | 126 |
| 8.6. | Employee stock award programs..... | 126 |
| 8.7. | Share price performance on the Warsaw Stock Exchange (WSE)..... | 126 |
| 8.8. | Investor relations..... | 130 |
| 9. | STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE..... | 132 |
| 9.1. | Applied set of corporate governance rules..... | 132 |
| 9.2. | Set of abandoned rules of corporate governance..... | 135 |
| 9.3. | Main characteristics of the internal controls and risk management systems in relation to the process of drawing up the financial statements and the consolidated financial statements..... | 138 |
| 9.4. | Shareholders holding substantial blocks of shares..... | 140 |
| 9.5. | Holders of securities providing special control rights..... | 140 |
| 9.6. | Restrictions on exercising the voting right..... | 141 |
| 9.7. | Restrictions on the transfer of the ownership right to securities..... | 142 |
| 9.8. | Rules on appointing and dismissing the Members of the Management Board and of the Supervisory Board of TAURON Polska Energia S.A., and the empowerments thereof..... | 142 |
| 9.9. | Procedure of amending TAURON Polska Energia S.A.'s Articles of Association..... | 143 |
| 9.10. | General Meeting of TAURON Polska Energia S.A. and the shareholders' rights..... | 144 |
| 9.11. | Management Board and Supervisory Board of TAURON Polska Energia S.A. and the committees thereof..... | 146 |
| 9.12. | TAURON Group's Diversity Policy..... | 168 |
| 10. | STATEMENT ON NON-FINANCIAL INFORMATION..... | 170 |
| 11. | POLICY OF COMPENSATION OF MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD..... | 171 |
| 11.1. | Compensation system for the Members of the Management Board and the key managers..... | 171 |
| 11.2. | Principles, conditions and amount of compensation of the Members of the Management Board of TAURON Polska Energia S.A. and the entities that are a part of TAURON Capital Group..... | 173 |
| 11.3. | Agreements concluded with the Members of the Management Board that envisage compensation in case of their dismissal from the position held..... | 174 |
| 11.4. | Non-financial components of the compensation due to the Members of the Management Board of TAURON Polska Energia S.A. and the key managers..... | 175 |
| 11.5. | Information on the changes to the compensation policy during the last financial year..... | 175 |
| 11.6. | System of the Compensation of the Members of the Supervisory Board of TAURON Polska Energia S.A..... | 175 |
| 11.7. | Compensation of the Members of the Supervisory Board of TAURON Polska Energia S.A..... | 176 |
| 12. | OTHER MATERIAL INFORMATION AND EVENTS..... | 177 |
| 12.1. | Material proceedings pending in front of the court, competent arbitration authority or public administration authority..... | 177 |
| 12.2. | Agreements that are material for TAURON Capital Group's operations..... | 184 |
| 12.4. | Concluded and terminated credit and loan agreements..... | 187 |
| 12.5. | Loans and sureties granted as well as sureties and guarantees received..... | 188 |

| | | |
|-------|---|------------|
| 12.6. | Other information that could be material for the evaluation of TAURON Capital Group’s personnel, assets, financial position, financial result and the changes thereof, as well as the information that could be material for the evaluation of the ability of TAURON Capital Group to meet its obligations..... | 189 |
| | Appendix A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS | 190 |
| | Appendix B: INDEX OF TABLES AND FIGURES..... | 195 |

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

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

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

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

1.1. General information

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

The Company does not have any branches (divisions).

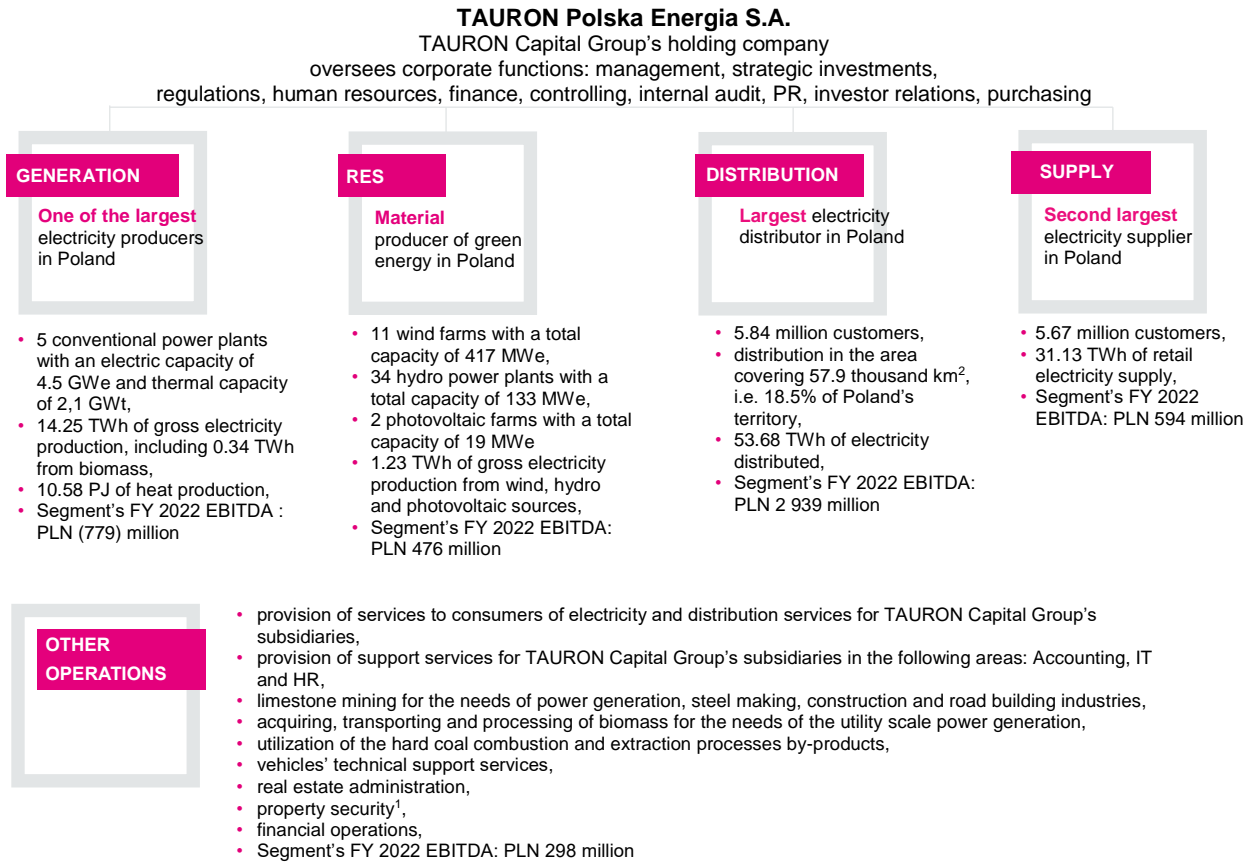
On December 31, 2022 the Capital Group discontinued operations in the segment of hard coal mining as a result of transfer of ownership right to the shares of TAURON Wydobywanie S.A. (TAURON Wydobywanie) from the Company to State Treasury. On October 21, 2022 the Company and State Treasury signed conditional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

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

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

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

Figure no. 1. TAURON Capital Group







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

1.2. Segments of operations

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

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

-  **Generation Segment**, that comprises mainly electricity generation using conventional sources, including co-generation, as well as electricity generation from biomass burning. This Segment also includes heat generation and supply as well as the generation equipment's overhaul operations.
-  **Renewable Energy Sources (RES) Segment**, that comprises electricity generation from renewable energy sources, i.e. hydroelectric, wind and solar power plants.
-  **Distribution Segment**, that comprises distribution of electricity using the distribution grids located on the territory of the following provinces: Małopolska, Lower Silesia, Opole, Silesia, partly: Świętokrzyskie, Podkarpackie, Łódź, Wielkopolska and Lubuskie. The Segment also includes the operations that cover the technical support services related to the electricity metering systems and the metering data acquisition.
-  **Supply Segment**, that comprises electricity and natural gas supply to the final consumers and electricity, natural gas and derivative products wholesale trading, as well as trading and management of the CO₂ emission allowances, property rights and innovative services related to, among others, the management and maintenance of the street lighting, smart city products, e-mobility products, as well as the services focused on energy efficiency.

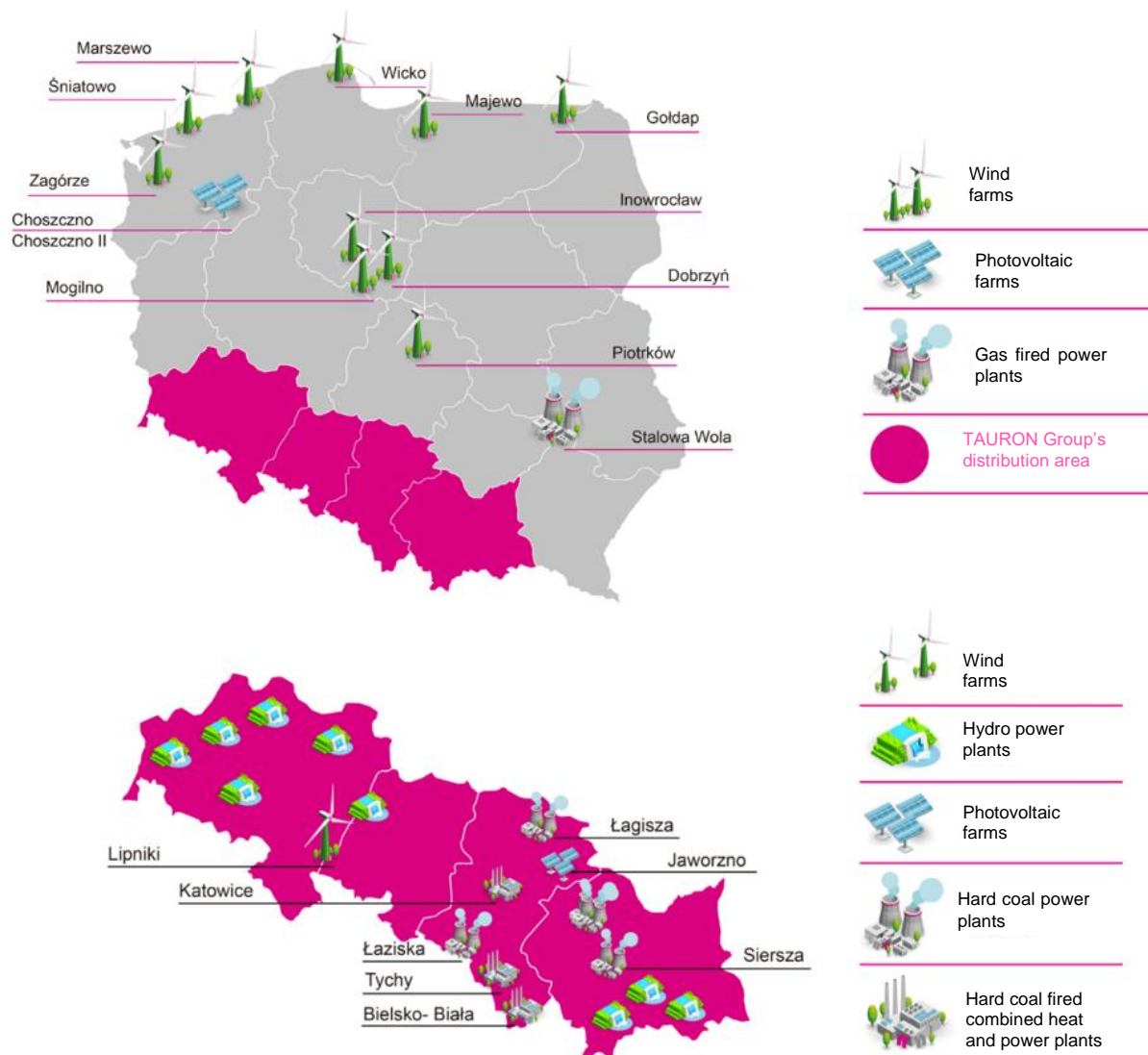
Apart from the main Segments of operations, TAURON Capital Group is also conducting the operations presented as part of the **Other Operations** that comprise, among others, the customer service for TAURON Capital Group's customers, the provision of the support services for TAURON Capital Group's subsidiaries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

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

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

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

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



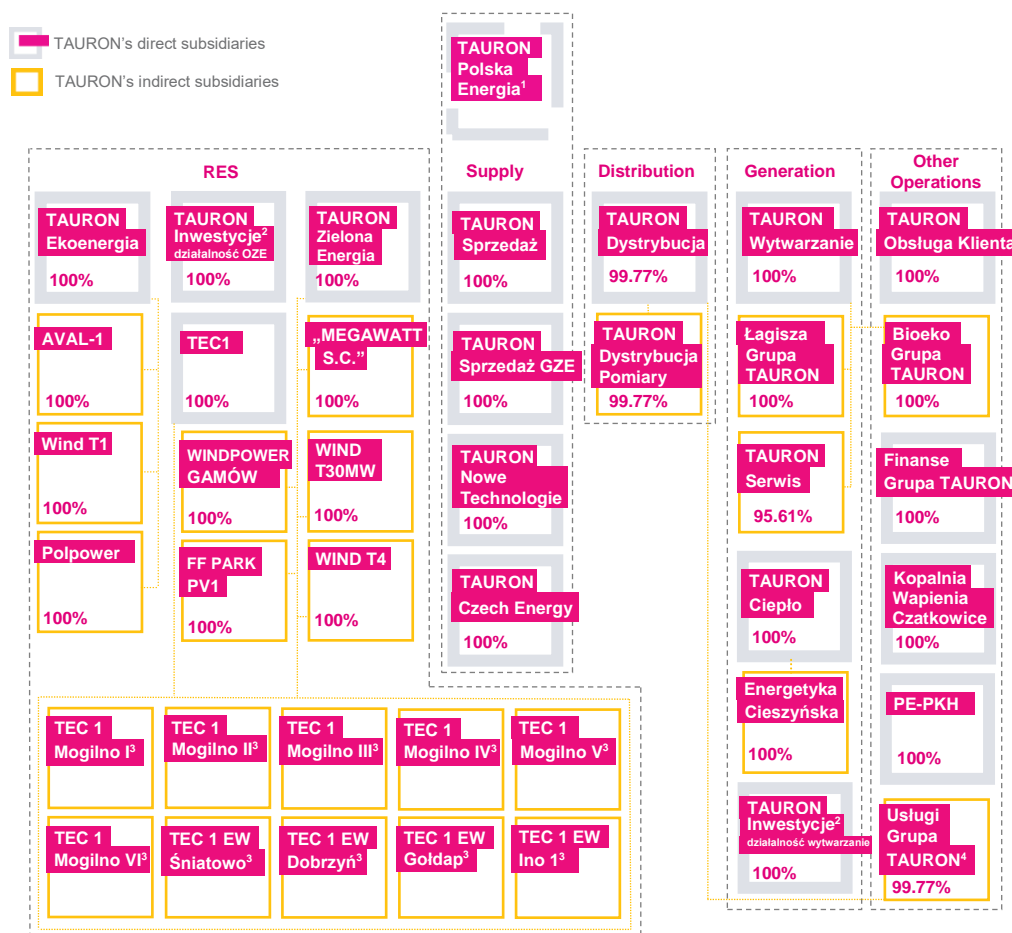
1.3. Organization of TAURON Capital Group and the changes thereof, as well as the entities subject to consolidation

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

Entities subject to consolidation

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

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



¹TAURON is included in the Supply Segment.

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

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

⁴formerly Marselwind sp. z o.o. (Marselwind)

Changes to the organization

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

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

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

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

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

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

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

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

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

- 2) on June 1, 2022, the provision of processes related services, along with employees, was transferred from TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta) to TAURON Wytwarzanie, and thus the accounting and financial services as well as the Human Resources and payroll services for the entities of TAURON Capital Group, planned to be included in the sale transaction to the State Treasury, were organized in TAURON Wytwarzanie,

- 3) on July 1, 2022, the District Court Katowice-Wschód in Katowice, the 8th Commercial Division of the National Court Register, registered the split of TAURON Wytwarzanie and the establishment of the company TAURON Inwestycje sp. z o.o. (TAURON Inwestycje). The split was carried out pursuant to Art. 529, §1, clause 4 of the *Commercial Companies Code* by spinning off and transferring the spun-off assets, i.e. the Investment Division (Arm), to the newly established company - TAURON Inwestycje. As a result of the split, the share capital of TAURON Wytwarzanie was reduced by the amount of PLN 77 986 600, corresponding to the net value of the assets of the organized part of TAURON Wytwarzanie - the Investment Division, i.e. from PLN 106 236 230 to PLN 28 249 630. The share capital of TAURON Inwestycje amounts to PLN 779 800 and is divided into 7 798 shares with a nominal value of PLN 100 each, while the surplus, arising in connection with the acquisition of the company's shares at a value higher than their nominal value, i.e. PLN 77 206 800, was contributed to the supplementary capital of this company. All of the shares in the share capital of TAURON Inwestycje have been awarded to the current shareholder of TAURON Wytwarzanie, i.e. TAURON.

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

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

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

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

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

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

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

Other changes in the organization

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.4. Organizational or equity ties with other entities

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

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

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

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

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

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

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

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

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

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

¹formerly Marselwind

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

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

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

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

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

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

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

Investments in the financial assets

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

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

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

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

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

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

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

Mission, Vision and values

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

TAURON CAPITAL GROUP'S MISSION

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

TAURON CAPITAL GROUP'S VISION

TAURON – the company of first choice.

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



TAURON Capital Group's Strategy

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

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

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

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



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

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

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



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

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



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

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

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

Prospective goals and assumptions of TAURON Group's Strategy

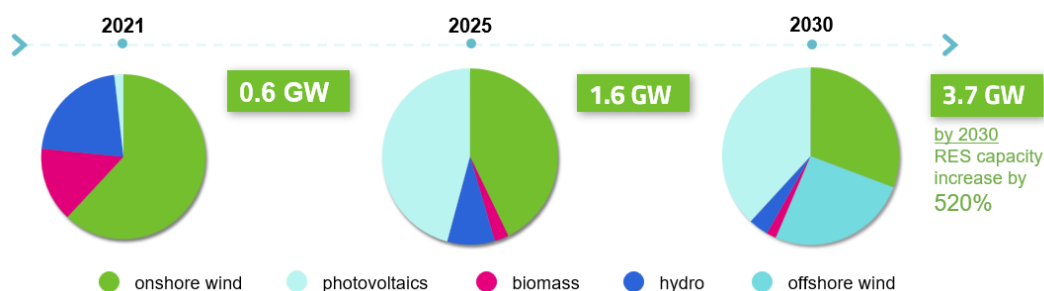
The Strategy, approved in 2022, assumes a number of actions to achieve the goals set for TAURON Capital Group. The key strategic objectives identified as part of the implementation of TAURON Group's priorities include:

1. EBITDA of PLN 4.5 billion in 2025 and more than PLN 6.5 billion in 2030,
2. Maintain the net debt to EBITDA ratio at a safe level,
3. Increase in installed RES capacity to 1.6 GW in 2025 and to 3.7 GW in 2030,
4. Reduce emissions to 200 kg CO₂/MWh in 2025 and below 160 kg CO₂/MWh in 2030,
5. Implementation of smart metering - 100% smart meters by 2030,
6. New connections of customers to the district heating network – approx. 450 MWt by 2030,
7. Maintain high customer service standards - First Time Resolution (FTR) rate > 90% in 2030.

Such a significant reduction in the CO₂ emissions, which will allow the Group to rank among the most environmentally responsible power companies, will be a consequence of the change in the structure of installed capacity at TAURON Capital Group.

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

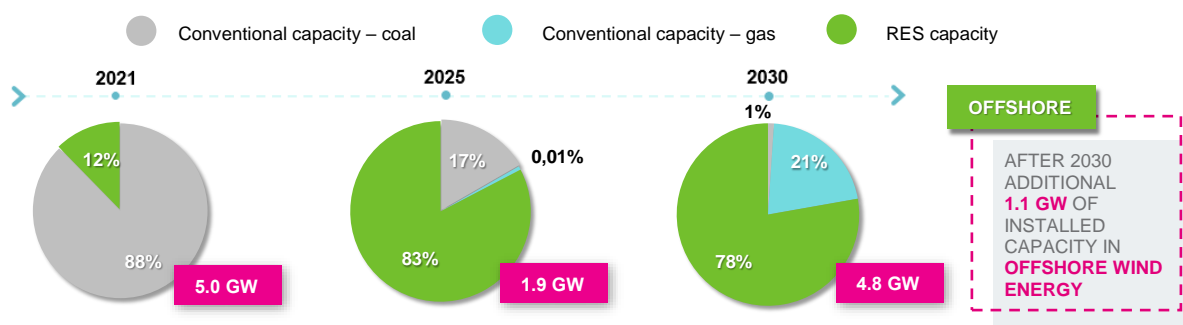
Figure no. 5. TAURON Group's renewable energy installed capacity growth ambitions outlined



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

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

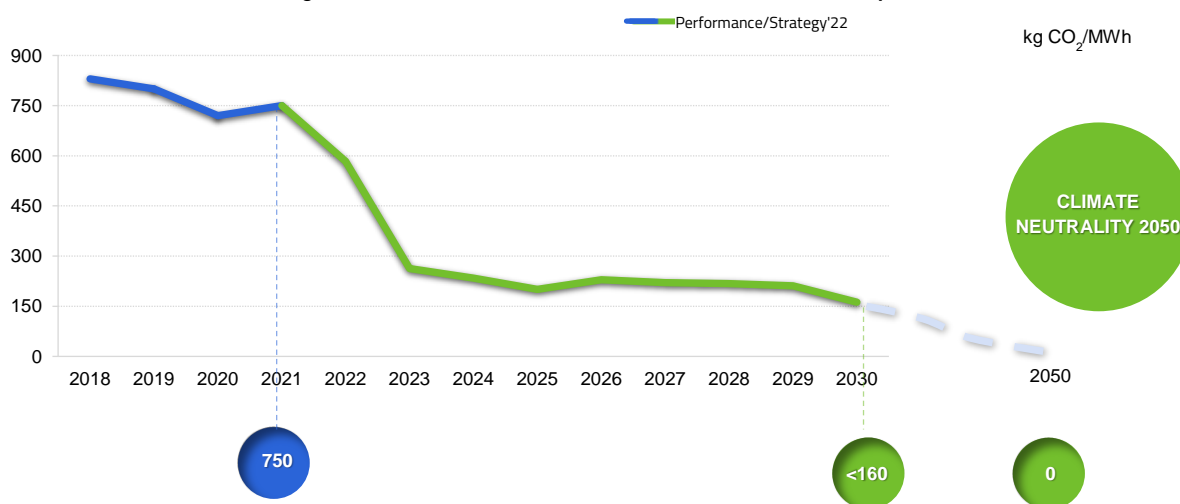
Figure no. 6. Assumed change in TAURON Group's energy mix



Sustainable investments, first and foremost, an increase in the capacity in renewable energy sources and the reduction of the heat generation emissions, along with a simultaneous decarbonization of TAURON Group, will allow for a significant reduction of the CO₂ emissions in the time frame up to 2030, and in the long term perspective for the implementation of TAURON Group's strategic aspirations to achieve climate neutrality by 2050 .

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

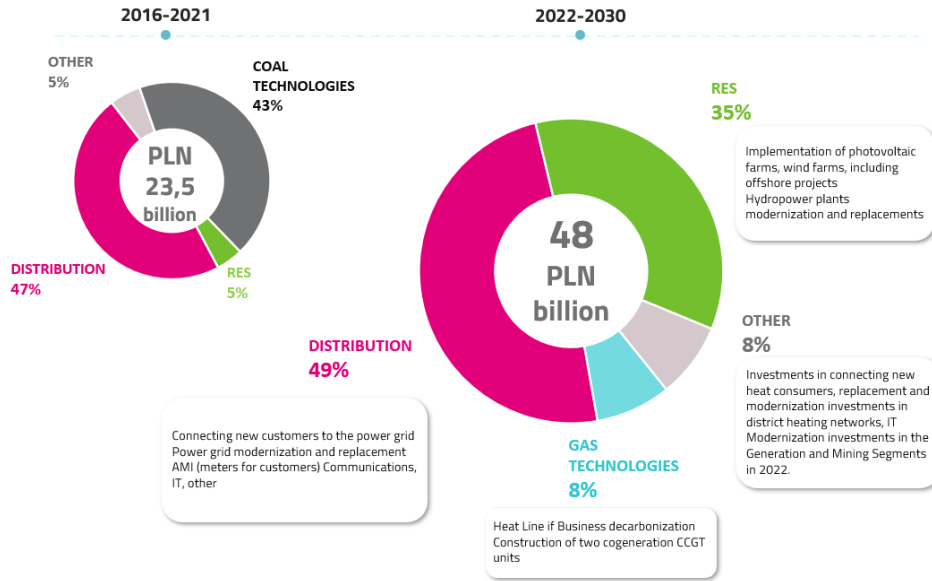
Figure no. 7. Forecast of the emissions reduction at TAURON Group



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

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

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



Strategic goals and growth prospects in the individual operating Segments

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

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

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

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

Generation Segment



As part of the ongoing transition of TAURON Group towards climate neutrality, the activities conducted in the Generation Segment are focused on the decarbonization and the reduction of emissions to the level of 200 kg CO₂/MWh in 2025 and below 160 kg CO₂/MWh in 2030

TAURON is implementing the timetable of the NABE Government Concept.

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

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

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

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

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

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

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

Supply Segment



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

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

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

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

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

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

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

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

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

Mining Segment



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

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

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

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

The implementation of TAURON Group's Strategy in 2022

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

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



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

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

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

As a result, at the end of 2022 TAURON Group had the following RES sources: 417 MW of installed wind power capacity, 133 MW of installed hydro power capacity, 90 MW of biomass capacity and 19 MW of photovoltaic capacity. The total installed RES capacity, at the end of 2022, came in at 659 MW, which corresponded to 42% of the RES target for 2025. At the same time, the share of the RES sources in TAURON Group's energy mix went up. 13% of TAURON Group's installed capacity came from the RES sources at the end of 2022, the CO₂/MWh emissions clocked in at 767 kg/MWh in 2022.

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

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

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

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

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

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



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

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

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

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









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

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

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

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

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

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

1.7. Description of the expansion policy and directions

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

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

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

Implementation of the strategic investment (CAPEX) projects

Key strategic investment (CAPEX) projects under way

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

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

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

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

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

Construction of "Grzegorz" shaft

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

The following activities had been carried out in 2022:

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

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

Other investment projects in the RES line of business

Photovoltaic (PV) farms

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

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

Onshore wind farms

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

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

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

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

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

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

Capital expenditures (CAPEX)

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

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

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

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

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

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

Evaluation of the capability to complete the intended investment projects

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Project TENNESSEE

The scope of the project covers high efficiency electrolysis of water vapor supported by fuel cells, in order to increase the efficiency of the green hydrogen storage in the form of synthetic natural gas, with the use of CO₂ captured from the power generating units' flue gas. The technology is a promising solution for storing electricity from the non-controllable (intermittent) energy sources - wind farms (in particular, the planned off-shore wind farms) or photovoltaic cells. The testing (research) campaign based on the pilot installation completed at the Łaziska Power Plant was conducted in 2022.

Second Life ESS

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

OPTI AI UNIT

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

HEMS Program

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

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

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

Internet of Things

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

Flexible Distribution

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

Hydrogen Poland

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

Cooperation with start-ups

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

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

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

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

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

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

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

1.9. TAURON Group's Business and Operational Model

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

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

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

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

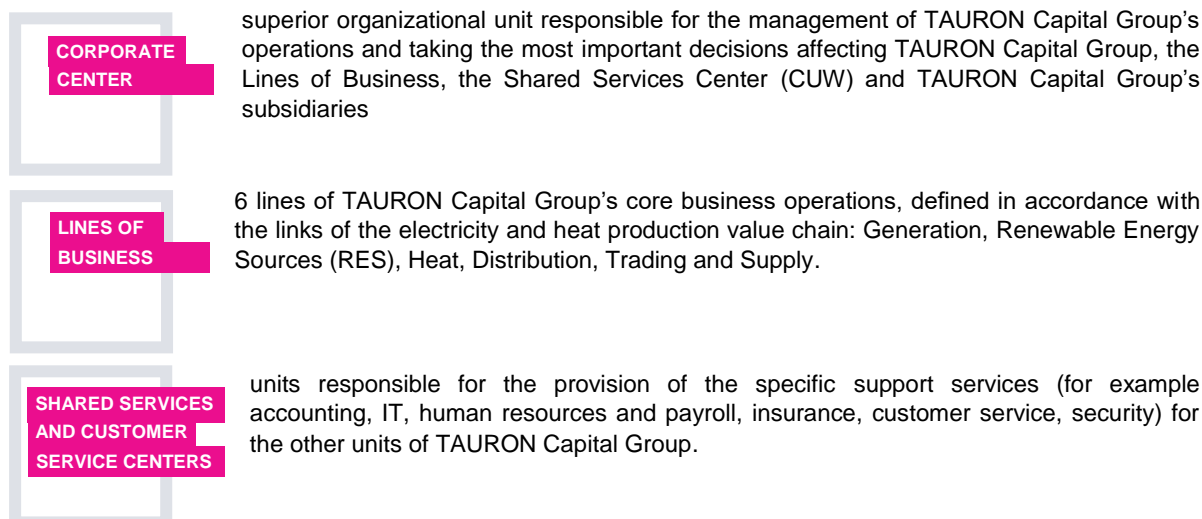
Assumptions of TAURON Group's Business and Operational Model

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

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

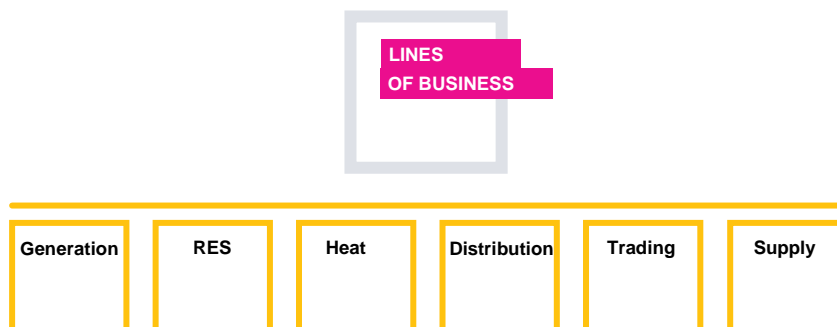
TAURON Group Units

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



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

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



TAURON Capital Group's Shared Services Centers (CUW)

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

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

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

Principles of management of TAURON Polska Energia S.A.

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

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

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

The Company shall carry out its tasks through:

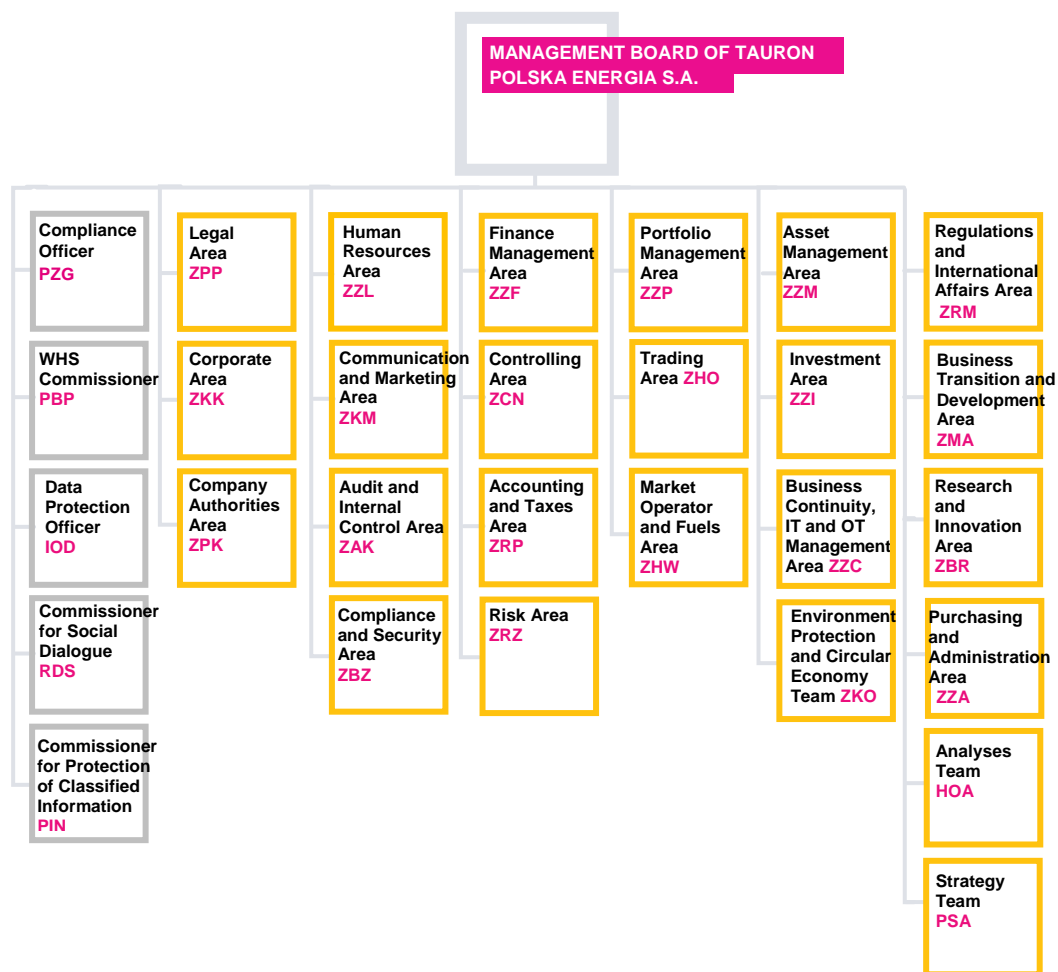
1. separate organizational units (business units):
 - 1) Business areas, comprising independent work positions and organizational units (business units) reporting directly to the Executive Directors. The work of the Executive Directors is managed (supervised) by the Members of the Company's Management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

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

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

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

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



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

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

Principles of management of TAURON Capital Group

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

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

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

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

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

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

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

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

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

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

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

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



Changes to the principles of management of TAURON Capital Group

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

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

2.1. Core products, goods and services

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

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

1. wholesale trading in electricity, gas and the related products, in particular, with respect to providing trading (commercial) services for the subsidiaries, securing the requirements with respect to fuel, CO₂ emission allowances and the Guarantees of Origin (GOs) of energy (energy certificates),
2. management of the portfolio of electricity, CO₂ emission allowances and Property Rights,
3. purchasing management,
4. finance management
5. asset management,
6. corporate risk management,
7. managing the IT model in place,
8. coordinating the research and development (R&D) activities carried out within TAURON Capital Group,
9. advisory services with respect to accounting and taxes,
10. legal support services,
11. audit.

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

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

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

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

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

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

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

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

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

TAURON is a competence center with respect to the management and trading in the CO₂ emission allowances for TAURON Capital Group's subsidiaries. As a result of centralizing the trading in the emissions, a synergy effect was achieved, involving optimizing of the costs of utilizing the resources of TAURON Capital Group's entities. In the pursuit of the above mentioned objectives with respect to the CO₂ emission allowances trading, the Company is actively taking part in the trading on the ICE ENDEX exchange, the EEX exchange as well as on the OTC market. In connection with the centralizing of this function, TAURON is responsible for the settlements (clearing) of the subsidiaries' CO₂ emission allowances, securing (hedging) the subsidiaries' emission needs while taking into account the emission allowances allocated thereto.

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

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

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

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

The core products, goods and services of TAURON Capital Group

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

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

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

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

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

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

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

2.2. Markets and sources of supply

Markets

Hard coal sales

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

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

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

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

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

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

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

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

Sales of generated electricity and heat

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

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

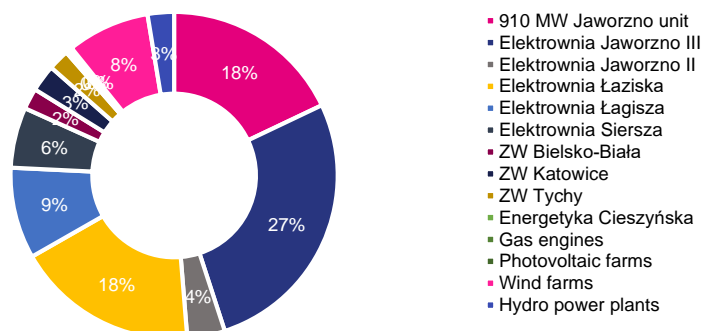
In addition, as part of TAURON Nowe Technologie S.A.'s (TAURON Nowe Technologie) operations, electricity is produced by the gas engines fueled by methane purchased from the Brzeszcze coal mine.

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

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

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

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



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

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

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

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

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

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

Sales of the electricity distribution services

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

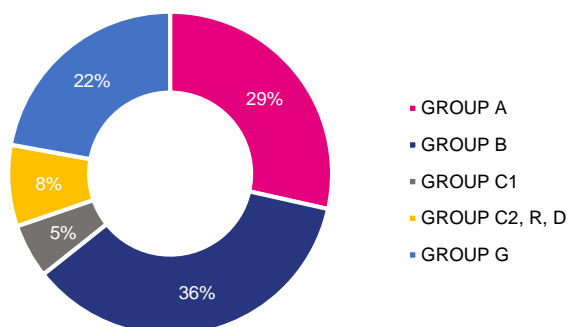
The regulated market on which TAURON Dystrybucja is operating includes the operations of 5 large electric utilities dealing with the electricity distribution and 183 other smaller enterprises of such type. The operations in the field of the electricity distribution is carried out under the conditions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

TAURON Dystrybucja is providing the electricity distribution services for approx. 5 836 000 final consumers. The Company covers with its operations the area of about 57 thousand km², located mainly in the Lower Silesia, Małopolska, Opole and Silesia regions and, in addition, in the Łódź, Podkarpacie and Świętokrzyskie regions. The operational functions are performed by 11 branches located in: Bielsko-Biała, Będzin, Częstochowa, Gliwice, Jelenia Góra, Kraków, Legnica, Opole, Tarnów, Wałbrzych and Wrocław.

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

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

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



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

Wholesale and retail supply of electricity and gas

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Supply sources – fuels

Hard coal (domestic market)

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

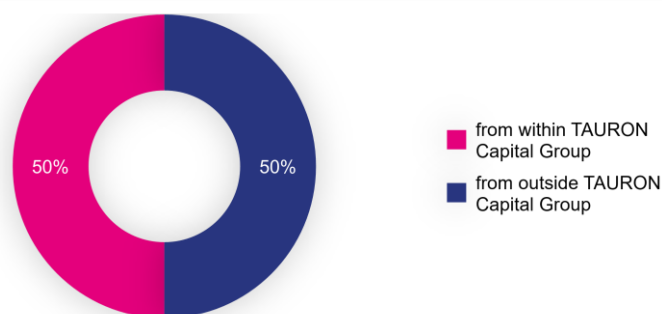
50% of the hard coal supplies used for electricity and heat generation in 2022 were met with the hard coal from TAURON Wydobycie's in-house coal mines, which accounted for 3.31 million Mg. The remainder of the demand was met based on the agreements concluded with the following suppliers from outside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

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

¹Suppliers' shares in the total hard coal supplies

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

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



Gas (domestic and foreign market)

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

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

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

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

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

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

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

Internal factors

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

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

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

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

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

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

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

1. Company's market capitalization remaining at a level below the net carrying value of the assets in the long term
2. material rise in the global prices of the energy commodities, electricity and the prices of the CO₂ emission allowances,
3. limited supply of fossil fuels resulting in their price increases,
4. high volatility of the electricity prices on the forward market (along with the low liquidity) and the persisting high prices on the spot market,
5. introduction of a mechanism to limit bids in the electricity balancing market,
6. publication of the RePowerEU package aimed at accelerating Europe's independence from the Russian fossil fuels before 2030, temporarily reducing energy consumption and diversifying the sources of raw material supply,
7. works on reforming the EU ETS market to bring the system in line with new, higher CO₂ reduction targets,
8. rapid growth of RES, in particular the prosumer sub-sector and micro photovoltaic installations,
9. effects of introducing the provisions of the Winter Package, including the emissions standard, adversely affecting the possibility of the participation in the capacity market by the coal fired units after July 1, 2025,
10. tightening of the emissions standards and the persisting adverse market conditions from the point of view of the profitability of the conventional energy,
11. an increase of the inflation rate,
12. a rise of the risk free rate.

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

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

External factors

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

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

Macroeconomic environment

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

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

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

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

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

Market environment

Electricity

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

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

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

¹Including the industrial power plants.

²A positive value of the balance denotes imports, while a negative value of the balance denotes exports.

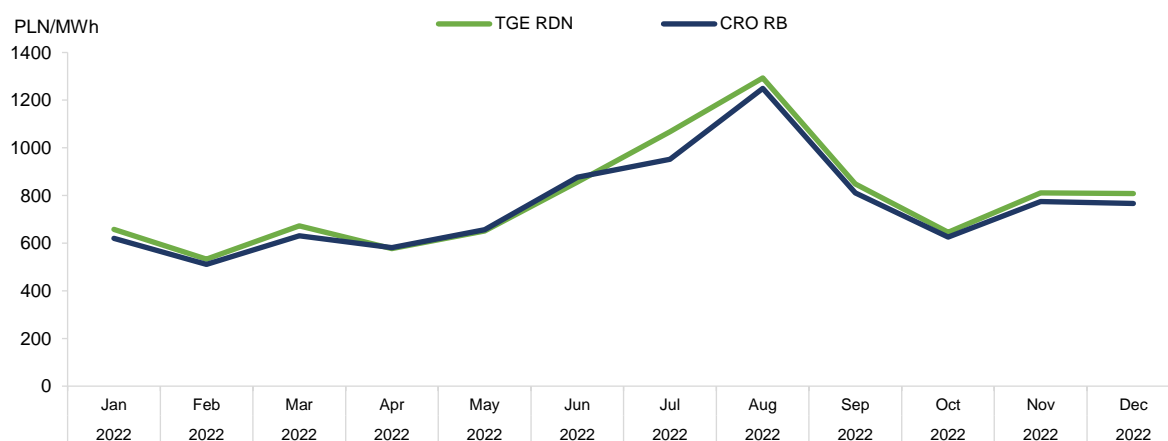
The wholesale electricity price on the Day Ahead Market (RDN) of the Polish Power Exchange (TGE) reached 787.45 PLN/MWh in 2022 and it was higher by 389.47 PLN/MWh (+97.9%) as compared to 2021. The average settlement price on the Balancing Market (RB) came in at 756.51 PLN/MWh in 2022 and it was higher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

The factors behind the rising prices on the Day Ahead Market (RDN) and on the Balancing Market (RB) included: the high prices of the raw materials, in particular the prices of the thermal coal and gas, as well as the continued high prices of the CO₂ emission allowances. The higher, than in Poland, SPOT prices were reported in the countries in the Western and Southern Europe, which led to Poland being a net exporter of electricity to the neighboring countries in the first half of 2022. In the second half of the year, due to the large number of the overhauls and the shutdowns of the power generation units, Poland has significantly reduced the balance of its energy exports.

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

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

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



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

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

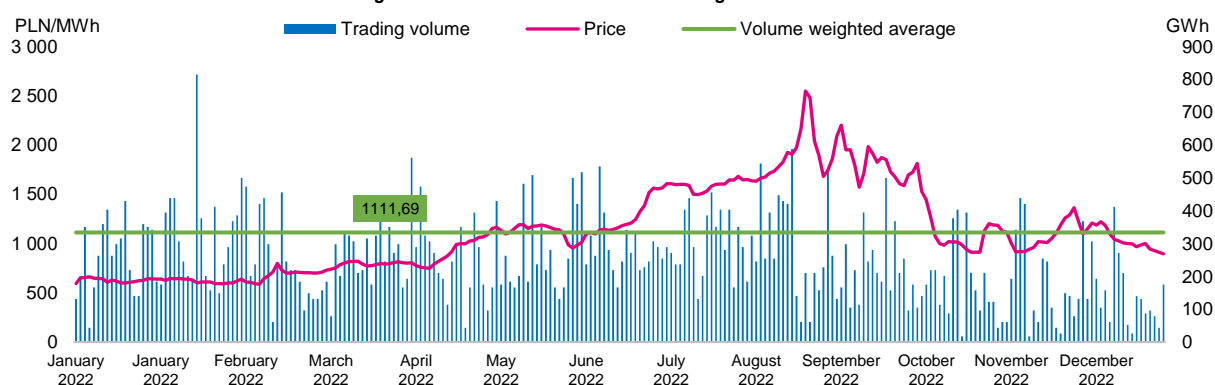
The declines of the electricity prices in September 2022 were brought about, apart from the decreases of the prices of the raw materials and of the CO₂ emission allowances, also by the announcements of the changes to the *Regulation on the Detailed Conditions for Operation of the Power System*, in which the introduction of the price caps for the balancing bids made by the electricity generators in the balancing market was proposed. The Regulation was published at the end of September 2022, and the first balancing bids submitted under the new rules were in effect as of October 1, 2022.

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

The PEAK5_Y-23 contract price was characterized by the elevated volatility, with its trading volume weighted average price reaching 1 451.71 PLN/MWh in 2022, and it was higher by 957.38 PLN/MWh (an increase by 193.7%) as compared to the average price of such a contract logged in 2021.

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

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



Hard coal

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

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

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

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

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

Natural gas

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

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

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

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

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

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

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

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

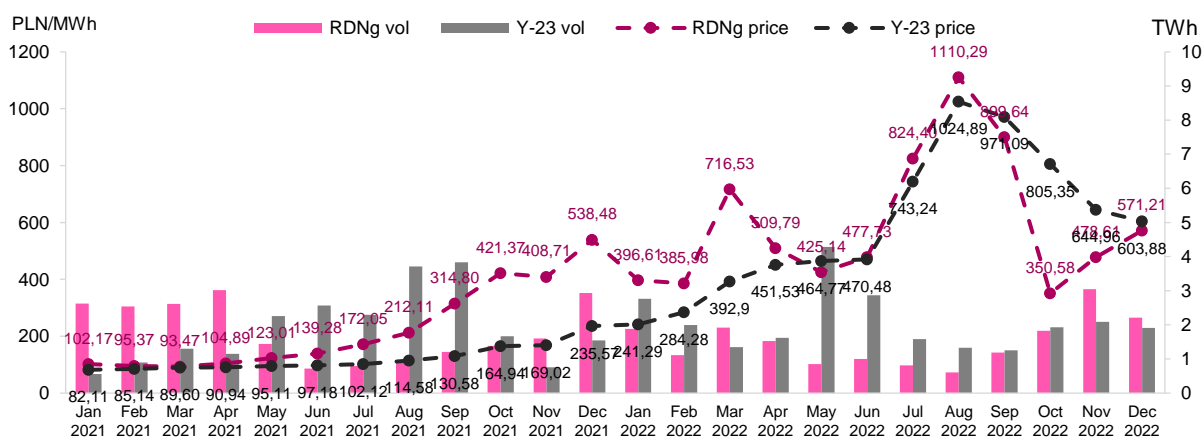
The lowest aggregate trading volume on the futures market was recorded in July of 2022, clocking in at approx. 6 TWh, while the highest trading volume was reported in January of 2022, coming in at approx. 15.6 TWh. The volume weighted average price of the benchmark one year GAS_BASE_Y-23 contract stood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

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

According to the Gas Infrastructure Europe association's data, as of December 31, 2022, the Polish storage facilities with the total capacity of approx. 3.2 billion m³ were 96.55% filled, while a year earlier they had been 84.41% filled (an increase by 12.14 pp). In Europe, this level, as of the end of 2022, stood at 83.35%, while a year earlier it had clocked in at 55.93% (an increase by 27.42 pp).

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

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



CO₂ emission allowances

The settlement prices for the CO₂ emission allowances under the benchmark contract with the delivery in December 2022 (EUA DEC-22) on the ICE Endex exchange were fluctuating within the range between 58.30 EUR/Mg and 98.01 EUR/Mg in 2022. The average clearing price in 2022 stood at 81.24 EUR/Mg and it was higher by 27.59 EUR/Mg (+54.1%) as compared to the average price logged in 2021.

In spite of the higher average price, the upward trend that has been ongoing since 2017 has been halted. The lowest closing price in 2022 clicked in at the above mentioned level of 58.30 EUR/Mg on March 7, 2022. On that day, also due to a sharp sell-off, the CO₂ price temporarily fell to 55 EUR/Mg. Apart from a period of high volatility in August/September of 2022, the CO₂ allowance prices were relatively stable in 2022 - but remained high despite the ongoing war in Europe, due to the impact of the high gas prices favoring contracting of the generation from more carbon intensive sources and the further discounting of the EU's ambitious climate and energy policy called *Fit for 55*.

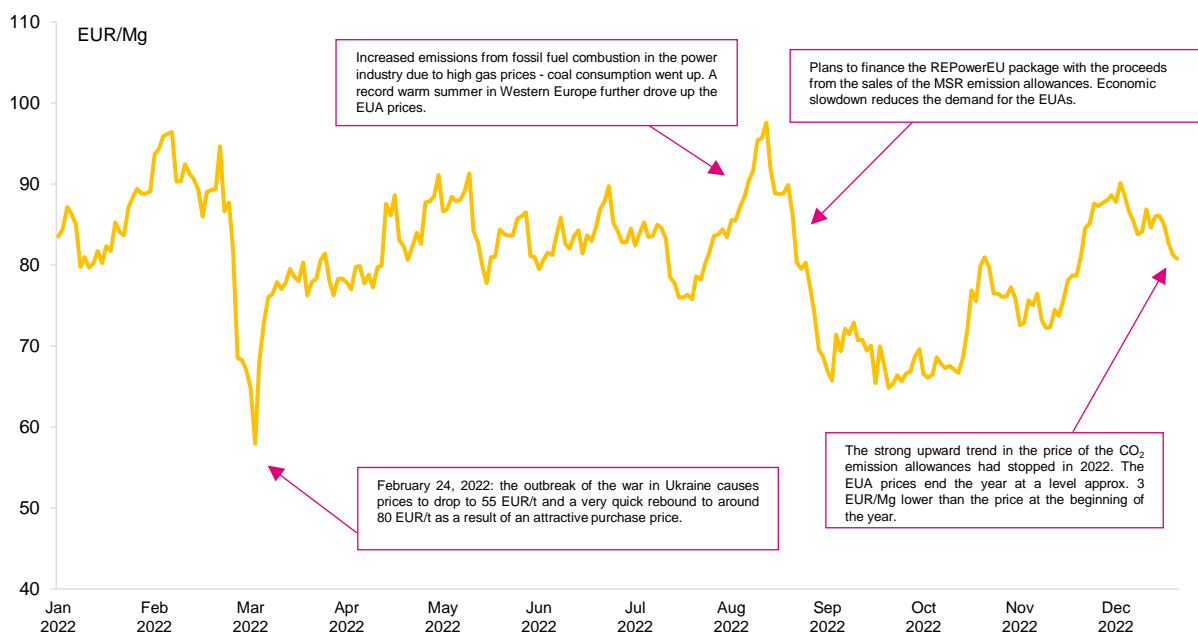
According to the communication issued by the European Commission, the war will have an impact on the acceleration of the transition towards climate neutrality. The publication of the "RePowerEU" package in May 2022, designed to make Europe as independent as possible from the raw materials from Russia, brought about a short-term correction in the CO₂ prices due to the proposal to release approx. 200-250 million EUAs from the MSR reserve to finance Europe's accelerated energy transition.

The highest prices of the CO₂ allowances in 2022 were recorded in August 2022. A prolonged heat wave in Europe, along with the low generation output by the French nuclear power plants, as well as the seasonally reduced supply on the primary market (emission allowance auctions) brought about a strong upward pressure. The closing prices had been coming in at the record breaking levels for most of the month of August, clocking in at the level of nearly 100 EUR/Mg during the trading session on August 19, 2022. The end of the summer brought a worsening of the market sentiment and a drop in the prices.

The prolonged war and the high commodity prices translated into lower energy consumption and at the same time lower demand for the EUA units. A potential signal of increased supply on the CO₂ allowance market, coupled with the escalation of the energy crisis in Europe (the Nord Stream I and II pipeline explosions) and the increasing risk of a recession led to a marked drop in the EUA unit prices to around 66 EUR/Mg as of the end of the third quarter of 2022. In the fourth quarter of 2022, the works were under way on the individual elements of the *Fit for 55* package (among other things, the idea of blocking the participation by the financial institutions in the market was abandoned, and a higher than expected reduction target in the EU ETS scheme of 62% by 2030 was negotiated).

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

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



Property rights

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

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

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

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

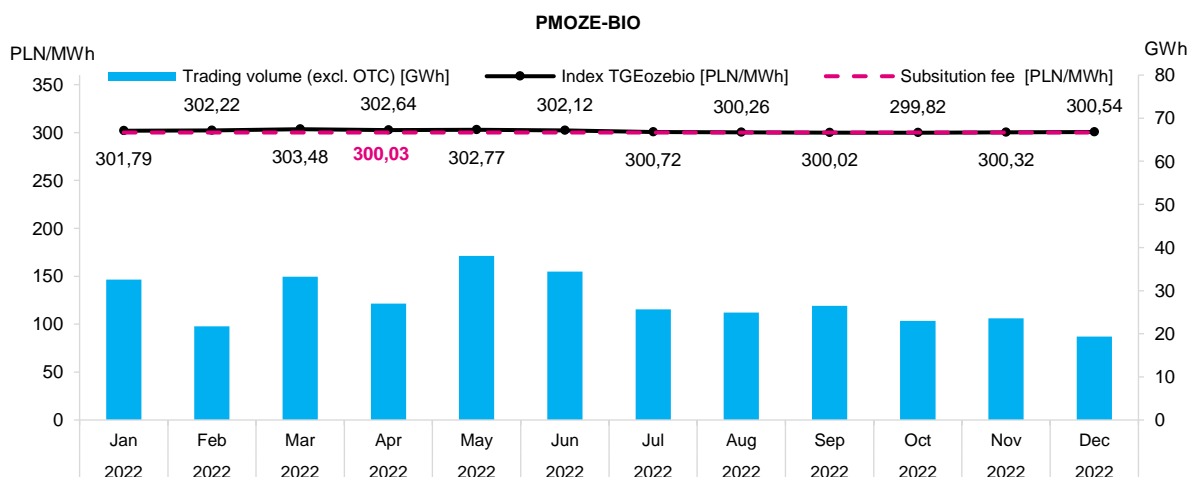
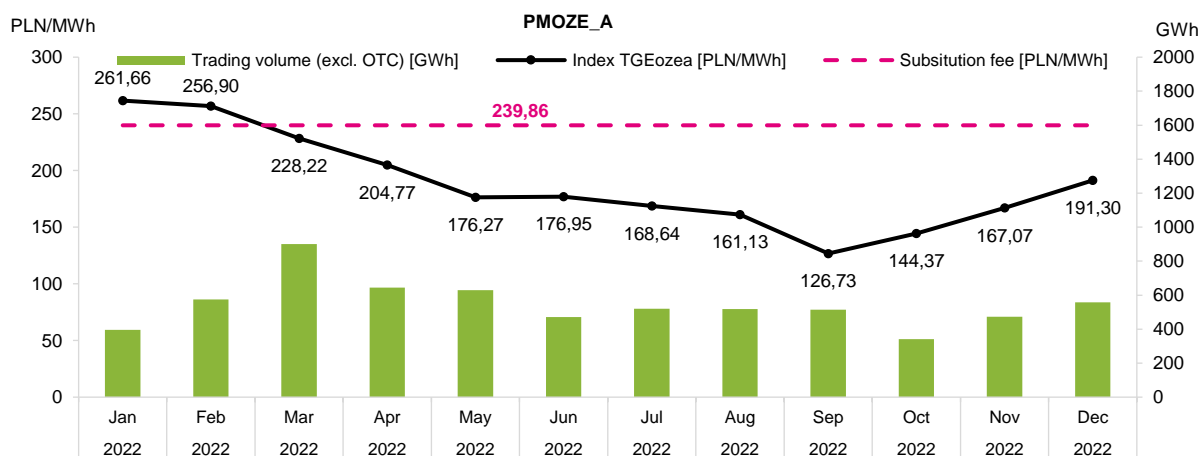
The prices of the PMEF_F white certificates were fluctuating in 2022 between the minimum level of 2 000.44 PLN/toe reached in the middle of September of 2022 and the maximum price, obtained at the middle of January of 2022, standing at the level of 2 774.26 PLN/toe. The weighted average price in 2022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

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

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

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

Figure no. 20. Property rights indices







Regulatory environment

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






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

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

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

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

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

| Name of the regulation | Description of the regulation | Status as of December 31, 2022 | Impact on TAURON Capital Group | Impact on the Segment |
|---|---|--|--|---|
| <i>Regulation of the Minister of Climate and Environment of 23 March 2022, on the registration, balancing and sharing of metering data and billing of the energy cooperatives (Journal of Laws of 2022, item 703)</i> | The regulation defines the methods to be used to register, balance and share the metering data and billing of the energy cooperatives. | April 1, 2022 – entry into force | The regulation in question: <ul style="list-style-type: none"> 1. introduces the necessity to adapt the IT systems / meters to the requirements defined in the regulations, 2. imposes the obligation to apply a standardized method to be used to share the metering data for all of the distribution system operators. |  |
| <i>Regulation of the Minister of Climate and Environment of July 13, 2022, on changing the volume share of the total electricity originating from the redeemed Guarantees of Origin (GOs) of energy that confirm the generation of electricity from the renewable energy sources in 2023 (Journal of Laws 2022, item 1566).</i> | The regulation sets the volume share of the total electricity originating from the redeemed Guarantees of Origin (GOs) of energy that confirm the generation of electricity from the renewable energy sources in 2023 at 12% (reducing the share from 18.5% in 2022). | July 27, 2022 – entry into force | The regulation: <ul style="list-style-type: none"> 1. may cause a decline in the price of the Guarantees of Origin (GOs) of energy, 2. will have a positive impact on the entities dealing with the electricity trading. |  |
| <i>Regulation of the Minister of Climate and Environment of August 10, 2022, on the parameters of the main auction for the year of delivery 2027 and the parameters of additional auctions for the year of delivery 2024 (Journal of Laws 2022, item 1690)</i> | The regulation specifies the following parameters for the main auction for 2027 and for the additional auctions for 2024: <ul style="list-style-type: none"> 1. demand for the capacity, 2. price of a market entry by a new generating unit, 3. maximum price for the price taker, 4. number of rounds, level of the expenditures, minimum mandatory values, correction factors for the individual groups of technologies, 5. parameters that determine the volume of the capacity below and above the demand. | August 12, 2022 – entry into force | The regulation introduces the possibility of receiving the support as part of the capacity market. |  |
| <i>Regulation of the Minister of Climate and Environment of September 27, 2022, amending the regulation on the detailed conditions for the functioning of the power system (Journal of Laws 2022, item 2007)</i> | The regulation assumes: <ul style="list-style-type: none"> 1. introduction of a monthly update cycle for the cost of the base fuel, taken into account when determining the prices of the forced (mandated) delivery of the electricity (CWD) and the prices of the forced (mandated) off-take of the electricity (CWO) with respect to the generating units that use a base fuel other than the natural gas or lignite, 2. introduction of the changes with respect to the submission of the balancing bids (for the delivery of the electricity), the introduction of the maximum MaxCO price caps for the selected production technologies, and the limiting of the bidding prices to the maximum MaxCO price cap, 3. strengthening of the transmission of the pricing signals between the balancing market and the wholesale electricity market. | October 21, 2022 – entry into force | <ul style="list-style-type: none"> 1. The regulation may have an adverse impact on TAURON Wytwarzanie's results, as in some cases it forces the bid prices (balancing bids) to be reported below the level of the actual costs incurred for free generation. 2. The regulation will have a favorable impact on the model of updating the variable costs incurred in the production of the electricity when forced (mandated) by the system needs (based on the monthly cycles) along with the retroactive compensation payment settlement, stemming from the difference between the initially adopted and the actually incurred costs of the production. |  |
| <i>Regulation of the Council of Ministers of November 8, 2022, on the method of calculating the price cap (Journal of Laws 2022, item 2284) and Regulation of the Council of Ministers of December 9, 2022, amending the Regulation on the method of calculating the price cap (Journal of Laws 2022, item 2631)</i> | The regulation specifies in particular: <ul style="list-style-type: none"> 1. method to be used to calculate the limit for the electricity generated using the individual technologies, 2. method to be used to calculate the limit for the trading enterprises. | November 10 and December 16, 2022 – entry into force | <p>The regulation sets the limits that will be used to calculate the amount of the charge for the Price Difference Payout Fund, which TAURON Group's subsidiaries that are the electricity generators or the trading companies are obligated to transfer.</p> <p>The Company estimated the total amount of the charges to be transferred to the Price Difference Payout Fund in 2023 to fall in the range between PLN 1.0 billion and PLN 1.3 billion (current report no. 9/2023 of February 14, 2023).</p> |  |



Supply Segment



Mining Segment



Generation Segment



Distribution Segment



TAURON Group

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

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


| Name of the regulation | Description of the regulation | Status as of December 31, 2022 | Impact on TAURON Capital Group |
|------------------------|--|--|--|
| <i>Fit for 55</i> | <p>In 2022, the works were continued on the <i>Fit for 55</i> regulatory package that the European Commission published in July of 2021, including, among others, a revision of the directive on the promotion of energy from renewable sources (REDII), the directive on energy efficiency (EED), the directive on the EU ETS system or the introduction of a price adjustment mechanism at borders accounting for CO₂ (Carbon Border Adjustment Mechanism). The <i>Fit for 55</i> package aims to introduce the legislative mechanisms that will allow for achieving the target of reducing the greenhouse gas emissions by at least 55% by 2030. The indicated regulations include, among others, the proposals for the tightening of the EU ETS system, changing the definition of efficient district heating and cooling systems, increasing the RES target and improving energy efficiency by 2030. In December of 2021 the EC published the next elements of the <i>Fit for 55</i> package, including a draft revision of the Energy Performance of Buildings Directive (EPBD). In 2022, the intensive works were carried out in the European Parliament (EP) and the Council of the European Union (EU Council) on the above mentioned legislative proposals. The result of these works is, among others, the adoption of the EP's negotiating positions on the revision of the RED, EED and EPBD directives. The next step involves the negotiations between the EP and the EU Council on the final wording of the above mentioned legislative proposals. The next step is the official adoption of the above mentioned drafts by the EP and the EU Council.</p> <p>In addition, the works were continued in 2022 on the "gas package" published by the EC on December 15, 2021, which includes a revision of the Directive on the common rules for the internal market in the natural gas and a revision of the Regulation on the conditions for access to the natural gas transmission networks. The package aims to increase the share of the renewable and low carbon gases in the energy system, which will enable a shift away from the natural gas and the meeting of the EU's goal of achieving climate neutrality by 2050. The package also includes a new regulation on reducing the methane emissions in the energy sector.</p> | The process of developing the positions of the European Union institutions with respect to the legislative drafts as part of <i>Fit for 55</i> | The <i>Fit for 55</i> package can contribute to the development of the low emission technologies, with a particular emphasis on the market of the renewable energy sources. The regulations that are a part of the package will introduce a number of the new requirements and changes in the market and regulatory environment for TAURON Capital Group's subsidiaries. |
| RePowerEU | <p>In May 2022, the European Commission published the REPowerEU communication along with a package of the additional documents. The communication is a response to the situation prevailing on the electricity and gas markets in connection with the war in Ukraine. The most important actions indicated in the communication include: energy conservation, diversification of the energy carrier supplies to the EU, substitution of the fossil fuels and the acceleration of Europe's transition to the clean energy, the smart investments and strengthening of the readiness to reduce the supply of the energy raw materials.</p> <p>Along with the communication, a legislative proposal amending the directives: REDII, EED and EPBD was published. As part of the above mentioned proposal, the European Commission proposes:</p> <ol style="list-style-type: none"> 1. increasing the target with respect to the use of the energy from the renewable energy sources (RES) from 40 to 45% (as compared to the proposal included in the <i>Fit for 55</i> package), 2. introducing the measures aimed at making it easier to invest in the renewable energy sources, 3. raising the 2030 energy consumption reduction target from 9% to 13% as compared to the projections in the 2020 benchmark scenario, 4. increasing the use of the solar energy in the buildings. <p>In December 2022, the negotiating positions of the EP and the Council towards the above mentioned draft directive were adopted. They are focused, in</p> | Works on implementing the short term and long term measures provided for under REPowerEU | The implementation of the REPowerEU plan may have an impact on an increase of the EU's energy independence and an acceleration of the energy transition, and it will introduce a number of changes in the market and regulatory environment for TAURON Capital Group's subsidiaries. |






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

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

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

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

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

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



RES Segment



Supply Segment



Distribution Segment



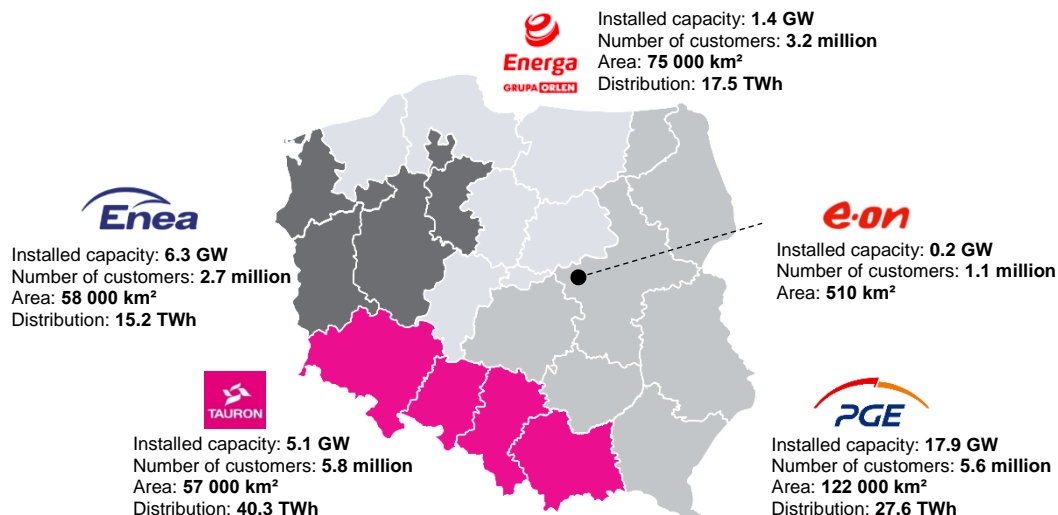
TAURON Group

Competitive environment

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

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

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

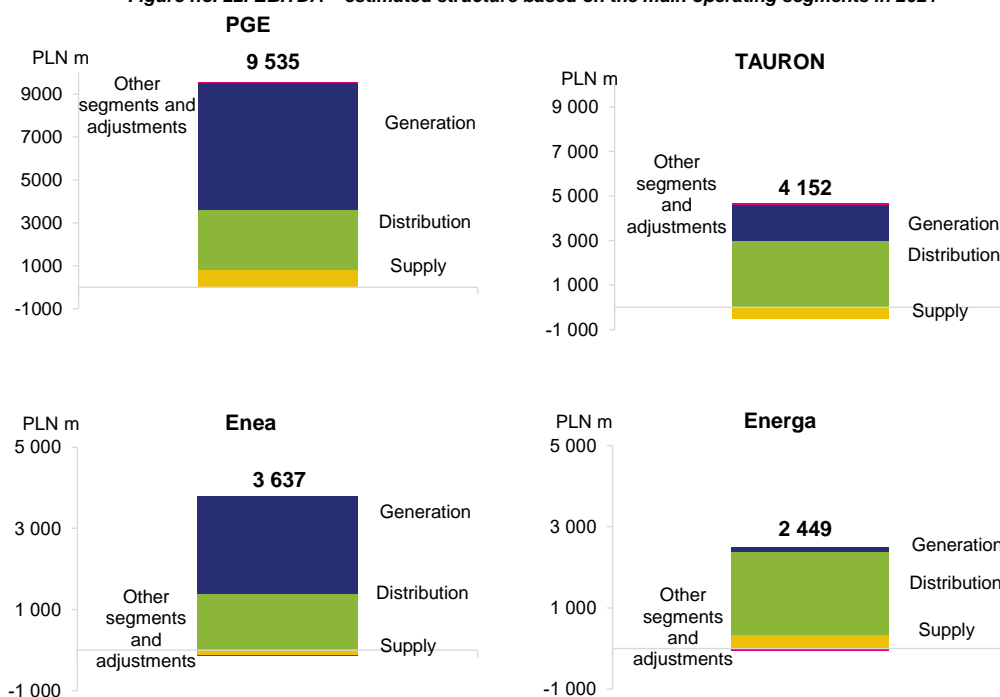


According to the data for the first three quarters of 2022, the consolidated energy groups (PGE, TAURON, Enea, Energa) held an approximately 68% market share in the electricity generation sub-sector.

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

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

Figure no. 22. EBITDA – estimated structure based on the main operating segments in 2021¹



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

Generation

TAURON Capital Group is a key producer of electricity in Poland

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

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

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

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

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

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

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

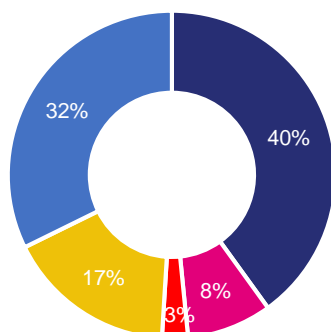
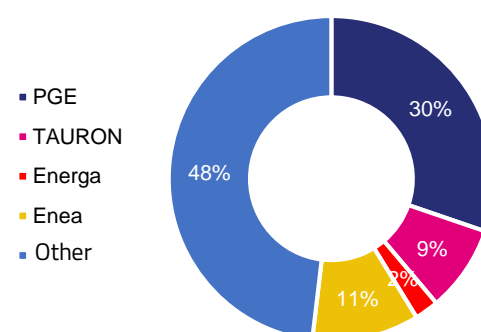


Figure no. 24. Installed capacity - estimated market shares in the first three quarters of 2022



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

Distribution

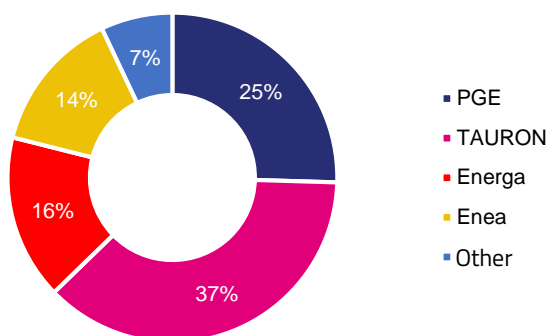
TAURON Capital Group is the Polish market leader in terms of the number of the distribution customers and the volume of electricity distributed.

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

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

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

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



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

Supply

TAURON Capital Group is the second largest electricity supplier in Poland

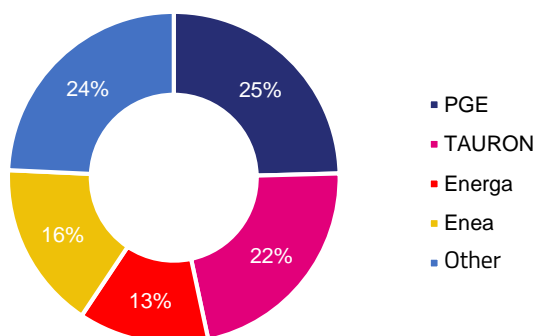
TAURON Capital Group holds a 22% share in the market of the electricity supply to the final consumers in Poland. The volume of the retail electricity supply of TAURON Capital Group came in at 31.1 TWh in 2022. The number of the customers served by TAURON Capital Group's Supply Segment stands at 5.7 million.

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

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

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

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



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

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

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

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

¹Volume of the gross electricity generated in the first three quarters of 2022.

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

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

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

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

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

2.4. Factors important for growth

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

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

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

- 1) entity related (with respect to the support for the large enterprises),
- 2) with regard to the forms of the support (much more emphasis on the returnable support than before),
- 3) permissible scope of the public aid granted (for example, the tightening of the rules of the support with regard to the gas fired capacity, indicated in the draft guidelines on the public aid to be used for the climate and environment protection and the objectives related to energy (CEEAG),
- 4) amount of the public aid granted (changes with respect to the maximum aid intensity),
25. further functioning of the generation capabilities compensation mechanism (capacity market), as part of which the deliveries of the electric capacity will be carried out by TAURON Capital Group subsidiaries' generating units and the demand side reduction units at the transmission system operator's request,
26. support system for the electricity generation from the dedicated sources (*color certificates*), resulting, on the one hand, in the costs of redeeming the certificates for the suppliers of the electricity to the final consumers, and on the other hand, in the revenue from the sales of the certificates for the generators of electricity system, the RES support system, the so-called RES auctions,
27. competitive environment, including the activities and steps taken by the competition on the energy market,
28. further tightening of the EU climate policy, in particular, resulting in the energy transition focused on the RES, as well as in an increase of the volatility of the prices of the CO₂ emission allowances,
29. further growth of the prosumer market and its impact on the Supply, Distribution, as well as the Generation Lines of Business,
30. environment protection requirements as a consequence of the changes to the *Act of April 27, 2001, the Environment Protection Law*, the so-called anti-smog resolutions,
31. consequences of the adopted *Act of March 30, 2021, on amending the act on disclosing the information on the environment and the protection thereof, the participation of the public in the protection of the environment and on the environmental impact assessments, and certain other acts* (a potential impact on the investment projects currently under way as well as on the future investment projects),
32. consequences of the adopted *Regulation of April 24, 2021, amending the regulation on the detailed rules of shaping and calculating the tariffs as well as billing for the heat supply*, introducing a provision enabling changing of the tariff for the heat due to the change of the costs of purchasing the CO₂ emission allowances,
33. planned changes to the regulations related to the quality requirements for the solid fuels, among others, the *Act of August 25, 2006, on the system for monitoring and inspecting the fuel quality*,
34. shaping of the human resources policy, including the results of the negotiations with the Social Council of TAURON Group,
35. changes to the schedules, budgets and the scopes of the investment projects carried out by TAURON Capital Group,
36. availability of the assets of TAURON Capital Group,
37. impact of the weather conditions, including those of the extreme nature, resulting in the impact on the failure rate of the assets of TAURON Capital Group and the seasonality of the revenue generated, and the costs incurred,
38. continuation of the activities related to the implementation at TAURON Capital Group of the assumptions of the Government NABE (Narodowa Agencja Bezpieczeństwa Energetycznego – National Energy Security Agency) Concept, including the preparation of the process of the sale of the shares in TAURON Wytwarzanie to the State Treasury.

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

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

2.5. Timeline

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

Table no. 20. 2022 highlights

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

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

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

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

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

Major business events in 2022

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Information on the 910 MW generation unit in Jaworzno

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

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

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

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

Major corporate events in 2021

Changes to the composition of the Management Board of TAURON

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

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

Changes to the composition of the Supervisory Board of TAURON

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

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

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

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

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

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

Ordinary General Meeting of TAURON

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

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

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

Extraordinary General Meeting of TAURON

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

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

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

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

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

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

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

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

Other major events in 2022

Affirmation of the ratings granted by Fitch Ratings agency

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

The full list of rating actions includes:

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

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

Major events after December 31, 2021

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

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

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

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

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

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

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

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

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

2.7. Prizes and accolades (honorable mentions)

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

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



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



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



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



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



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



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



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



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

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

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

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



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



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



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



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

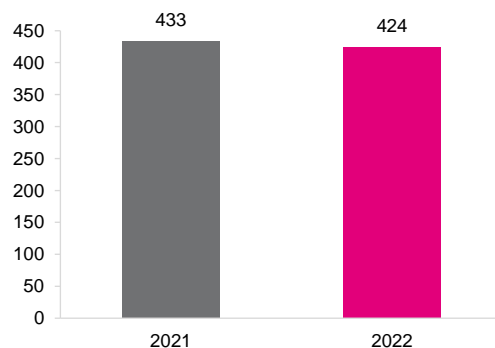
2.8. Employment information

Key headcount data

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

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

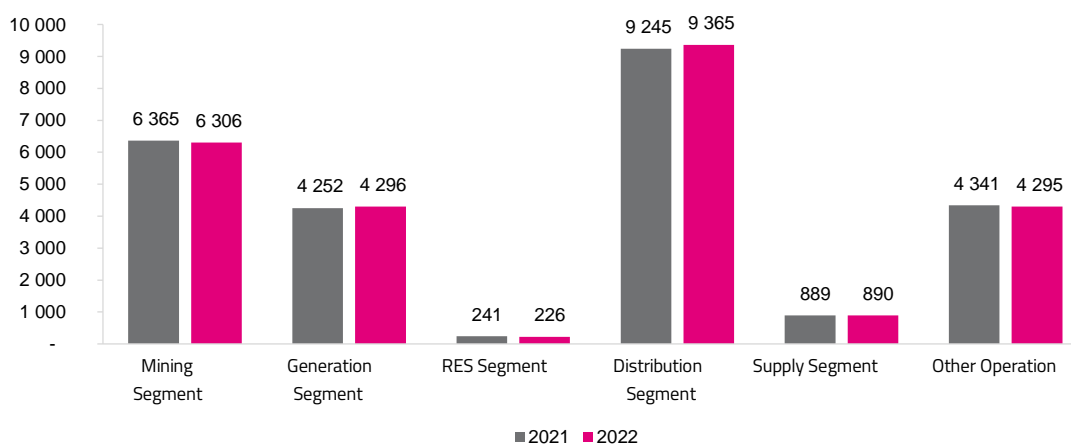
Figure no. 27. TAURON's average headcount in FTEs in 2021 - 2022



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

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

Figure no. 28. TAURON Capital Group's average headcount in FTEs per operating Segment in 2021-2022¹



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

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

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

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

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

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

² the figure includes TAURON's headcount.

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

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

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

In addition, a part of the trading area was spun off out of TAURON in order to organize an independent trading structure within the TAURON Wytwarzanie subsidiary, responsible for, among other things, managing of the electricity portfolio, conducting of the electricity trading, purchasing of the CO₂ emission allowances and the production fuels.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. TAURON CAPITAL GROUP'S RISK MANAGEMENT

3.1. Risk management strategy

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

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

TAURON Capital Group's risk management:

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

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

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

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

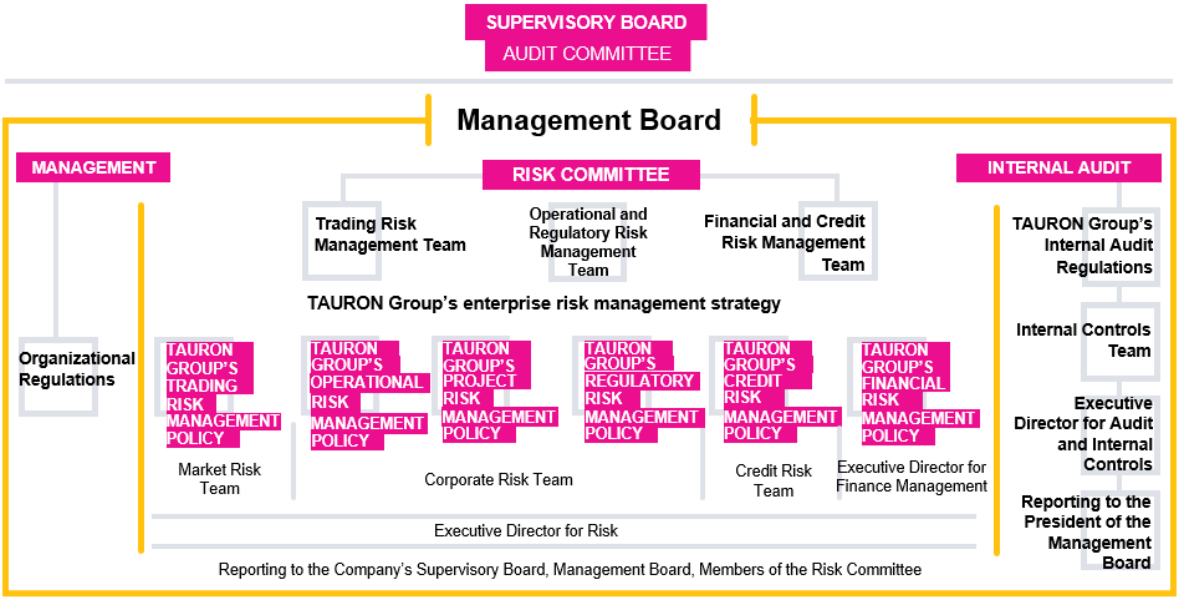
Figure no. 29. Basic classification of the enterprise risk

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

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

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

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



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

3.2. Risks in the individual operating Segments

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

Table no. 23. Risks in the individual operating Segments

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

| Segment | Description of the risk |
|---------------------|---|
| Distribution | <p>The economic disturbances observed in 2022, including a rise of the inflation rate and the restrictions imposed on the global trade exchange, will affect the future costs of the development (expansion) oriented investment projects and the costs of maintaining the existing assets, which, as a consequence, may impact the profitability of the RES Segment.</p> |
| | <p>One of the most important threats to the Distribution Segment is the distribution services sales risk related to the electricity supply volume (decline observed in the fourth quarter of 2022), and, as a consequence, the fluctuations of the revenue from the provision of the distribution services to the individual groups of consumers. The material reasons behind this risk include both the macroeconomic factors, i.e. a decline of the demand for the electricity due to the economic slowdown, the epidemiological situation, the weather condition, as well as the factors stemming from the climate issues, i.e. an increase in the consumer awareness with respect to reducing the energy consumption intensity and the rapid growth of the prosumer energy observed over the recent years.</p> <p>An equally material risk is associated with the occurrence of an unfavorable deviation of the operating expenses related to the inability to cover the costs of the operations during the period covered by the tariff, and in particular the operating expenses and the costs of purchasing the electricity to cover the balancing difference.</p> |
| | <p>With respect to the operational factors, a material risk for the Distribution Segment is the risk of an asset failure, i.e. the risk related to maintaining the availability of the transmission networks (systems) and the costs related to the fixing of the failures resulting from, among others, the climate changes leading to an increase in the frequency and intensity of the extreme weather occurrences, such as hurricanes, hoar frost, strong winds incidentally accompanied by the tornadoes and lightnings causing failures of the distribution grids. One should also take into account the rapid increase in the renewable energy sources, which has an impact on the stability of the distribution grid.</p> <p>In the medium and long term, the material risks for the Distribution Segment include the regulatory risks, including the ones related to an adverse change in the structure and parameters determining the tariff amount (the factors behind this risk include, among others, the WACC rate, the amount of the capital expenditures, the balancing difference indicators and the amount of the transmission fees), the issues related to the compliance with the electricity distribution quality indicators that have an impact on the regulated revenue and the change to the distribution tariff model.</p> |
| | <p>A threat to the Distribution Segment is also the credit risk, understood as a failure of the contractors (counterparties) to meet their obligations arising from the distribution services sales. The uncertainty and the fluctuations on the market may lead to an increase of the insolvency rate of TAURON Capital Group's customers.</p> <p>The economic disturbances observed in 2022, including an increase in the inflation rate and the restrictions imposed on the global trade exchange, have an impact on the costs of the development (expansion) oriented investment projects and the costs of maintaining the existing assets, which, as a consequence, may affect the profitability of the Segment.</p> |
| Supply | <p>A material threat to the accomplishment of the Supply Segment's goals is the volume risk related to the non-achievement of the assumed electricity supply volume. The reasons behind this risk stem from such factors as: the competitive environment, the evolution of the pandemic, as well as the macroeconomic factors, i.e. a drop of the demand for the electricity caused by the economic slowdown and the volatility of the electricity prices. In addition, this risk is fueled by the increased customer awareness, the trend to strengthen the consumer rights protection and the regulatory pressure to curb the increases of the electricity and gas prices for the final consumers and the level of consumption of the electricity and gas by the final consumers.</p> <p>At the same time, in parallel, the market risk due to the high volatility and the increase of the electricity, gas and the related products prices is a threat for the Supply Segment, in particular from the moment the Russian Federation began its aggression against Ukraine. Such risk, as a consequence of such material price fluctuations, as well as the observed drop of the liquidity of the electricity market, has a material impact on the margin obtained due to the steps required to secure (hedge) the cost of the electricity and gas supply for the purpose of ensuring the sales thereof to the final consumer. In addition, due to the changes in the generation mix structure stemming mainly from the rapid growth of the photovoltaic sources in Poland, the material changes in the electricity price profiles are observed. This situation leads to the increased costs of the profiling and balancing of the demand from the final consumers.</p> |
| | <p>A material threat (risk) to the Supply Line of Business (Segment) is also posed by the credit risk understood as a failure of the customers to meet their obligations arising from the electricity and gas sales. The uncertainty and the fluctuations on the market may lead to a significant increase in the insolvency rate of the counterparties (contractors) of TAURON Capital Group.</p> <p>One of the most important regulatory risks in the Supply Segment is the regulated tariff risk, related to the level of the costs allowed by the President of the ERO to be passed on in the sales price for the given year. The consequence of the materialization of such a risk is the curtailment of the planned revenue, profitability and funds for the development of the Company's potential. Of particular note, in the context of 2023, is the implementation of the electricity and gas price freeze regulation in Poland and the creation of a fund to cover the price differences between the cost of purchasing the electricity and the level resulting from the freeze. The risk related to the regulated tariffs is also very material in the years to come, due to the observed high level of the prices in the electricity and gas markets. The material regulatory risks are also the introduced and announced changes in the functioning of the balancing market, which may have an impact on the cost of balancing the demand of the customers of the Supply Segment.</p> <p>In the long run, the climate factors, and in particular the further expansion of the prosumer and industrial energy, pose a threat to the stability of achieving the Supply Segment's goals, resulting in a loss of the supply volume and the margin on the electricity sales.</p> |
| Other risks | <p>The other organizational units that are a part of TAURON Capital Group are primarily providing the support services for the above mentioned Segments. The main risks that are present in the Other Operations Segment are related to ensuring the availability and security of the IT services, the broadly understood compliance management, the personal data protection, as well as the security and protection of property.</p> <p>At TAURON Capital Group's level, some of the material threats affecting the entire value chain of TAURON Capital Group include the risk of financing resulting from the gradual withdrawal of the financial institutions from financing of the activities based on the fossil fuels, the regulatory and political issues related in particular to the environment and climate protection issues, the risks associated with the human resources management and the workforce expectations with respect to the growth of the wages, as well as the pending court litigations against TAURON.</p> <p>With respect to the regulatory risk, the continued trend towards the tightening of the EU climate policy is observed, related to a greater reduction of the CO₂ emissions and the support for the RES investments, which leads to an increase in the volatility in terms of the national sector regulations, and this in turn translates into an increase in the number of the regulatory risks of the strategic importance for TAURON Capital Group.</p> |

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

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

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

| Risk name | Risk description | Risk trend and materiality | Reaction to risk |
|----------------------------------|--|----------------------------|--|
| Trading risk | | | |
| 1. Trading risk | <p>The risk related to:</p> <ol style="list-style-type: none"> an unfavorable change in the prices on the wholesale electricity market and the energy related product markets, including hard coal, gas, crude oil, CO₂ emission allowances, property rights, which have a negative impact on the financial results, lack of the supply of the above mentioned products on the market and the liquidity of the commodity markets. | <p>↗</p> <p>■</p> | <ol style="list-style-type: none"> Independent monitoring of the trading positions and of the use (consumption) of the risk limits. Daily control (checking) of the compliance with the limits - Value at Risk. Daily control (checking) of the volume of the open positions, broken down into all of the assets and the aggregate. Applying of the Stop Loss limits allowing for protecting (locking in) the generated result. The use of the futures (forward) products allowing for the hedging of the future exposure to the trading risk. Applying of the tolerances allowing for the flexible reaction to the changing market conditions with a limited level of the risk incurred. Taking advantage of the effects of the diversification between the products and the trading portfolios as well as the use of the internal netting. Centralization of the trading activities at TAURON Capital Group allowing for taking advantage of the synergy effects. Product changes adjusted to the current market situation. |
| Financial and credit risk | | | |
| 2. Interest rate risk | Risk related to an unfavorable impact of the interest rates on TAURON Capital Group's financial results. | <p>→</p> <p>■</p> | <ol style="list-style-type: none"> Ongoing monitoring of the risk exposure in order to minimize the negative impacts of the changes to the interest rates. Transfer of the risk through the use of the derivative instruments. |
| 3. FX rate risk | Risk related to an unfavorable impact of the FX rates on TAURON Capital Group's financial results. | <p>→</p> <p>■</p> | <ol style="list-style-type: none"> Ongoing monitoring of the risk exposure vulnerable to the FX rate risk. Use of the risk limits for TAURON Capital Group's operational FX position (Value at Risk). Transfer of the FX rate risk through the use of the hedging transactions in accordance with the adopted <i>TAURON Group's Financial Risk Management Policy</i>. |
| 4. Liquidity risk | Risk related to the lack of TAURON Capital Group's ability to meet its obligations on an ongoing basis and the difficulties in accessing capital, a change in the conditions for obtaining and servicing the financing already contracted and planned (incl. due to the tightening of the EU climate policy). | <p>→</p> <p>■</p> | <ol style="list-style-type: none"> Diversification of the sources of financing including the arranging of the guaranteed financing programs as well as the securing of the alternative sources of financing. Analyzing the market and the availability of the sources of financing. Ongoing communications with the financial institutions. Arranging of the financing agreements in advance of the time the funding is needed. Monitoring the financial liquidity and planning the use of the available sources of financing. Introduction of a liquidity control system (the spending limits). Taking actions and recommendations with respect to the operations of the Financial Management Area, indicated by the Risk Committee or the Management Board of the Company. |
| 5. Financing risk | Risk related to the difficulties in accessing the capital, a change in the conditions for obtaining and servicing the financing already contracted and planned (incl. due to the tightening of the EU climate policy). | <p>→</p> <p>■</p> | <ol style="list-style-type: none"> Diversification of the use of the available sources of financing by using the financing instruments that reduce the risk of breaching the covenant in the form of the net debt to EBITDA ratio (for example the hybrid bonds, factoring). The use of the instruments without financial covenants and limiting the number of the conditions that breach such covenants. Ongoing communications with the financial institutions. Pre-emptive activities with respect to obtaining the approvals from the financial institutions to carry out the transactions or activities specified in the financing agreements. Identification of the events that may potentially affect the breach of the financial contracts and taking pre- |

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- limited. In order to mitigate the above mentioned risks, the Group was updating its trading strategy on an ongoing basis and was responding in a flexible manner to the rapidly changing market conditions,
2. restrictions on the supply of the hard coal with respect to the contracts concluded with the external suppliers, the logistics disruptions with respect to the hard coal transportation, as well as the regulatory changes, which affected the levels of the hard coal inventories required by law. In order to mitigate the above mentioned risks, measures were taken to maximize the hard coal supplies from TAURON Wydobycie and to source additional deliveries of the fuels both on the domestic as well as the foreign markets,
 3. high volatility of the prices of electricity in all of the market segments, both in Poland as well as on the European markets, which leads to the continued maintaining of the high level of the market risk. With respect to the trading, the high level of the costs of hedging (including the profiling and the trading balancing) the demand of the end customers in the Supply Line of Business was also observed. In order to mitigate the above mentioned risks, measures were taken in order to minimize the risk exposure by updating the trading strategy on an ongoing basis, as well as by shaping the electricity and gas offers for the business and the retail (household) customers,
 4. continued high volatility of prices of electricity and the related products, leading to an increase of the trading margins (margin calls) stemming from the contracts entered into on the power exchange market. As part of the response, TAURON Group made the maximum use of the non-cash forms of hedging and took advantage of the margin offsets between the Supply and the Generation Lines of Business,
 5. the rise of the inflation rate in Poland, as a result of which the Monetary Policy Council is regularly raising the NBP reference (prime) interest rate. The volatility of the interest rates is having an impact on the costs of servicing the financing at TAURON Group, as well as it will be affecting the rate of return on the capital employed in the Distribution Line of Business in 2023. As a result of the economic disturbances, the increased volatility of the foreign exchange (FX) rates and the weakening of the Polish zloty were also observed, which mainly affected the cost of purchasing the CO₂ emission allowances and the valuation of the debt denominated in EUR. The principles of interest rate risk and currency risk management applied by TAURON Capital Group are described in sections 7.2. and 7.3. of this report,
 6. the observed gradual deterioration of the economic situation in Poland, and what followed, the decline of the electricity supply and distribution volume (observed, in particular, in the third and the fourth quarters of 2022), which had an impact on the level of the revenue of the Distribution Line of Business as well as that of the Supply Line of Business. With respect to the risk mitigation, TAURON Group was taking actions related to the trading aspects (balancing of the sale position and the product changes aimed at curbing the impact of the changes in the demand on TAURON Group),
 7. the escalation of the wage claims and the potential social unrest at TAURON Group as a consequence of the rise of the inflation rate in Poland. With respect to the risk mitigation, the social dialogue had been conducted between TAURON's Management Board and the Social Council on the basis of the concluded Agreement on the cooperation as part of the social dialogue at TAURON Group, as a result of which the relevant agreements were signed.
 8. the implementation of the significant national regulations aimed at the curbing of the demand for the electricity, the introduction of the mechanisms aimed at the curtailing of the electricity price increases for the final consumers, the introduction of the margin caps for the electricity generators and the trading companies, as well as the changes in the rules of the functioning of the wholesale electricity market (the abolition of the power exchange trading obligation, the changes in the rules for the price setting on the balancing market). The introduction of the above mentioned regulations had an impact on TAURON Group's current trading activities in 2022 and will probably also affect the earnings of the Supply Line of Business, the conventional Generation Line of Business, the Renewable Energy Sources Line of Business, the Heat Line of Business and the Distribution Line of Business in 2023. With respect to the mitigation activities, the consultations were held within the industry (trade) organizations, among others, on the shaping of the draft regulations. The actions were also taken to adjust TAURON Group's trading strategy to the changes in the regulatory environment, as well as the actions aimed at the technical and operational implementation of the solutions imposed by these regulations.

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

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

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

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

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

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

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

4. ANALYSIS OF THE FINANCIAL POSITION AND ASSETS

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

Statement of comprehensive income

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

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

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

The Company reported an operating profit of PLN 200 million in 2022, which was higher than the result achieved in 2021, primarily as a consequence of generating the higher margins on the trading operations with respect to the electricity, CO₂ emission allowances and fuel trading.

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

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

Revenue

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

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

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

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

The high share of the revenue from the sales of goods and materials is a consequence of the adopted Business Model, where the main role of TAURON is to hedge the buy and sell positions of TAURON Capital Group's entities. In addition the Company performs the function of the Market Operator and the entity responsible for the trading balancing of TAURON Capital Group's subsidiaries and manages, among others, the property rights and the CO₂ emission allowances

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

1. an increase of the revenue from the sales of electricity by 68% as a result of the higher electricity sales prices (82%), as compared to 2021, along with the lower sales volume (8%),
2. an increase of the revenue from the sales of the CO₂ emission allowances which is the result of the sale in 2022 of a larger volume of the allowances for the redemption needs of TAURON Capital Group's subsidiaries due to the emissions both for 2021, as well as for 2022. In addition, the higher revenue from the sales of the CO₂ emission allowances was impacted by the restructuring of the emission allowances in the portfolio of the Nowe Jaworzno Grupa TAURON subsidiary due to the delay in the commissioning of the 910 MW generating unit in Jaworzno and, as a consequence, the lower production output,
3. an increase by 115% of the revenue from the gas sales as a result of the significant increase of the prices (140%), along with the simultaneous lower gas sales volume completed (11%). The sales conducted are mainly aimed at hedging the agreements and contracts for the gas sales concluded by TAURON Sprzedaż and achieving a positive margin on the trading activities.

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

Costs

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

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

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

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

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

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

Company's assets and financial position

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

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

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

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

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

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

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

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

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

Statement of cash flows

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

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

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

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

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

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

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

4.3. Key financial ratios and the Alternative Performance Measures

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

Table no. 30. Key financial ratios of TAURON

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

The higher EBIT achieved by the Company in 2022, as compared to 2021, is mainly a consequence of generating the higher margins on the trading operations with respect to the electricity, CO₂ emission allowances and fuel trading.

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

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

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

4.4. Principles of preparing annual financial statements

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

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

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

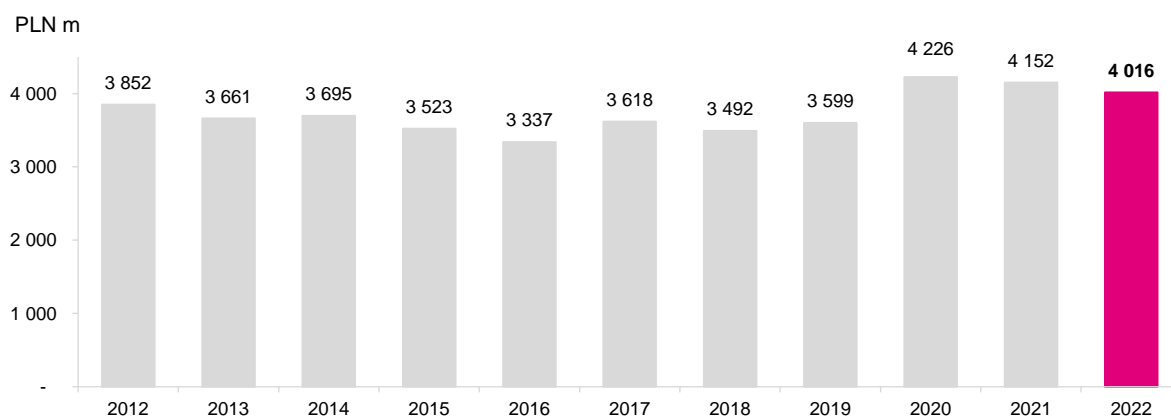
The accounting principles (policy) adopted for drawing up of the Financial Statements of TAURON are presented in the individual notes to the Financial Statements of TAURON.

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

5.1. TAURON Capital Group's financial results

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

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



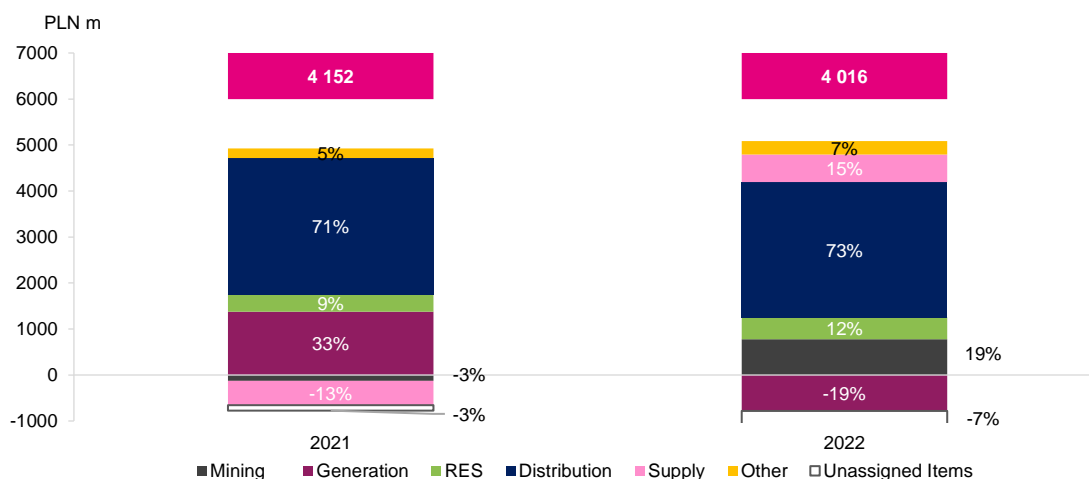
The below table presents TAURON Capital Group's 2021-2022 EBITDA broken down into individual lines of business. The data for the individual segments does not include the consolidation exclusions.

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

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

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

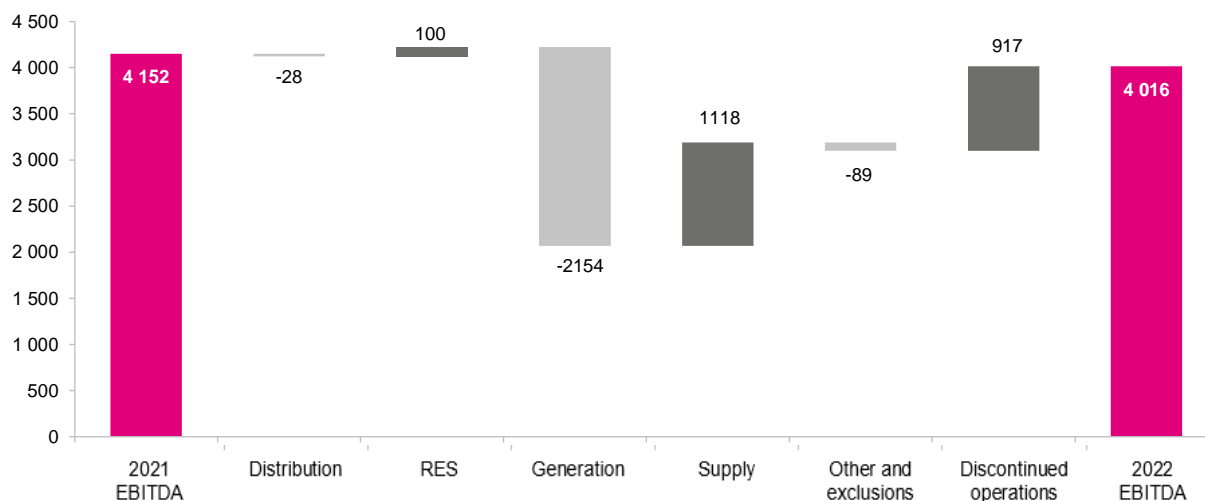
Figure no. 32. TAURON Capital Group's 2021-2022 EBITDA structure



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

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

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



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

Generation Segment

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

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

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

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

The Generation Segment's sales revenue in 2022 was higher by 113% as compared to 2021, mainly due to the higher revenue from the sales of the electricity (the higher sales volume and the higher sales price), heat (the resultant of the higher sales prices and the lower volume), as well as the sales of the CO₂ emission allowances (the resultant of higher prices and the lower volume).

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

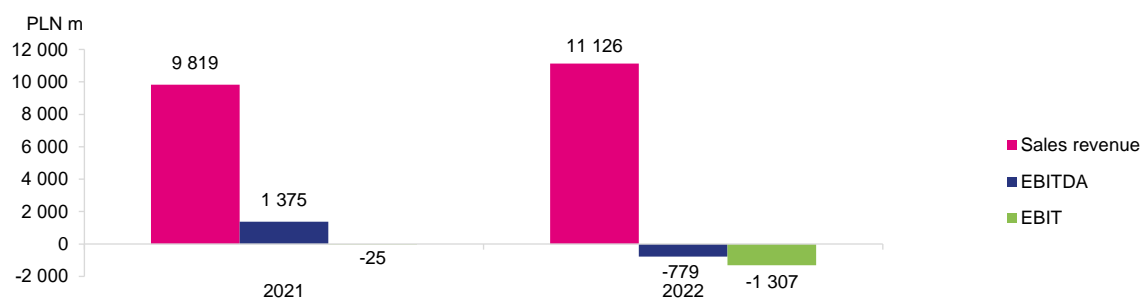
1. a lower margin on the sales of electricity as a result of the rising prices of the fuels and the CO₂ emission allowances, the higher costs of the electricity buybacks, primarily due to the higher electricity purchase prices. The above effects were partially offset by the higher electricity sales prices and the use of the provision for the onerous contracts, which had been set up in 2021, as a result of the planned shutdown of the generation unit in the first half of 2022,
2. a lower margin on the heat sales as a consequence of an increase in the costs of the fuels and the CO₂ emission allowances, partially offset by the higher heat sales prices,
3. completion of the transactions related to the CO₂ emission allowances:
 - 1) in connection with a delay of the commissioning of the 910 MW unit in Jaworzno and, as a consequence thereof, the lower production output, a significant surplus of the allowances contracted for the purpose of fulfilling the redemption obligation for 2020 above the actual requirement had arisen in Nowe Jaworzno Group TAURON's portfolio. As a consequence, in March 2021, TAURON Capital Group had carried out the following transactions.
 - a) restructuring of the above mentioned portfolio of the CO₂ emission allowances with respect to the volume of 3 258 000 of the CO₂ emission allowances with the collection date in March of 2021. As a result of the completed analysis of the new premises and circumstances, the Company changed its intentions regarding the above mentioned CO₂ emission allowances and took a decision to roll them over along with the conclusion of the new contracts with the delivery dates in March 2022, 2023, and 2024. At the same time, those transactions were completed at the prices that were higher than the originally contracted purchase, and as a consequence, they led to an increase of the costs of setting up a provision by TAURON Capital Group for the liabilities related to the CO₂ emissions for 2021 and for the subsequent financial years. As a result of the above TAURON Capital Group estimates that the total impact of the restructuring on the operating results thereof in the years 2021 - 2023 will not be significant,
 - b) resale of the CO₂ emission allowances held in the quantity of 691 000 EUAs that had also constituted a surplus above the redemption needs of the subsidiary for 2020 due to the delay of the commissioning of the 910 MW unit in Jaworzno,
 - 2) as a consequence of a failure of the 910 MW unit in Jaworzno that had taken place in June 2021, which led to its shutdown in the subsequent periods, a surplus of the emission allowances had arisen in the company's portfolio above the redemption obligation in 2021. Taking into account the need to match the delivery of the emission allowances and the cash expenditure, TAURON Capital Group made a decision to sell the CO₂ emission allowances in the quantity of 1 717 000 EUAs,
4. other factors, including mainly the PCC tax assessed on the acquisition of the Nowe Jaworzno Group subsidiary by TAURON Wytwarzanie, the sale of the assets of EC Stalowa Wola (the 2021 effect), the lower revenue from the sale of the liquidated fixed assets, and the higher result of the TAMEH Group's companies, in which TAURON holds shares.

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

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

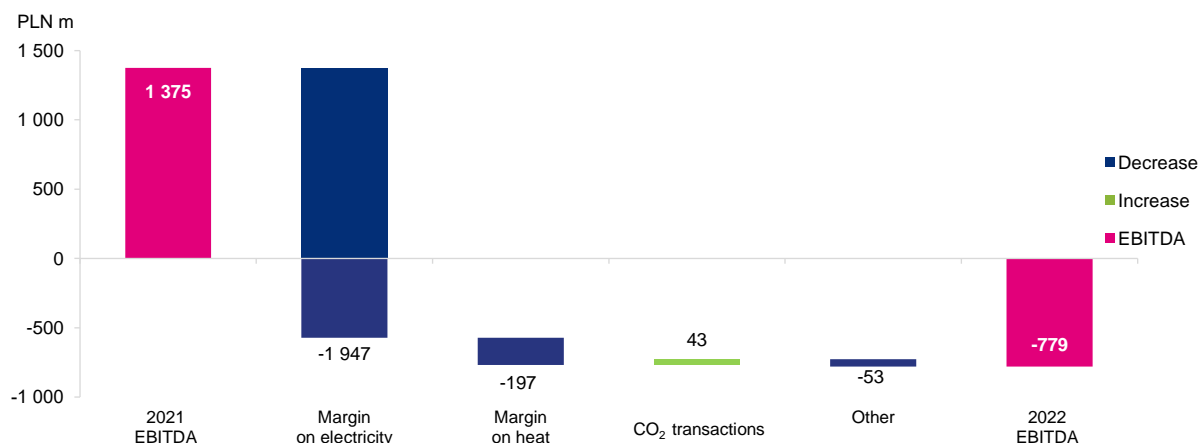
The below figure presents the Generation Segment's financial data for the years 2021-2022.

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



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

Figure no. 35. Generation Segment's EBITDA



Major investments (CAPEX)

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

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

Renewable Energy Sources Segment

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

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

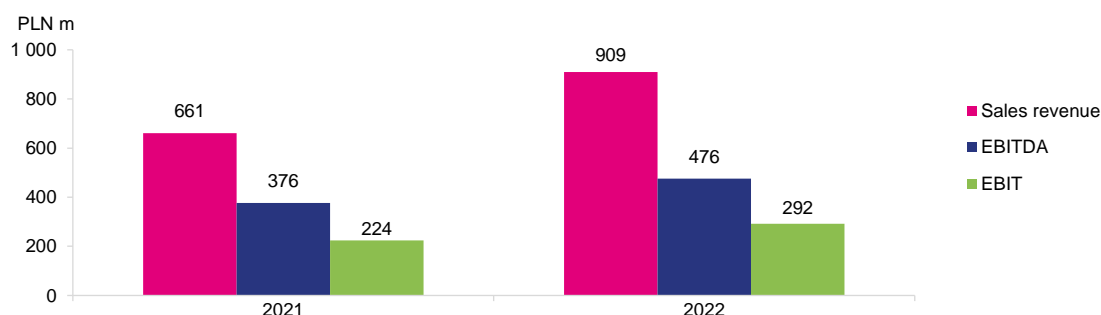
| Item (PLN m) | 2021 | 2022 | Change in % (2022 / 2021) | Change (2022-2021) |
|--|------------|------------|---------------------------|--------------------|
| Sales revenue | 661 | 909 | 138% | 248 |
| electricity | 372 | 547 | 147% | 175 |
| valuation of the guarantees of origin of electricity |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

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

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

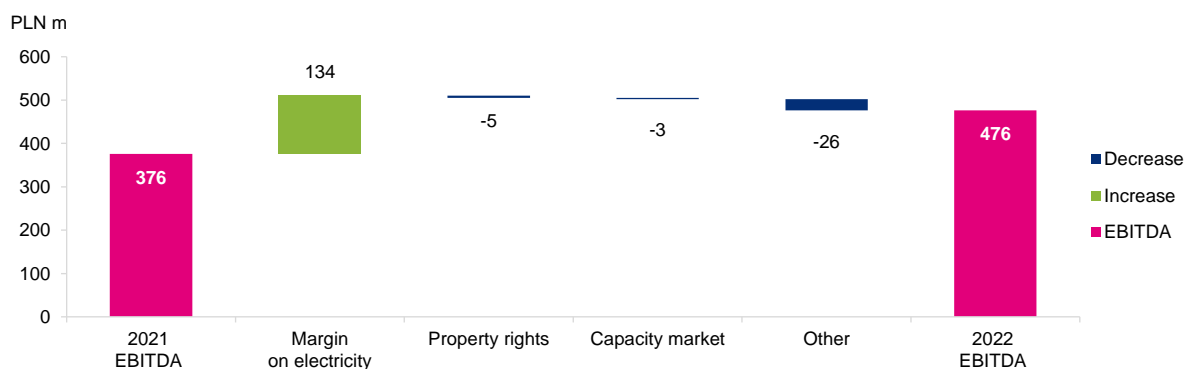
The below figure presents the RES Segment's financial data for the years 2021-2022 .

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



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

Figure no. 37. RES Segment's EBITDA



Major investments (CAPEX)

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

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

Distribution Segment

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

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

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

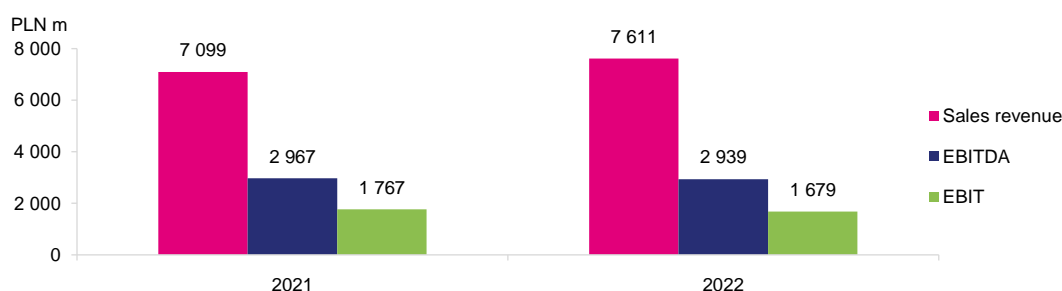
The Distribution Segment reported an increase of the sales revenue by 7% in 2022, as compared to 2021, mainly as a consequence of an increase in the distribution tariff as compared to last year and the completion of a significant grid connection for poly-metallurgy site of KGHM Polska Miedź.

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

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

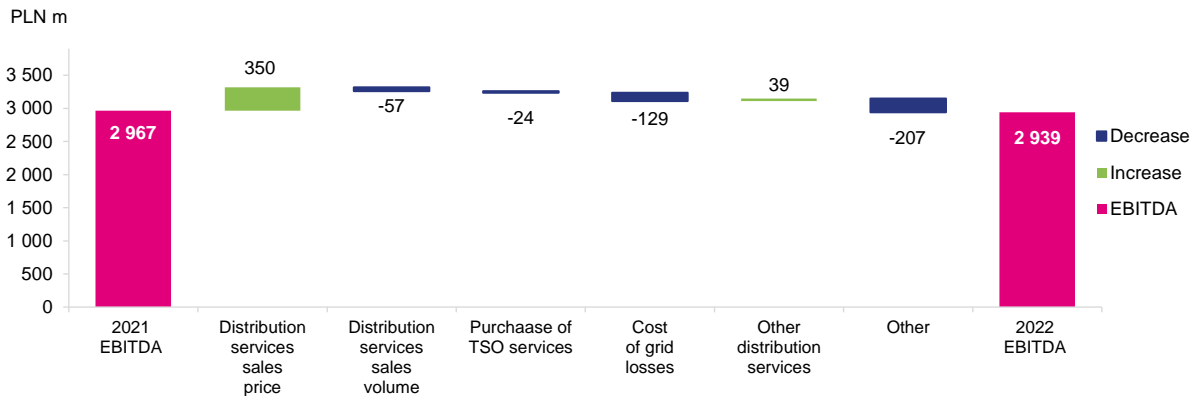
The below figure presents the Distribution Segment's financial data for the years 2021-2022.

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



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

Figure no. 39. Distribution Segment's EBITDA



Major investments (CAPEX)

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

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

Supply Segment

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

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

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

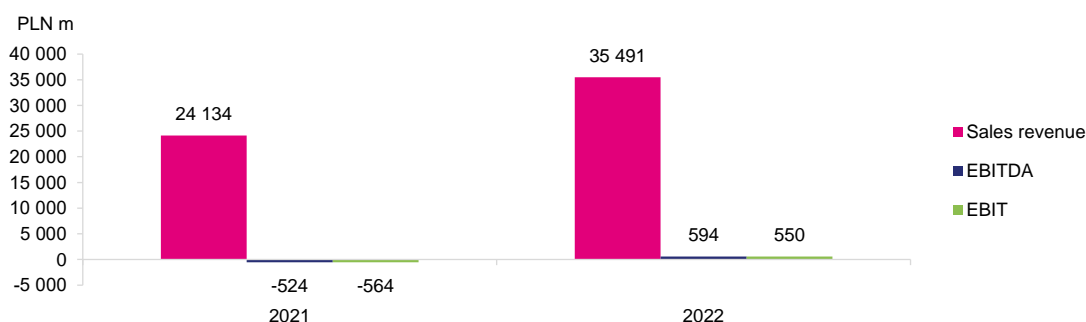
The Supply Segment's sales revenue in 2022 was higher by 47%, as compared to 2021, first and foremost as a result of the changes in the prices for the sale of electricity to the customers outside the ERO tariff introduced during the year in response to a significant change in the unit cost of sourcing electricity stemming directly from the market situation that had occurred in 2022 and the different demand profile reported by the customers. In addition, the increase in the revenues is also due to the changes in the tariff rates approved by the President of the ERO, albeit the pace of the changes was lower than in the case of the price list changes. The revenue from the sales of the CO₂ emission allowances had also gone up, mainly due to the higher quoted prices of the emission allowances resold mainly for the redemption needs of the generation companies.

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

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

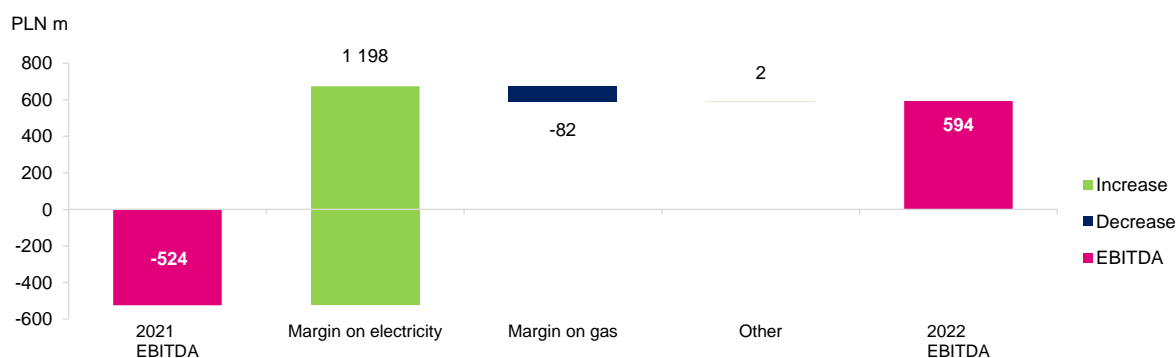
The below figure presents the Supply Segment's financial data for the years 2021 - 2022.

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



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

Figure no. 41. Supply Segment's EBITDA



Major investments (CAPEX)

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

Other operations

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

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

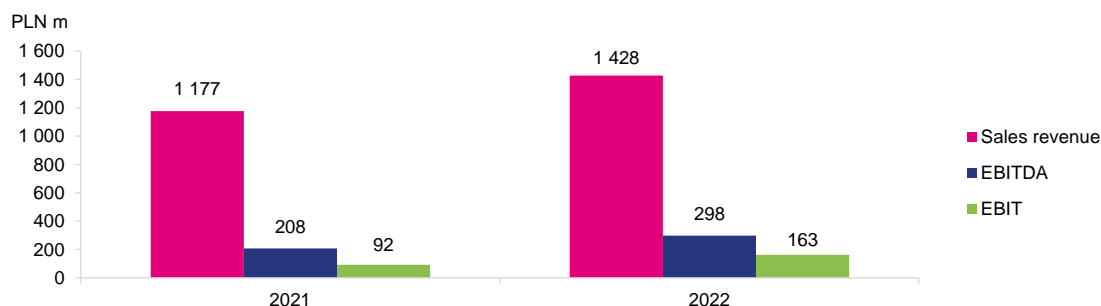
| Item (PLN m) | 2021 | 2022 | Change in % (2022 / 2021) | Change (2022 - 2021) |
|------------------|-------|-------|---------------------------|----------------------|
| Sales revenue | 1 177 | 1 428 | 121% | 251 |
| customer service | 250 | 285 | 114% | 35 |

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

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

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

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



Major investments (CAPEX)

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

Mining Segment – discontinued operations

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

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

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

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

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

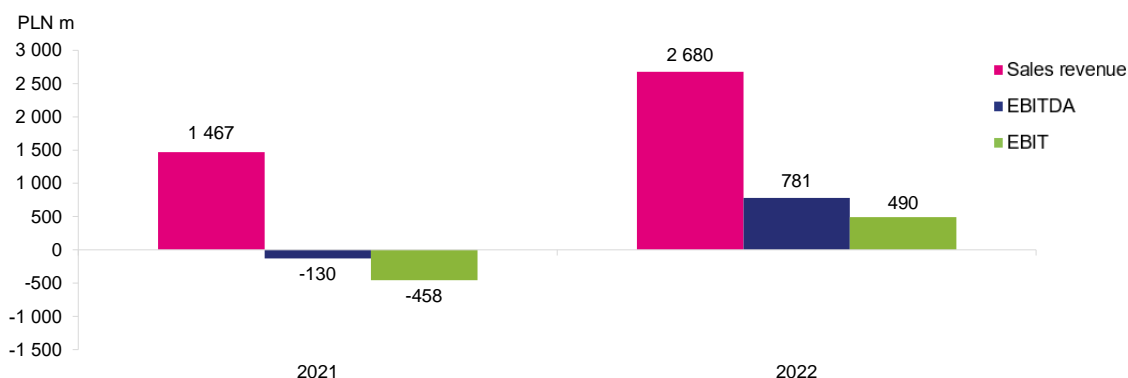
The Mining Segment's EBITDA and EBIT results were higher in 2022 as compared to 2021. The results posted were impacted by the following factors:

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

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

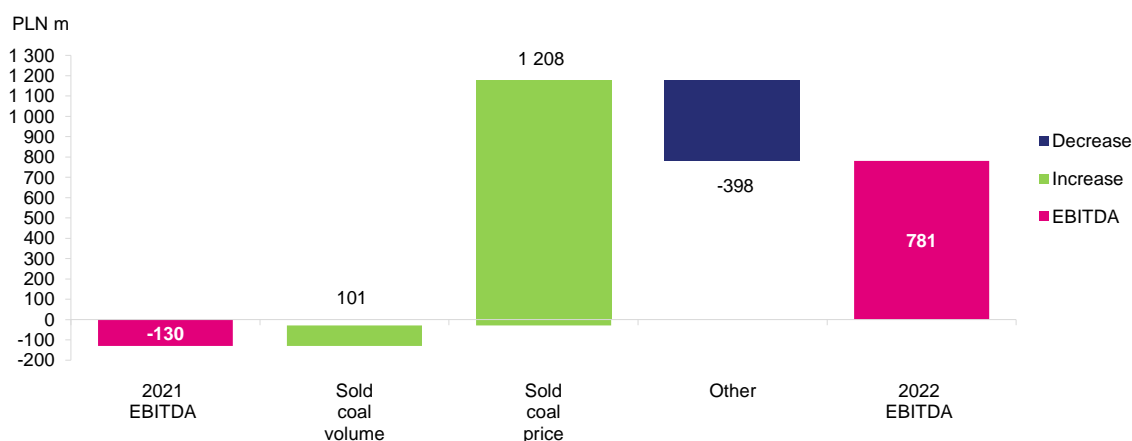
The below figure presents the Mining Segment's financial data for the years 2021 - 2022.

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



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

Figure no. 44. Mining Segment's EBITDA



Major investments (CAPEX)

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

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

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

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

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

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

The below figures present the structure of assets as well as equity and liabilities

Figure no. 45. Structure of assets

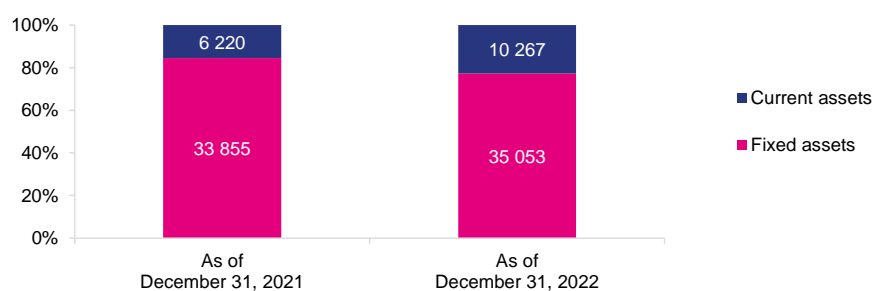
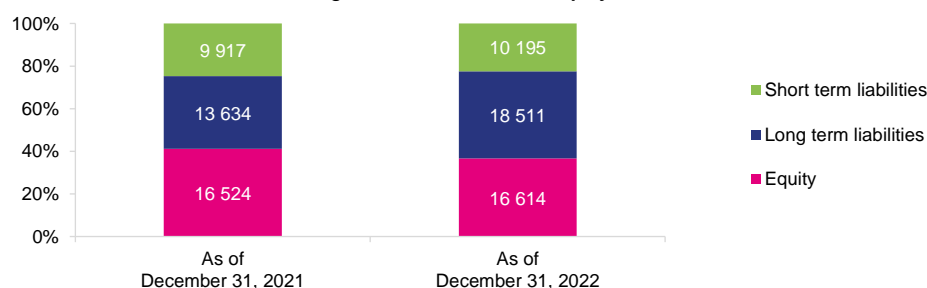


Figure no. 46. Structure of equity and liabilities

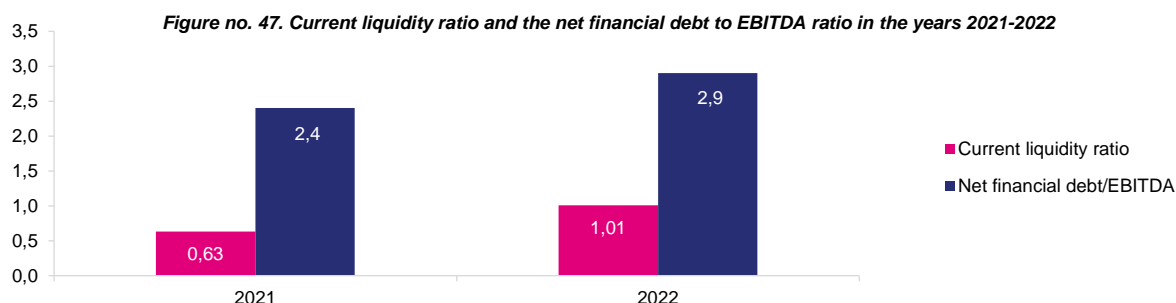


As of December 31, 2022, similar as in 2021, the value of the fixed assets constitutes the largest share in the structure of assets, i.e. 77.3%, and it is 7.2 pp lower than last year. The decrease is related to the divestment, as of December 31, 2022, of 100% of the shares of the TAURON Wydobycie subsidiary and the consequent decline in the value of TAURON Capital Group's assets.

As of December 31, 2022, the liabilities represent the largest share in the structure of equity and liabilities, i.e. 63.3%, with their share rising by 4.6 pp.

The level of debt of TAURON Capital Group remains at a stable level, which is indicated by the value of the leverage ratio which is below the value agreed upon with the institutions financing TAURON Capital Group's operations. The current liquidity ratio and the net debt to EBITDA ratio remain at a stable level.

The below figure presents the current liquidity ratio and the net financial debt to EBITDA ratio in the years 2020 - 2021.



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

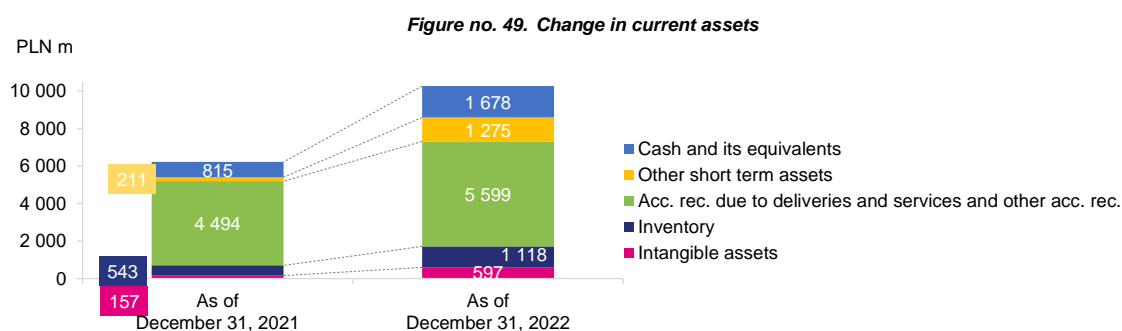
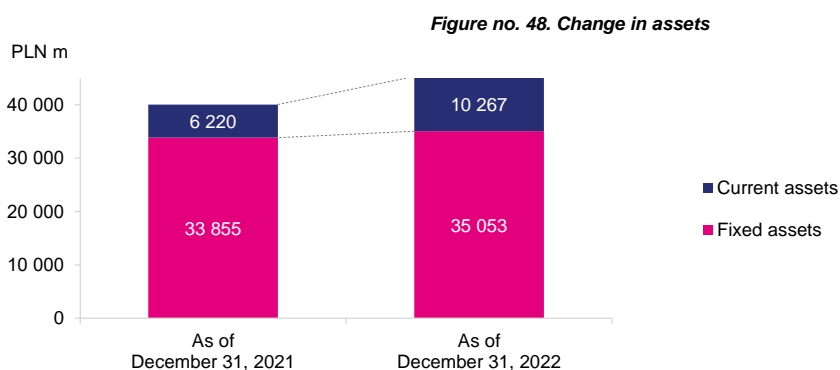
Table no. 39. Annual consolidated statement of financial position - assets (material items)¹

| Statement of financial position (PLN m) | As of December 31, 2021 | As of December 31, 2022 | Change in % (2022 / 2021) |
|--|-------------------------|-------------------------|---------------------------|
| ASSETS | | | |
| Fixed assets | 33 855 | 35 053 | 104% |
| Tangible fixed assets | 29 174 | 29 731 | 102% |
| Current assets | 6 220 | 10 267 | 165% |
| Cash and equivalents | 815 | 1 678 | 206% |
| Fixed assets classified as held for sale | 10 | 7 | 70% |
| TOTAL ASSETS | 40 075 | 45 320 | 113% |

¹Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

As of December 31, 2022, the statement of the financial position of TAURON Capital Group indicates the balance sheet total higher by 13%.

The below figures present the change in the level of assets and current assets.



The fixed assets represent the biggest item of the assets as of the end of December 2022, accounting for 77.3% of the balance sheet total. As compared to the level as of the end of 2021, the value of the fixed assets is higher by PLN 1 198 million, i.e. by 3.5%, which was brought about due to the following factors:

1. tangible fixed assets – an increase by 2% which is the resultant of an increase in the value of the tangible fixed assets as a consequence of the investment projects implemented by TAURON Capital Group's subsidiaries, the recognized depreciation write-downs, as well as the booked impairment charge related to the non-financial fixed assets as a result of the impairment tests carried out as of June 30, 2022, and December 31, 2022, as well as the divestment of the shares of TAURON Wydobycie,
2. guarantees of origin of electricity and the greenhouse gas emission allowances to be redeemed – a decline by 88% which is mainly the result of the reclassifying of the guarantees of origin of electricity and the CO₂ emission allowances as the current assets held in order to fulfill the obligation related to the redemption of the above mentioned assets,
3. other intangible assets – an increase by 34%,
4. loans extended to the joint ventures – an increase by 108%, which is related to the granting of a loan to EC Stalowa Wola in March of 2022 in order to enable the company to settle the liability stemming from the settlement agreement with Abener Energia, concluded on December 31, 2021,
5. derivative instruments – a decrease by more than 27%, which is a consequence of the settlement in December 2022 of a portion of the derivative instruments relating to the forward transactions for the purchase and sale of the CO₂ emission allowances as well as of the change in the fair value measurement of the derivative instruments and the foreign currency forward or futures derivative instruments, in accordance with the principles adopted in *TAURON Group's Accounting Policy*,
6. other financial assets – an increase by 69%, as a result of the advance payment for the fixed assets under construction, including those related to the construction of the wind farms,
7. deferred income tax assets – a increase by 446%, which is related to the lack of the offsetting between the assets and liabilities due to the deferred tax of the subsidiaries forming the Tax Capital Group (PGK) in 2021, as these subsidiaries will not be filing a joint tax return for 2022 due to an expiration, as of December 31, 2021, of the decision on the registration of the agreement to set up the Tax Capital Group (PGK) for the years 2021 - 2023, which is described in more detail in the *Consolidated Financial Statements of TAURON Capital Group*.

The following factors had an impact on the rise in the value of the current assets by PLN 4 047 million. i.e. by 65%:

1. balance of cash on hand and equivalents – an increase by 106%. *The information on the reasons for the change is provided further on in this report, in the section under the heading Cash Flows,*
2. guarantees of origin of electricity and the CO₂ emission allowances to be redeemed – an increase by 280%, which is the result of:
 - 1) purchase in 2022 or the recognition of the guarantees of origin of electricity produced in-house for the fulfillment of the obligation to redeem the property rights,
 - 2) reclassifying as the short term assets of a part of the property rights and the CO₂ emission allowances held, originally classified as the long term assets, that were reclassified due to their allocation for the purpose of the ongoing fulfilling of the obligation to redeem the above mentioned allowances and rights,
 - 3) purchase of the CO₂ emission allowances in 2022 for the redemption obligation for the year 2022,
3. inventory levels – an increase by 106% mainly due to the rise in the value of the hard coal stocks as a consequence of the higher prices of the purchasing thereof in relation to the prices reported in 2021,
4. accounts receivable from the consumers – an increase by 15%,
5. accounts receivable due to the income tax – an increase by 25%,
6. accounts receivable due to the other taxes and fees – an increase by 175% which is mainly related to the reduction, starting as of January 1, 2022, of the VAT rate applicable for electricity from 23% to 5%,
7. other financial assets – an increase by 437%, mainly as a result of recognizing, as of December 31, 2022, of the accounts receivable due to the compensation payments for the trading companies,
8. other non-financial assets – an increase by 605%, mainly as a result of the advance payments related to the future hard coal deliveries that had been paid but had not been settled as of the balance sheet date,

The below table presents the annual consolidated statement of financial position – equity and liabilities.

Table no. 40. Annual consolidated statement of financial position – equity and liabilities (material items)¹

| Statement of financial position (PLN m) | As of December 31, 2021 | As of December 31, 2022 | Change in % (2022 / 2021) |
|--|----------------------------|----------------------------|------------------------------|
| EQUITY AND LIABILITIES | | | |
| Equity attributable to shareholders of the parent entity | 16 491 | 16 581 | 101% |
| Non-controlling stakes | 33 | 33 | 100% |

| Statement of financial position (PLN m) | As of December 31, 2021 | As of December 31, 2022 | Change in % (2022 / 2021) |
|---|-------------------------|-------------------------|---------------------------|
| Total equity | 16 524 | 16 614 | 101% |
| Long term liabilities | 13 634 | 18 511 | 136% |
| Liabilities due to debt | 10 947 | 15 959 | 146% |
| Short term liabilities | 9 917 | 10 195 | 103% |
| Liabilities due to debt | 2 143 | 528 | 25% |
| Total liabilities | 23 551 | 28 706 | 122% |
| TOTAL EQUITY AND LIABILITIES | 40 075 | 45 320 | 113% |

¹Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

The below figures present the change in the amount of the equity and liabilities as well as equity attributable to the majority shareholders.

Figure no. 50. Change in equity and liabilities

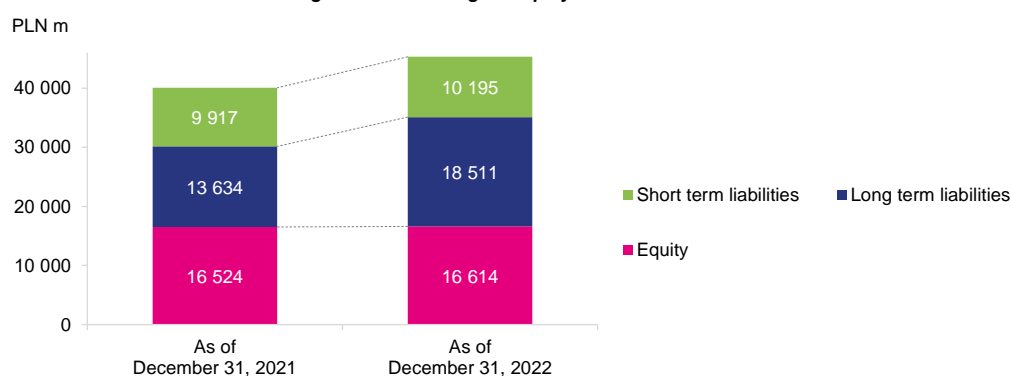
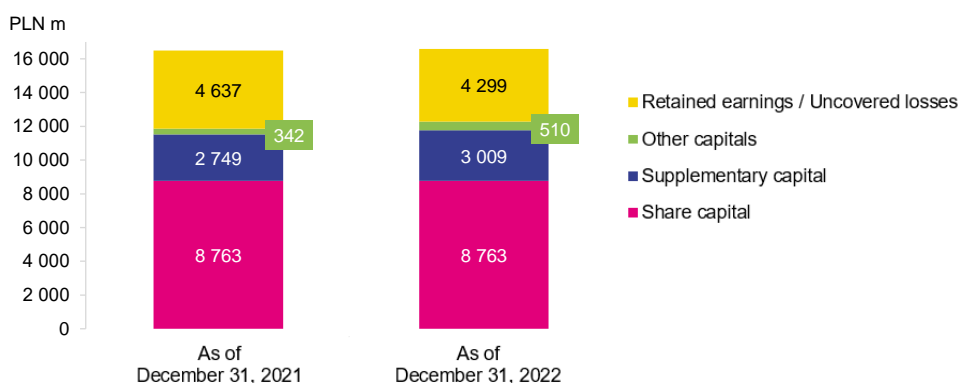


Figure no. 51. Change in equity attributable to majority shareholders



The share of equity in the total equity and liabilities stood at 36.7% in 2022, and it was lower by 4.6 pp as compared to 2021. The external capital, in the form of the debt obligations, was a significant source of asset financing, whose share in total liabilities also stood at 36.4% as of December 31, 2022, and it was higher by 3.7 pp than its share at the end of 2021.

The below figures present the change in the amount of short term and long term liabilities.

Figure no. 52. Change in long term liabilities

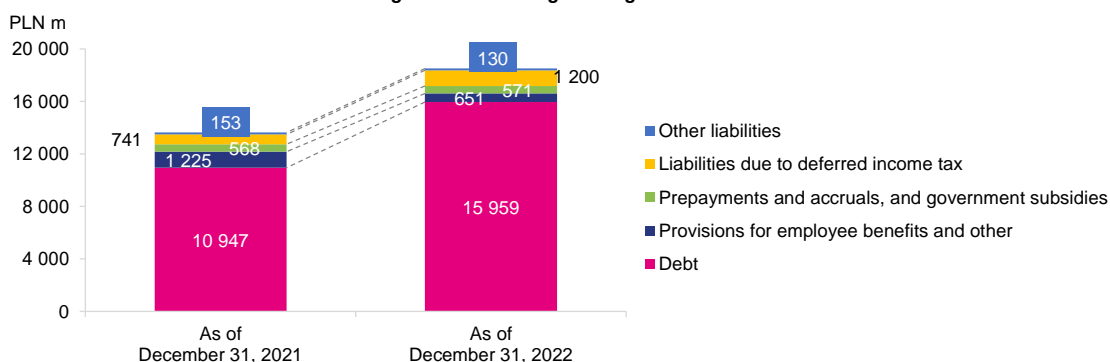
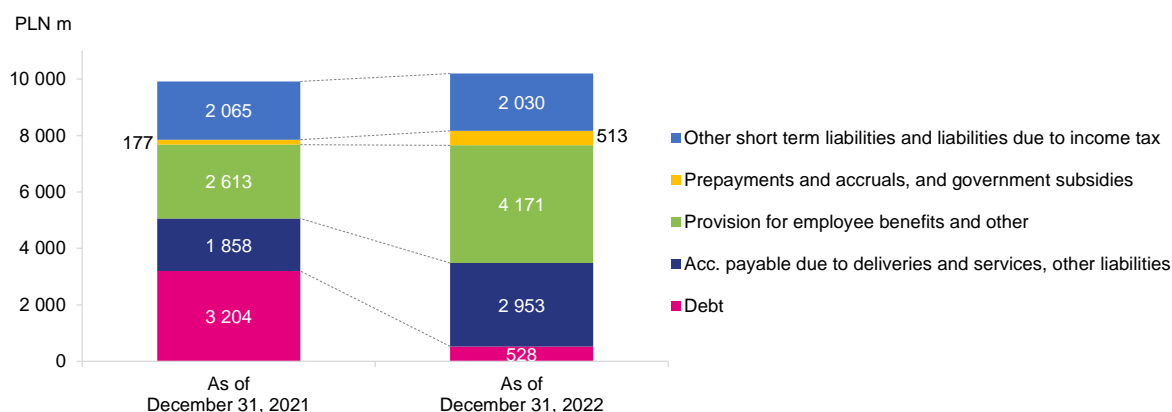


Figure no. 53. Change in short term liabilities



The amount of TAURON Capital Group's long term liabilities had gone up by PLN 4 877 million, i.e. by 36%, in 2022, which had mainly been a consequence of the following factors:

1. liabilities due to debt – an increase by 46%, as a result of taking on the new debt in 2022, the updating of the value of the debt in a foreign currency as a result of a change of the FX rate as of December 31, 2022, in relation to the FX rate as of December 31, 2021, and the reclassification of some liabilities as the short term ones,
2. provisions for the employee benefits – a drop by 37% mainly as a consequence of a change of the discount rate by 3.13 pp,
3. provisions related to the costs of dismantling the fixed assets and land reclamation - a decrease by 64%, primarily as a result of a change of the discount rate and the reduction of these costs as a result of the divestment of 100% of the shares of the TAURON Wydobycie subsidiary,
4. prepayments and accruals, as well as the government subsidies – an increase by 62%.
5. liabilities due to the deferred income tax – an increase by 62%,
6. derivative instruments - a decrease by 91%, which is a consequence of the settlement in December 2022 of a portion of the derivative instruments relating to the forward transactions for the purchase and sale of the CO₂ emission allowances as well as of the change in the fair value measurement of the derivative instruments and the foreign currency forward or futures derivative instruments, in accordance with the principles adopted in TAURON Group's Accounting Policy,
7. other financial liabilities – an increase by 261%,
8. other non-financial liabilities – a decline by 75%.

The amount of TAURON Capital Group's short term liabilities had gone up by PLN 278 million, i.e. by 3%, which was primarily a consequence of the following factors:

1. liabilities due to debt – a decrease by 75%, which is a result of the reclassifying of a part of the long term financial liabilities, the updating of the value of the bonds issued in a foreign currency as a result of an increase of the FX rate as of December 31, 2022, in relation to the FX rate as of December 31, 2021, and the repayment of the loans received in the amount of PLN 6 067 million and the redemption of the debt securities in the amount of PLN 170 million,
2. accounts payable towards the suppliers – an increase by 81% and the investment related commitments – a rise by 15%,
3. liabilities due to the acquisition of the non-controlling stake – a decline of the liability down to the value of PLN 0, which is a consequence of the fulfillment, in the first quarter of 2022, of the entire obligation towards the Infrastructure Investments Fund - Equity FIZAN (Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZAN) (PFR Fund) due to the acquisition of the shares in the subsidiary Nowe Jaworzno Grupa TAURON (currently TAURON Wytwarzanie),
4. provisions for the employee benefits – a drop by 12% mainly as a consequence of a change of the discount rate by 3.13 pp,
5. provisions for the liabilities due to the guarantees of origin of electricity and the CO₂ gas emissions – an increase by 95%, which is mainly due to a rise in the prices of the green certificates (PMOZE) and the CO₂ emission allowances in 2022 in relation to the prices thereof in 2021,
6. other provisions – a decrease by 37%, which is mainly due to having used, in 2022, the provision for the contracts for the sale of electricity in connection with the shutdown of the 910 MW unit in Jaworzno, which had been set up as of the balance sheet date falling on December 31, 2021,
7. prepayments and accruals, as well as the government subsidies – a rise by 190%, mainly due to the receipt in December 2022 of an advance payment for the compensation payments to the trading companies in the amount of PLN 337 million, as a result of the applications submitted by the Supply Segment subsidiaries in accordance with the provisions of the Act of October 27, 2022, on the Emergency Measures to Cap the Electricity Prices and Provide Support for Certain Consumers in 2023,
8. accounts payable due to the income tax – an increase by 325%,

9. liabilities due to the taxes and fees – a decrease by 48%, mainly as a consequence of the lower accounts payable due to VAT, accounts payable due to the social security and the personal income tax,
10. derivative instruments – a decrease by 13%, which is a consequence of the settlement in December 2022 of a portion of the derivative instruments relating to the forward transactions for the purchase and sale of the CO2 emission allowances as well as of the change in the fair value measurement of the derivative instruments and the foreign currency forward or futures derivative instruments, in accordance with the principles adopted in *TAURON Group's Accounting Policy*,
11. other financial liabilities – an increase by 6%,
12. other non-financial liabilities – an increase by 48%, which is a consequence of the higher overpayments received from the customers and the advance payments on account of the grid connection fees.

5.4. Discussion of the economic and financial figures disclosed in the annual consolidated financial statement

Consolidated statement of comprehensive income

The below table presents the annual consolidated statement of comprehensive income. Due to the changes in the segments and in order to maintain the comparability, the results are presented for 2 years.

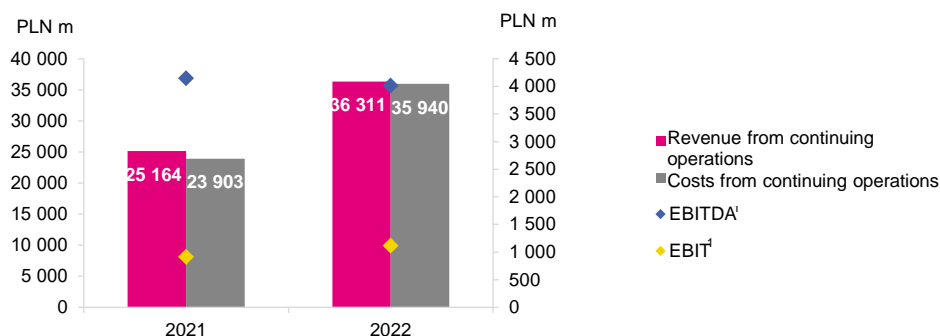
Table no. 41. Annual consolidated statement of comprehensive income for 2021-2022¹

| Statement of comprehensive income (PLN m) | 2021 | 2022 | Change in % (2022 / 2021) |
|---|--------------|--------------|---------------------------|
| Sales revenue | 25 164 | 36 311 | 144% |
| Compensations | (9) | 484 | - |
| Own cost of sales | (23 903) | (35 940) | 150% |
| Other operating revenues and costs | 76 | 86 | 113% |
| Share in the profits of the joint ventures | 32 | 128 | 400% |
| Operating profit | 1 360 | 1 069 | 79% |
| Cost of interest on debt | (365) | (591) | 162% |
| Other financial revenue and costs | 130 | (368) | - |
| Pretax profit / loss | 1 125 | 110 | 10% |
| Income tax | (293) | (319) | 109% |
| Net profit / loss from continuing operations | 832 | (209) | - |
| Net profit / loss from discontinued operations | (447) | 75 | - |
| Net profit (loss) for the period | 385 | (134) | - |
| Total income for the period | 865 | 108 | 13% |
| Net (profit) attributable to: | | | |
| Shareholders of the parent entity | 338 | (134) | - |
| Non-controlling stakes (interests) | 47 | - | - |
| EBIT and EBITDA | | | |
| EBIT | 916 | 1 119 | 122% |
| EBITDA | 4 152 | 4 016 | 97% |

¹Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

The below figure presents TAURON Capital Group's financial results for the years 2021 - 2022.

Figure no. 54. TAURON Capital Group's financial results for the years 2021 - 2022



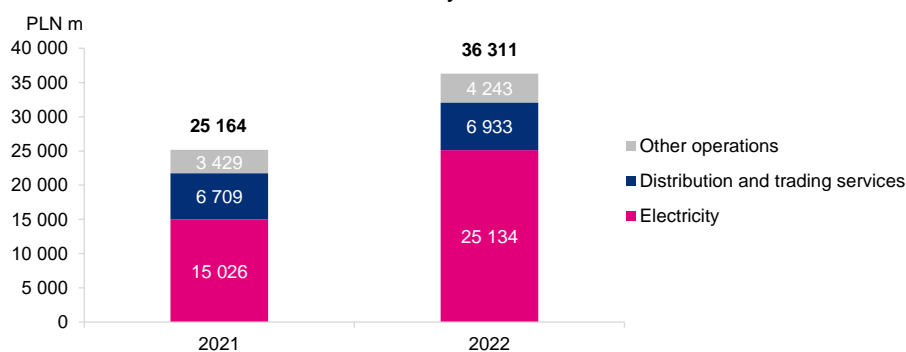
¹in total from the continuing operations and the discontinued operations. In 2022, the EBITDA results stand at respectively, PLN 3 215 million and PLN 801 million, while the EBIT results: PLN 1 069 million and PLN 50 million. In 2021, the EBITDA results stand at, respectively, PLN 4 282 million and PLN (130) million, while the EBIT results: PLN 1 360 million and PLN (444) million.

TAURON Capital Group generated PLN 36 311 million of revenue from the continuing operations conducted in 2022, i.e. it was higher by 44% as compared to the amount generated in 2021, which is the result of the following factors:

1. higher revenue from the electricity sales by 67%, which is mainly the result of the rising electricity prices on the exchange market and the increase of the prices under the G tariff approved by the President of the ERO. The main reason for the rising electricity prices was the increase in the energy commodity prices caused by the disruption of the supply chains as a result of the Russian aggression against Ukraine. As a consequence of the war, the EU countries made a decision to impose an embargo on the import of the Russian raw materials, including crude oil, gas and coal, among others. The sanctions introduced caused a deficit of these raw materials on the European market and forced the imports of more expensive raw materials from the rest of the world,
2. 25% higher revenues from the sales of the CO₂ emission allowances, including from the restructuring of the CO₂ portfolio, the reasons for which are described below:
 - 1) due to the failure of the 910 MW unit in Jaworzno that had taken place in June 2021 and its shutdown for the remainder of the year, there was an excess of the emission allowances for the redemption purposes for 2021. A portion of the resulting surplus in the amount of 1 717 000 EUAs was allocated for the redemption purposes of another installation of TAURON Capital Group for 2022. Taking into account the need to match the delivery of the emission allowances and the cash outlay, TAURON Capital Group took a decision to sell the above volume of the emission allowances and, at the same time, repurchase such a volume in the EUA MAR'23 forward product for the purpose of the redemption of the emission allowances for 2022, thus generating the revenue in the amount of PLN 604 million in the first quarter of 2022,
 - 2) restructuring of the CO₂ emission allowances completed in the first quarter of 2021 with respect to the volume of 3 258 000 of the EUAs in the portfolio of Nowe Jaworzno Grupa TAURON. As a result of the completed analysis of the new premises and circumstances, the Company changed its intentions regarding the above mentioned CO₂ emission allowances and took a decision to roll them over along with the conclusion of the new contracts with the delivery dates in March 2022, 2023, and 2024. Due to the fact that the original contracts had not been settled by way of the physical delivery, the Company recognized the contracts in accordance with IFRS 9 Financial Instruments at fair value at the date of the change in the judgment, i.e. in March 2021, and subsequently recognized the result from the settlement of the instruments, which led to an increase in the sales revenue and operating profit in the amount of PLN 303 945 000 (i.e. EUR 65 893 000). The newly contracted transactions with a delivery date in the years 2022 - 2024, are subject to an exclusion from the scope of the IFRS 9 Financial Instruments and are not measured at fair value. At the same time, those transactions were completed at the prices that were higher than the originally contracted purchase, and as a consequence, they will lead to an increase of the costs,
 - 3) In the first quarter of 2021, due to a delay in the commissioning of the 910 MW unit in Jaworzno in 2020, TAURON Group had sold 691 000 Mg of the emission allowances on the market as part of its efforts to manage the resulting surplus, which led to the recognition of the revenue in the amount of PLN 135 million in that period. In addition, with respect to the remaining volume of 3 258 000 allowances with the delivery date in March 2021, they were rolled over by entering into the new contracts with the delivery dates in March 2022, 2023, and 2024. TAURON Capital Group recognized the result from the settlement of the instruments in accordance with IFRS 9 Financial Instruments, which led to an increase in the sales revenue and operating profit in the amount of PLN 304 million,
3. higher revenue from the valuation of the property rights by 5%,
4. higher revenue from the distribution and trading services sales by 3%, as a consequence of an increase of the distribution and transmission service rate, along with the simultaneous rise of the distribution service volume,
5. higher revenue from the gas sales by 90% mainly as a consequence of the significant rise of the prices, year on year, in connection with the increase of the prices observed both on the domestic, as well as on the global markets.

The below figure presents the structure of TAURON Capital Group's sales revenue (except for the compensation payments) from the continuing operations in the years 2021 - 2022.

Figure no. 55. TAURON Capital Group's sales revenue (except for the compensation payments) from the continuing operations in the years 2021 - 2022¹



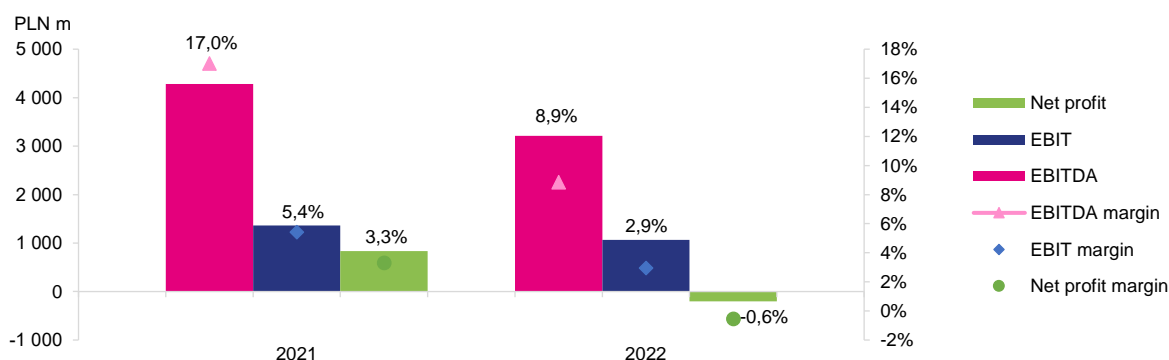
¹Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report.

The costs of TAURON Capital Group's operations (operating expenses) came in at PLN 35 940 million in 2022, i.e. they were 50% higher than the costs incurred in 2021, which is the result of the following factors:

1. higher depreciation costs, mainly as a result of an increase in the value of the assets of TAURON Capital Group,
2. lower value of the impairment charges related to the non-financial fixed assets, which is the result of the asset impairment tests carried out as of June 30, 2022, and as of December 31, 2022, which demonstrated the legitimacy of booking the write-downs in an amount lower than in the same period of 2021,
3. higher costs of the electricity purchased for the purpose of the resale thereof, due to an increase in the electricity purchase price year on year, as a consequence of the higher prices reported on the domestic market,
4. higher costs of the gas purchased for the purpose of the resale thereof, which is a consequence of an increase in the prices year on year,
5. higher costs of the greenhouse gas emission allowances, which is a consequence of an increase in the prices of the emission allowances,
6. higher costs of the materials and energy consumption, mainly as a result of:
 - 1) higher costs of the hard coal fuel consumed for the purpose of the production of the electricity and heat, mainly as a consequence of a significant increase in the energy commodity prices triggered by the disruption of the supply chains as a result of the Russian aggression against Ukraine. As a result of the war, the EU countries took a decision to impose an embargo on the imports of the Russian raw materials, including, among others, crude oil, gas and coal, among others. The sanctions introduced caused a deficit of these raw materials on the European market and forced the imports of the more expensive raw materials from other parts of the world,
 - 2) higher costs of the heating oil consumed for the purpose of the production of the electricity and heat as well as the biomass, due to the rise in the purchase prices along with the lower volume of the consumption thereof,
7. higher costs of the employee benefits, which is the result of the following factors:
 - 1) booking in the costs of the reported period of 2022 of the effects of the agreements signed with the workforce in the second half of 2021 as well as in the first quarter and in the third quarter of 2022,
 - 2) an increase of the minimum wage in 2022,
 - 3) change in the discount rate and, as a consequence, a change in the value of the actuarial provisions,
8. higher costs of the distribution services due to an increase of the tariff for the PSE (TSO) distribution services,
9. higher costs of the other external services, mainly as a result of an increase in the rates for the services purchased and an extension of the scope of such services,
10. higher costs of the taxes and fees, mainly due to the increase in the value of grid assets that is the base for calculation of real estate tax and a rise in the rate of this tax,
11. higher value of the costs of the services provided for the in-house purposes, which is mainly due to the wider scope of the works performed using the in-house resources on the distribution assets.

The below figure presents TAURON Capital Group's financial results and the level of the margins realized from the continuing operations.

Figure no. 56. TAURON Capital Group's financial results and the level of the margins realized from the continuing operations in the years 2021 - 2022¹



¹Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report

The EBITDA and EBIT margins generated from the continuing operations in 2022 had come in at, respectively, 8.9% and 2.9%, and they were lower by 8.1 pp and by 2.5 pp, as compared to the margins posted in 2021. The net profit margin stood at a lower level in the reported period than the margin achieved a year ago and it came in at (0.6)%, as compared to the margin of 3.3% earned in 2021. The main reasons for the decline of the above mentioned profitability ratios are the significant increases of the revenues, the reasons for which are described above. The second material reason, in the case of the EBITDA margin from continuing operations, is the lower earnings of the Generation Segment, which was mainly due to the need to repurchase electricity on the market in place of the electricity not produced by the 910 MW unit in Jaworzno as a result of its failure, which had taken place between August 6 and September 2, 2022, as well as the higher costs of the fuel purchased in 2022. *The detailed reasons for the change in the EBITDA result of the Segments are described in Section 5.2 of this report.* The EBIT result from the continuing operations had also been lower, but its decline relative to the change in the EBITDA result was partially neutralized by the lower impairment losses related to the non-financial fixed assets, the reasons for which are described above.

Statement of cash flows

The below table presents the statement of cash flows.

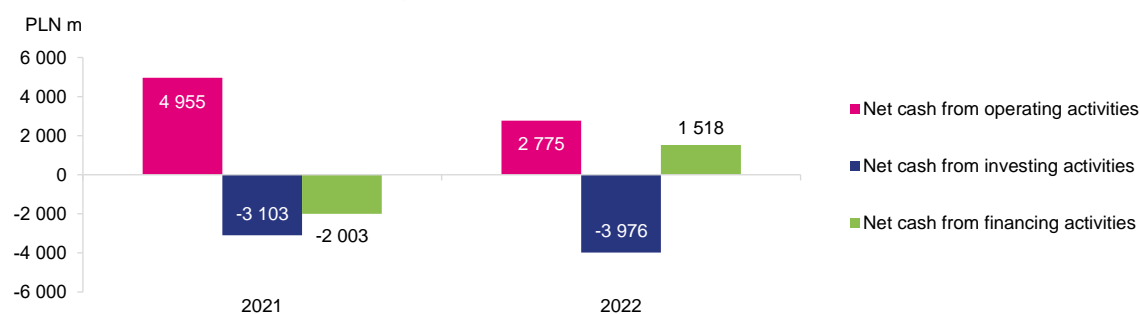
Table no. 42. Statement of cash flows (material items) in the years 2021 - 2022¹

| Statement of cash flows (PLN m) | Year ended on December 31, 2020 | Year ended on December 31, 2021 | Change in % (2022 / 2021) |
|---|---------------------------------|---------------------------------|---------------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Pre-tax profit / loss from continuing and discontinued operations | 675 | 133 | 20% |
| Adjustments | 4 280 | 2 642 | 62% |
| Net cash from operating activities | 4 955 | 2 775 | 56% |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Purchase of tangible fixed assets and intangible assets | (3 255) | (3 879) | 119% |
| Net cash from investing activities | (3 103) | (3 976) | 128% |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Redemption of debt securities | (170) | (170) | 100% |
| Proceeds from taking out credits / loans | 2 003 | 9 440 | 471% |
| Repayment of loans / credits | (3 466) | (6 067) | 175% |
| Interest paid | (343) | (500) | 146% |
| Net cash from financing activities | (2 003) | 1 518 | - |
| Increase / (decrease) in net cash and equivalents | (151) | 317 | - |
| Cash opening balance | 774 | 623 | 80% |
| Cash closing balance | 623 | 940 | 151% |

¹Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report

The below figure presents the cash flows in the years 2021 - 2022.

Figure no. 57. Cash flows in the years 2021 - 2022



The amount of cash flows from operating activities in 2022 came in at PLN 2 775 million, which was the result of the following factors:

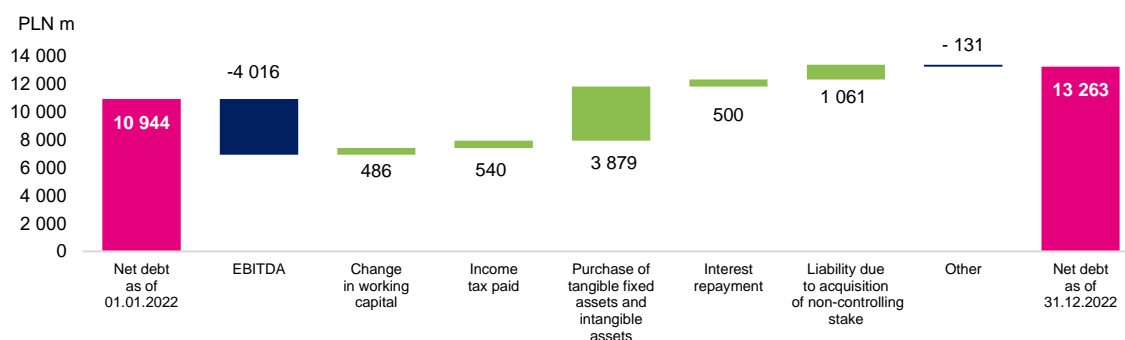
1. generated EBITDA in the amount of PLN 4 016 million,
2. a negative change in the working capital in the amount of PLN 486 million, which is the result of:
 - 1) a negative change in the balance of the accounts receivable, mainly from the consumers, in the amount of PLN 1 286 million,
 - 2) a negative change of the inventory level, in the amount of PLN 707 million, mainly due to the increasing of the value of the hard coal inventory, which is primarily due to the increase of the prices of the hard coal purchased,
 - 3) a positive change in the balance of the accounts payable in the amount of PLN 1 561 million, mainly as a result of an increase of the accounts payable towards the suppliers, the overpayments received and the advance payments on account of the services provided,
 - 4) a positive change of the other long and short term assets as well as the provisions in the total amount of PLN 210 million,
 - 5) a positive change of the prepayments and accruals as well as the government subsidies in the amount of PLN 293 million, mainly as a consequence of the receipt of the advance payments for the compensation payments to the trading companies in the amount of PLN 337 million, as a result of the applications, submitted in December 2022 by the Supply Segment subsidiaries, for the advance payments for the compensation payments with respect to the electricity trading, submitted by the subsidiaries in accordance with the provisions of the *Act of October 27, 2022, on the Emergency Measures to Cap the Electricity Prices and Provide Support for Certain Consumers in 2023*, which is described in more detail in note 12 to the Consolidated Financial Statements,
 - 6) a negative change in the balance of the collateral transferred to IRGiT in the amount of PLN 557 million,
3. A surplus of the expenditure over the refund received due to the income tax in the amount of PLN 540 million, which is the result of:
 - 1) income tax paid by TAURON Capital Group's subsidiaries in the amount of PLN 914 million due to the settlement thereof for the period from January to December 2022,
 - 2) received refund of the income tax overpayment due to the settlement of the Tax Capital Group (PGK) for 2020 in the amount of PLN 374 million,
4. other factors: PLN -215 million.

The expenditures for the purchase of the tangible fixed assets have the biggest impact on the cash flow from the investing activities, coming in at PLN 3 879 million in the reporting period and they were higher by PLN 624 million than the outlays incurred in 2021. The largest expenditures were incurred by the Distribution Segment and they accounted for 54% of TAURON Group's total capital expenditures.

The positive value of the cash flow from the financing activities is primarily due to the higher inflows from the financing obtained, as compared to the expenditures incurred in connection with the repayment of the financial obligations. The amount of the proceeds received due to the taking out of the loans clocked in at PLN 9 440 million, the amount of the credits and loans repaid came in at PLN 6 067 million, while the amount of the redeemed securities stood at PLN 170 million. In addition, in 2022, TAURON Capital Group paid the amount of PLN 500 million due to interest, mainly on the financial obligations, and repaid the accounts payable due to the leases in the amount of PLN 126 million, while the amount of the subsidies received and the other payments stood at PLN 2 million. The timely payment of the liabilities towards the Infrastructure Investments Fund - Equity FIZAN (Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZAN) due to the acquisition of the shares in the subsidiary Nowe Jaworzno Grupa TAURON (currently TAURON Wytwarzanie) had a material impact on the level of this item of the cash flows from the financing activities, which is described in more detail in note 47 to the Consolidated Financial Statements.

TAURON Capital Group has continued to maintain its market position. The current liquidity ratio and the net debt to EBITDA ratio have remained at a stable level.

The below figure presents TAURON Capital Group's cash flows in 2022.



TAURON Capital Group is effectively managing its financial liquidity using the central financing model put in place and the central financial risk management policy. TAURON Capital Group is using the *cash pool* mechanism in order to minimize the potential cash flow disruptions and the risk of the liquidity loss. TAURON Capital Group is using various sources of funding, such as, for example, overdrafts, bank loans, loans from the environmental funds, bond issues.

5.5. Material off-balance sheet items

The material off-balance sheet items of TAURON Capital Group, as of December 31, 2022, include:

1. lawsuits brought by the companies from the Polenergia and Wind Invest groups against TAURON and Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. (PEPKH), related to the termination of the long term contracts for the purchase of the electricity and property rights by PEPKH,
2. claim of the WorleyParsons consortium against the company Polskie Elektrownie Jądrowe (Polish Nuclear Plants) (formerly PGE EJ 1),
3. claim of Huta Łaziska (Łaziska Steel Works) for the alleged damage caused by a failure to implement by GZE S.A. (company taken over by TAURON) the decision of the President of the Energy Regulatory Office (ERO) related to the resumption of the electricity supply by GZE to Huta Łaziska (Łaziska Steel Works),
4. lawsuit brought by Enea against TAURON as well as against TAURON Sprzedaż and TAURON Sprzedaż GZE as the co-defendants, where the basis of Enea claim are the allegations related to the Company's unjust enrichment (benefit) in connection with the possible errors with respect to the determination of the metering and billing data by Enea Operator sp. z o.o., constituting the basis for the settlements of Enea and TAURON with PSE, due to an imbalance on the Balancing Market,
5. administrative and investigative proceedings as well as the proceedings with respect to the imposition of the fines initiated by the President of the Office of Competition and Consumer Protection (UOKiK) and the President of the Energy Regulatory Office (ERO) against the Supply Segment's subsidiaries,
6. contingent liabilities related to the possibility of the future costs to be incurred by TAURON Capital Group's subsidiaries due to the non-contractual use of the real estate, i.e. the land on which distribution grids, the district heating installations and the devices related thereto are located.

The detailed information related to the off-balance sheet items both in the subjective and objective terms, as well in terms related to the value thereof is presented in notes 54 and 55 to the Consolidated Financial Statements of TAURON Capital Group.

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

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

5.7. Key financial ratios and the Alternative Performance Metrics

The below table presents the key financial ratios of TAURON Capital Group, which may constitute an important source of information for the investors about the financial and operational standing of TAURON Capital Group. The Alternative Performance Measures presented below as defined by the ESMA Guidelines on the Alternative Performance Metrics, in the opinion of the Management Board, present the additional information with respect to the financial results of TAURON Capital Group's business operations. They constitute the standard metrics commonly used in the financial analysis, the usefulness of which has been analyzed in terms of the information provided to the investors on the financial efficiency, cash flows and debt of TAURON Capital Group. In 2022, there

had been no changes in the methodology for determining the individual metrics in relation to 2021, therefore the values of the metrics are comparable.

Table no. 43. Key financial ratios of TAURON Capital Group for the continuing and discontinued operations¹

| Ratios | Definition | 2021 | 2022 |
|-----------------------------|--|-------|--------|
| PROFITABILITY | | | |
| EBIT Margin | Operating profit / Sales revenue | 3.6% | 3.0% |
| EBITDA Margin | EBITDA / Sales revenue | 16.2% | 10.8% |
| Net Profitability | Net profit / Sales revenue | 1.5% | -0.4% |
| Return on Equity (ROE) | Net profit / Equity at the end of the period | 2.3% | -0.8% |
| LIQUIDITY | | | |
| Current liquidity ratio | Current assets / Short term liabilities | 0.63 | 1.01 |
| DEBT | | | |
| Total debt ratio | Total liabilities / total equity and liabilities | 0.59 | 0.63 |
| Net financial debt / EBITDA | (Financial liabilities - Cash) / EBITDA | 2.4x | 2.9x |
| OTHER RATIOS | | | |
| Earnings per share (EPS) | Net result attributable to shareholders of the parent entity / Number of ordinary shares | 0.19 | (0.08) |

¹Due to the limited comparability of the earlier periods, the data is presented in a two-year time frame. The data comprising the earlier periods is presented in section no. 5.8 of this report

In 2022, the EBITDA margin from the continuing and the discontinued operations came in at 10.8%, i.e. it was 5.4 pp. lower than in 2021, which had been the effect of the rising electricity, gas and hard coal sales prices, which had contributed to a significant increase, i.e. by 44%, of TAURON Capital Group's revenues, while the EBITDA posted had been at a slightly lower level.

In 2022, the EBIT margin and net profitability ratio from the continuing and the discontinued operations of TAURON Capital Group stand at the level of 3.0% and (0.4)%, respectively, and they are higher than the ratios reported for 2021. The decline of the above mentioned ratios is lower than the decrease of the EBITDA margin from the continuing and the discontinued operations as a consequence of recognizing, in 2022, of the balance of the impairment charges related to the carrying amount of the non-financial fixed assets, in the amount lower than in 2021. The above difference is a result of the asset impairment tests performed as of June 30, 2022, and as of December 31, 2022, which demonstrated the legitimacy of recognizing the impairment charges at a lower amount than in the corresponding period of 2021.

As of December 31, 2022, the current liquidity ratio was higher than as of December 31, 2021, which is the result of an increase in the value of the current assets, mainly due to an increase of the value of the inventories and cash at hand, which is described in more detail in sections 5.1. and 5.3. of this report.

The total debt ratio and the net debt to EBITDA ratio illustrate the share of the liabilities in financing TAURON Capital Group. The current level of these ratios enables TAURON Capital Group to obtain the external financing required to carry out the planned investment (capex) projects. The levels of both ratios confirm the stable financial position of TAURON Capital Group.

The EPS ratio (calculated in relation to the net result attributable to the shareholders of the parent entity) stands at PLN (0.08) / share and it is lower than the figure reported in the previous year.

The below table presents the reconciliation of the net financial debt, the amount of which, along with the EBITDA amount, is the basis for calculating the net debt to EBITDA ratio.

Table no. 44. Net financial debt reconciliation

| Item (PLN m) | 2021 | 2022 |
|--|--------------|----------------|
| Cash and equivalents | (815) | (1 678) |
| Long term financial debt | 7 830 | 12 806 |
| Long term credits and loans, and other | 2 685 | 7 765 |
| Long term liabilities due to the unsubordinated bonds issued | 5 145 | 5 041 |

| Item (PLN m) | 2021 | 2022 |
|---|---------------|---------------|
| Short term financial debt | 2 053 | 460 |
| Short term credits and loans, and other | 1 850 | 245 |
| Short term liabilities due to the unsubordinated bonds issued | 203 | 215 |
| Liabilities due to the acquisition of the non-controlling interests (stake) | 1 061 | - |
| Total financial debt | 10 944 | 13 266 |
| Conditional liabilities treated as equivalent to debt in the financial documentation | - | 187 |
| Net financial debt | 10 129 | 11 775 |

The below table presents the reconciliation of the result at the EBITDA level.

Table no. 45. Reconciliation of the result on the EBITDA level

| Item (PLN m) | 2021 | 2022 |
|--|--------------|--------------|
| Net profit (loss) from continuing operations | 832 | (209) |
| Income tax charged to the financial result | 293 | 319 |
| Interest rate costs on debt | 365 | 591 |
| Financial income and other financial costs | (130) | 368 |
| EBIT from discontinued operations | 1 360 | 1 069 |
| EBIT from discontinued operations | -444 | 50 |
| EBIT from continuing and discontinued operations | 916 | 1 119 |
| Depreciation charged to the financial result from continuing and discontinued operations | 2 101 | 2 215 |
| Impairment loss charged to the result from continuing and discontinued operations | 1 135 | 682 |
| EBITDA from continuing and discontinued operations | 4 152 | 4 016 |

5.8. Key financial and operating data for the last 5 years

The below table presents the key financial data and operating data of TAURON Capital Group for the last 5 years, i.e. for the 2018 – 2022 time frame.

Table no. 46. Financial data and operating data for the years 2018 – 2022¹

| Key information | unit | 2018 | 2019 | 2020 | 2021 | 2022 | Change in % (2022 / 2021) |
|--|-------|--------|--------|---------|--------|---------|------------------------------|
| STATEMENT OF COMPREHENSIVE INCOME | | | | | | | |
| Sales revenue | PLN m | 18 122 | 19 558 | 20 850 | 25 614 | 37 341 | 146% |
| Operating profit | PLN m | 791 | 295 | (1 537) | 916 | 1 119 | 122% |
| Financial revenue (total) | PLN m | 83 | 95 | 196 | 193 | 127 | 66% |
| Financial costs (total) | PLN m | (11) | (407) | (838) | (434) | (1 086) | 250% |
| Pre-tax profit (loss) from continuing operations | PLN m | 505 | (113) | (2 179) | 1 125 | 110 | 10% |
| Income tax | PLN m | (298) | 19 | 6 | (293) | (319) | 105% |
| Net profit (loss) from continuing operations | PLN m | | (94) | (2 173) | 832 | (209) | - |
| Net profit (loss) from discontinued operations | PLN m | | | | (447) | 75 | |
| Net profit (loss) from continuing and discontinued operations attributable to: | PLN m | 207 | (12) | (2 173) | 385 | (134) | - |
| shareholders of the parent entity | PLN m | 205 | (11) | (2 170) | 338 | (134) | - |
| non-controlling stakes (interests) | PLN m | 2 | (1) | (3) | 47 | 0 | - |

| Key information | unit | 2018 | 2019 | 2020 | 2021 | 2022 | Change in % (2022 / 2021) |
|--|-------------|---------|---------|---------|---------|---------|------------------------------|
| EBITDA from continuing and discontinued operations | PLN m | 3 492 | 3 599 | 4 226 | 4 152 | 4 016 | 97% |
| STATEMENT OF FINANCIAL POSITION | | | | | | | |
| Fixed assets | PLN m | 32 542 | 35 052 | 33 585 | 33 855 | 35 053 | 104% |
| Current assets | PLN m | 4 556 | 6 865 | 6 111 | 6 220 | 10 267 | 165% |
| Total equity | PLN m | 18 428 | 19 093 | 16 727 | 16 524 | 16 614 | 101% |
| Total liabilities | PLN m | 18 669 | 22 825 | 22 969 | 23 551 | 28 706 | 122% |
| long term liabilities | PLN m | 11 382 | 14 963 | 15 687 | 13 634 | 18 511 | 136% |
| short term liabilities | PLN m | 7 287 | 7 862 | 7 102 | 9 917 | 10 195 | 103% |
| Net financial debt | PLN m | 8 572 | 10 130 | 10 595 | 10 129 | 11 775 | 116% |
| Capital expenditures | PLN m | 3 838 | 4 128 | 4 039 | 2 932 | 3 962 | 135% |
| CASH FLOW ACCOUNT | | | | | | | |
| Net cash from operating activities | PLN m | 2 223 | 2 036 | 4 042 | 4 955 | 2 775 | 56% |
| Net cash from investing activities | PLN m | (3 387) | (4 535) | (3 977) | (3 103) | (3 976) | 128% |
| Net cash from financing activities | PLN m | 1 171 | 2 895 | (374) | (2 003) | 1 518 | - |
| Cash closing balance | PLN m | 808 | 1 204 | 895 | 623 | 940 | 151% |
| RATIOS | | | | | | | |
| EBIT margin | % | 4% | 2% | (7)% | 4% | 3% | 84% |
| EBITDA margin | % | 19% | 18% | 20% | 16% | 11% | 66% |
| Net financial debt / EBITDA | multiple | 2.5x | 2.8x | 2.5x | 2.4x | 2.9x | 120% |
| Net earnings per share | PLN / share | 0.12 | -0.01 | -1.24 | 0.19 | -0.08 | - |
| OPERATING DATA | | | | | | | |
| Commercial coal production | Mg m | 5.01 | 3.78 | 4.54 | 5.15 | 5.01 | 97% |
| Gross electricity production | TWh | 16.21 | 1,88 | 12.5 | 15.59 | 15.55 | 100% |
| Electricity production from RES | TWh | 0.97 | 1.38 | 1.94 | 1.71 | 1.57 | 92% |
| Heat production | PJ | 11.29 | 10.85 | 11.63 | 12 | 10.58 | 88% |
| Retail electricity supply | TWh | 34.52 | 33.73 | 32.43 | 33.41 | 31.14 | 93% |
| Electricity distribution | TWh | 51.97 | 51.73 | 50.26 | 53.97 | 53.68 | 99% |
| Number of customers (Distribution) | M | 5.60 | 5.65 | 5.71 | 5.78 | 5.84 | 101% |

¹The values presented for the years 2018-2019 do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in the presentation (organization) of the Segments.

The below table presents TAURON Capital Group's EBITDA for the last 5 years, i.e. for the 2018 – 2022 time frame.

Table no. 47. TAURON Capital Group's EBITDA, broken down into Segments of Operations¹

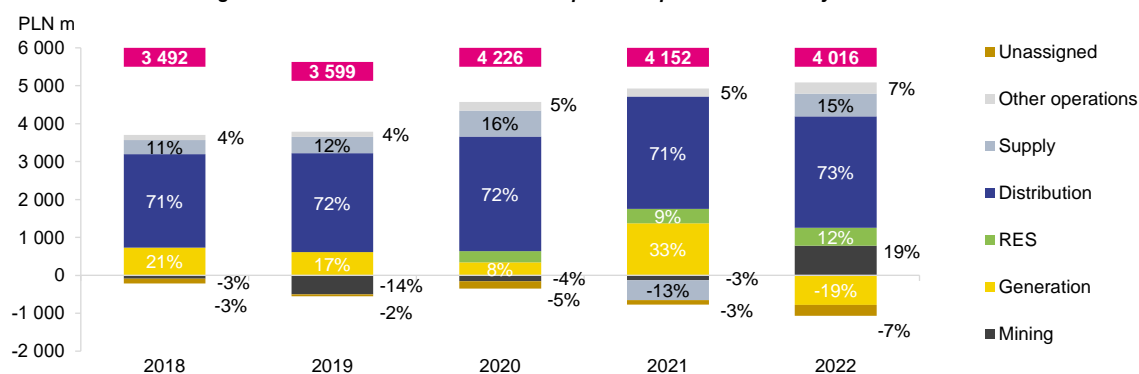
| EBITDA (PLN m) | 2018 | 2019 | 2020 | 2021 | 2022 | Change in % (2022 / 2021) | Change (2022 - 2021) |
|------------------------------|-------|-------|-------|-------|-------|------------------------------|-------------------------|
| <i>Continuing operations</i> | | | | | | | |
| Mining | (90) | (500) | (157) | | | | |
| Generation | 731 | 438 | 344 | 1 375 | (779) | - | (2 154) |
| RES | | 368 | 297 | 376 | 476 | 127% | 100 |
| Distribution | 2 466 | 2 606 | 3 023 | 2 967 | 2 939 | 99% | (28) |
| Supply | 372 | 429 | 683 | (524) | 594 | - | 1 118 |

| EBITDA (PLN m) | 2018 | 2019 | 2020 | 2021 | 2022 | Change in % (2022 / 2021) | Change (2022 - 2021) |
|---|--------------|--------------|--------------|--------------|--------------|---------------------------|----------------------|
| Other operations | 135 | 136 | 229 | 208 | 298 | 143% | 90 |
| Unassigned items | (122) | (56) | (193) | (134) | (313) | 234% | (193) |
| EBITDA from continuing operations | 3 492 | 3 599 | 4 226 | 4 268 | 3 215 | 75% | (1 053) |
| <i>Discontinued operations</i> | | | | | | | |
| Mining | | | | (130) | 781 | - | 911 |
| Consolidation adjustments / Unassigned items | | | | 14 | 20 | - | 20 |
| EBITDA from discontinued operations | | | | (116) | 801 | - | 917 |
| EBITDA total from discontinued and continuing operations | 3 492 | 3 599 | 4 226 | 4 152 | 4 016 | 97% | -136 |

¹The values presented for the years 2017-2018 do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in the organization of the Segments that took place in 2020, i.e. the spinning off of the RES Segment from the Generation Segment. In addition due to the loss, as of December 31, 2022, of the control by TAURON Group over the TAURON Wydobycie subsidiary as a result of the divestment of the shares thereof to the State Treasury, the results of the Mining Segment subsidiary for the years 2021 and 2022 are presented as part of the discontinued operations.

The below table presents the structure of TAURON Capital Group's EBITDA in the years 2018 – 2022.

Figure no. 59. Structure of TAURON Capital Group's EBITDA in the years 2018 – 2022



Key information for the years 2018-2022 by Segments of Operations

The below figures present the financial data for the years 2018 - 2022 by Segments of Operations.

Figure no. 60. Mining Segment's data for the years 2018 - 2022

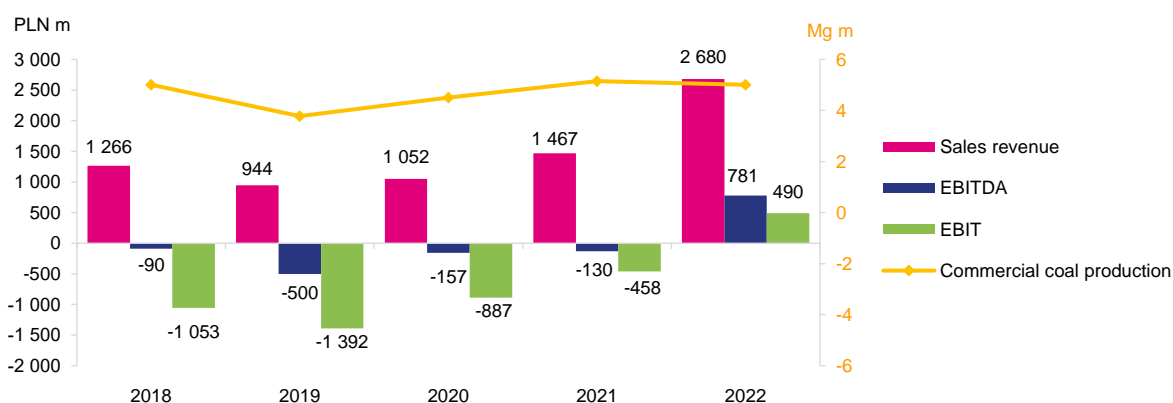


Figure no. 61. Generation and RES Segment's data for the years 2018 - 2022

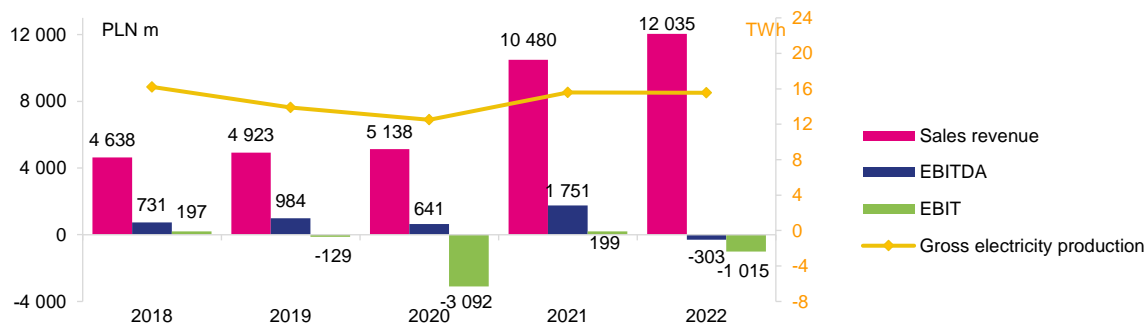


Figure no. 62. Distribution Segment's data for the years 2018 - 2022

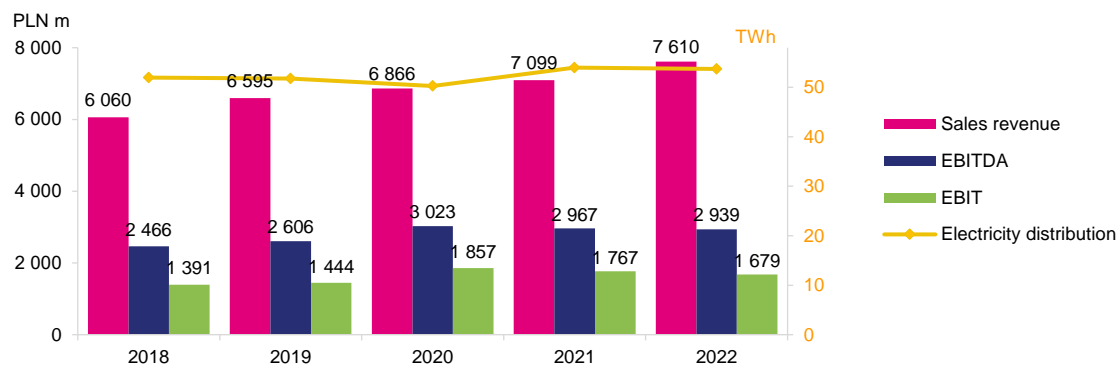


Figure no. 63. Supply Segment's data for the years 2018 - 2022

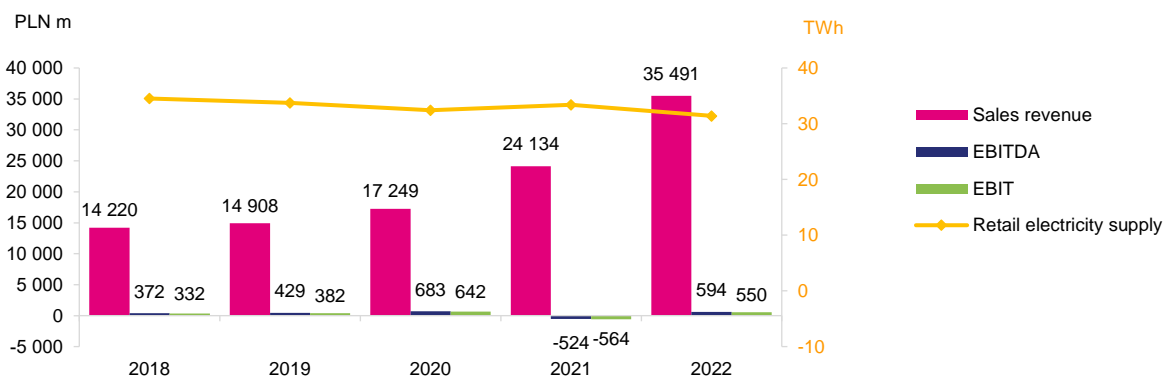
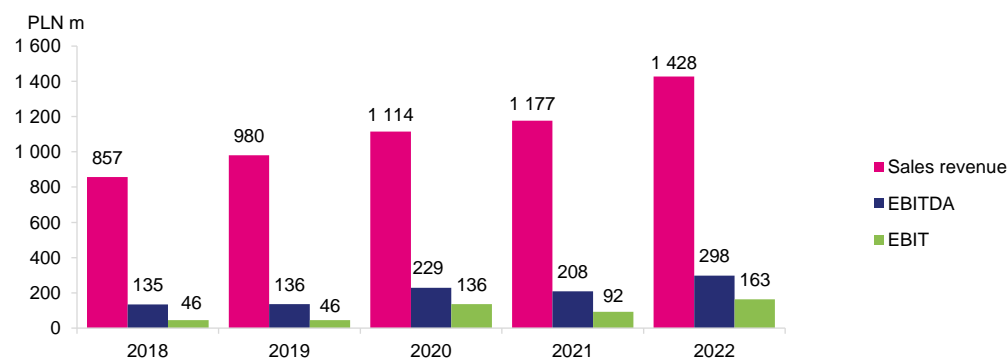


Figure no. 64. Other Operations Segment's data for the years 2018 - 2022



5.9. What can we expect in 2023

The World Bank, in its projections presented in January 2023, updated its forecast of Poland's GDP growth rate. According to the World Bank, Poland's projected GDP growth rate in 2023 will come in at 0.7%, and in 2024 it will clock in at 2.2%. The projections presented have been revised downward in both cases, by 2.9 pp and 1.5 pp, respectively, as compared to the World Bank's earlier June 2022 forecast. In the World Bank's view, the Polish economy was resilient in 2022 to a number of global shocks and rebounded faster than expected from the 2020 recession, and this despite the war in Ukraine, the energy crisis and the tighter global monetary policy. However, the World Bank expects the Polish economy's growth rate to slow down considerably to less than one percent in 2023, due to the much weaker growth rate in the eurozone, standing at zero in 2023, which is 1.9 pp lower than forecasted in June 2022.

The projections presented above do not take into account the current geopolitical turmoil and the armed conflict in Ukraine.

In the projection of the NBP published on March 10, 2023 as compared to the previous projection of November 2022 NBP projected GDP growth rate at 0.9% in 2023, 2.1% in 2024, and upheld its value of 3.1% in 2025. The NBP indicates that in Q1 2023 the economy is decreasing. At present, the result is negative but in the opinion of the bank's analysts the coming quarter should close with a positive result. A more dynamic GDP increase should be expected in 2024 and in the subsequent year. Bank's representatives draw attention to the fact that in comparison to the very good 2021, GDP growth rate in the perspective of the projection decreases significantly. Domestic economy is still impacted by a strong negative supply-related shock reflected in a rapid increase of prices of many commodities, goods and services. This year the effects of interest rate increases introduced to date gradually materialize. We can also observe unfavourable impact of developed economies' slowdown on domestic economic activities. In 2024 positive impact of foreign economies hike will be reduced by significant reduction in the income of European funds once the funds from the EU's 2014-2020 perspective have been spent.

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

The future economic situation in Poland is highly dependent on the scale of the disruptions in the functioning of the global economy. The energy crisis, the aggression of the Russian Federation in Ukraine and the pressure to become independent of the energy resources hitherto sourced from Russia have brought about an increase in the cost of electricity production. These factors have improved the cost competitiveness of RES, which has led to an acceleration of their expansion. The passing of the *Act of October 27, 2022, on emergency measures to limit electricity prices and provide support for certain consumers in 2023* and other regulations aimed at limiting electricity prices, as well as the abolition of the so-called power exchange trading obligation, have caused significant changes in the market and the need for changes in the trading strategies.

The future shape of the anti-inflationary policies of central banks and governments is also an important source of risk with respect to inflation.

2023 is marked by the implementation of the structural solutions for the hard coal mining industry and the coal fired power generation aimed at ensuring energy security through the establishment of the National Energy Security Agency, which will certainly have an impact on the operations of all of the domestic energy groups by, among other things, increasing their investment capabilities.

In the long term, sweeping changes to the entire power sector are expected. The tightening climate policy at the EU level is having a material impact on the functioning of the electricity market in Poland. A permanent change in the structure of electricity production due to the decarbonization of the power sector is under way. TAURON Capital Group is responding to market and regulatory changes by focusing on a sustainable transition towards a leading low-carbon energy group.

The additional information related to the forecasts for 2023 is provided in section 5.10. of this report.

5.10. Current and forecast financial and assets situation

Taking into account the current market situation, it is expected that the results of TAURON Capital Group in the coming years will be affected by both the external factors, as well as by the actions taken inside the Group.

In the **Generation Segment**, TAURON Ciepło's cogeneration units have continued to be in a good position in 2023. The earnings of the coal based electricity generation units will be affected by the introduced statutory regulations aimed at limiting an increase in electricity prices for the final consumers. In spite of an increase in the electricity production, the outlook for the assets will be affected by the ultimate solutions with respect to the integration within

NABE (National Energy Security Agency). The works related to the required reorganization are highly advanced at TAURON Capital Group.

In the **RES Segment**, due to the provisions of the *Act of October 27, 2022, on emergency measures to limit electricity prices to provide support for certain consumers in 2023*, the year 2023 will be characterized by a curtailment of the achievable revenues from the sales of electricity generated and fed into the grid by the generating units. In the subsequent years, the financial results are expected to be stable with an upward outlook thanks to the rising wholesale electricity prices. In the short term, the RES Segment's further expansion will be focused on investments in photovoltaic farms and onshore wind farms. The *Act of March 9, 2023 on amending the act on investments in the scope of wind farms and some other acts* introduces less stringent regulations limiting farm location. Liberalization of law may lead to new projects appearing on the market, however many of them will need months-long design works resulting from the requirement to update clearances and administrative decisions. For both technologies, obtaining of the DSO grid connection conditions is a headwind. In the long term, the development of the offshore wind farms is also planned.

The **Distribution Segment** is and will be a stable source of revenue for TAURON Capital Group. However, the rapid growth of the distributed sources and electromobility requires substantial capital expenditures on the modernization and expansion of the distribution grid. The investments in this regard are required to ensure an even broader utilization of the electricity from RES and, therefore, extensive work is underway to support their financing under the regulatory model, as well as with the use of the assistance funds.

In the **Supply Segment**, the projected financial situation will continue to depend on the pressures existing on the fuel and energy markets, related to the war in Ukraine, restricted fuel availability and the need to restructure supply chains. The high price volatility will also be impacted by the risk of a potential economic slowdown, which could significantly curb the demand for electricity and gas, and consequently affect the price relationships between these products on the wholesale markets. The level of electricity prices on the wholesale market in 2023 will also be affected by the regulatory environment and the legal changes that had taken place in 2022. In particular, the amendment to the *Energy Law* abolishing the obligation to sell electricity on the commodity exchanges may result in a decrease in the supply of electricity on the power exchange and a decline in the liquidity of the futures contracts, which will lead to changes in the factors impacting the market electricity prices. At the same time, the Supply Segment is assumed to carry on posting positive financial results and continue the implementation of its value growth model based on customer relationships and the sales of additional products and services in connection with the supply of electricity.

Other operations - the main consumers of the shared services provided include, first and foremost, the Distribution Segment and the Supply Segment, for the benefit of which the projects with respect to customer service are implemented and finalized, while at the same ensuring the highest quality of service. In addition, the services for TAURON Capital Group's subsidiaries are provided, with respect to, among others, financial and accounting services, human resources (HR) and payroll services, IT services, fleet management services and the real estate management services. Such activities enable achieving synergy effects across TAURON Capital Group and bring the cost efficiency improvements.

5.11. Principles of preparing annual consolidated financial statements

The Consolidated financial statements of TAURON Capital Group have been drawn up in accordance with the IFRS approved by the EU.

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

TAURON Capital Group's subsidiaries and the parent entity keep their accounting books and prepare their financial statements in accordance with the IFRS, excluding TAURON Czech Energy that is preparing the financial statements in accordance with the accounting principles applicable in the Czech Republic and the companies Łagisza Grupa TAURON, TEC1, TAURON Zielona Energia, AVAL-1, WIND T1 sp. z o.o., „Polpower”, FF PARK PV1, „MEGAWATT S.C.”, WIND T4, WINDPOWER Gamów, WIND T30MW and Energetyka Cieszyńska that are keeping their books and preparing their financial statements in accordance with the *Act of September 24, 1994, on accounting*.

The consolidated financial statements contain adjustments which are not included in the ledgers of TAURON Capital Group's entities, introduced in order to bring the consolidated statements into compliance with IFRS.

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

The accounting principles (policy) adopted for drawing up of the Consolidated financial statements of TAURON Capital Group are presented in note 6 to the Consolidated financial statements of TAURON Capital Group.

6. INFORMATION ON THE AUDIT FIRM

On November 9, 2021, the Supervisory Board, based on the recommendation of the Audit Committee, appointed the audit firm Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa (Limited Liability Company Limited Joint-Stock Partnership) (Ernst & Young Audyt Polska) to conduct an audit of the financial statements and the consolidated financial statements of TAURON for the years 2022-2024. On February 28, 2019, TAURON concluded an agreement with Ernst & Young Audyt Polska and the subject of the agreement covered:

1. audit of the financial statements of the Company for the years 2022-2024, drawn up in accordance with the requirements of the IFRS,
2. audit of the financial statements of the selected subsidiaries of TAURON Capital Group for the years 2022-2024, drawn up in accordance with the IFRS,
3. audit of the consolidated financial statements for the years 2022-2024, drawn up in accordance with the IFRS,
4. review of the interim, half year financial statements of the Company, required by the Warsaw Stock Exchange (WSE), for the periods ended on June 30, 2022, June 30, 2023, and June 30, 2024, drawn up in accordance with the requirements of the IFRS,
5. review of the interim, half year consolidated financial statements, required by the Warsaw Stock Exchange (WSE), for the periods ended on June 30, 2022, June 30, 2023, and June 30, 2024, drawn up in accordance with the requirements of the IFRS.

In addition, in accordance with the agreement, TAURON exercised the option involving the ability to commission the financial audit services including the evaluation of the annual report of the Supervisory Board on the compensation of the Company's Management Board and Supervisory Board for the years 2022-2024 and other permitted services including the verification of the interim, half-year and annual consolidation packages of the selected subsidiaries of TAURON Capital Group for the years 2022-2024, necessary for the preparation of the consolidated financial statements and carrying out, in the years 2022-2024, of the agreed procedures with respect to the verification of the subsidiary's report on the update of the Regulatory Asset Base (RAB) and the Regulatory Asset Base for the AMI System (AMI RAB) for the purpose of determining a reasonable rate of return on capital employed by the President of the Energy Regulatory Office (ERO) for the years 2023-2025.

Prior to 2022 the services provided for the Company by Ernst & Young Audyt Polska had included the audit of the standalone financial statements and the consolidated financial statements of the Company for the years from 2008 until 2012 and the years from 2017 to 2021, the reviews of the interim, half year standalone financial statements and the consolidated financial statements of the Company for the periods ended on June 30 in the individual years from 2010 until 2012 and from 2017 to 2021, verification of half year and annual consolidation packages of selected Group's companies for the years from 2017 to 2021, performance in the years 2019-2021 of agreed procedures concerning verification of report of a subsidiary on the update of Regulatory Asset Base for the purposes of calculating justified return on involved capital by the President of Energy Regulator Office and performance of the service consisting in assessment of the Supervisory Board's report on remunerations for the years 2019-2020 and 2021. The Company had also used, prior to 2018, the advisory and training services provided by Ernst & Young Audyt Polska, to the extent in line with the legal regulations in force and not leading to the curtailment of the level of the impartiality and independence of the auditor.

The compensation of the audit firm Ernst & Young Audyt Polska and of the audit firms auditing the financial statements of the selected subsidiaries for the services provided for the benefit of TAURON Capital Group's subsidiaries is presented in the below table. The total amount of compensation for audit firms was PLN 2,987,000, of which compensation for Ernst & Young Audyt Polska was PLN 2,844,000.

Table no. 48. Compensation of the audit firms for the services provided for TAURON Capital Group's subsidiaries

| Services provided for TAURON Capital Group's subsidiaries | Year ended on December 31, 2022 (PLN '000) | Year ended on December 31, 2021 (PLN '000) |
|--|--|--|
| 1. Mandatory audit, including | 2 162 | 1 378 |
| 1) consolidated financial statements | 308 | 147 |
| 2) standalone financial statements of the parent entity | 288 | 175 |
| 3) standalone financial statements of the subsidiaries | 1 566* | 1 024 |
| 2. Other certifying services provided for TAURON Capital Group, including reviews of financial statements and the evaluation of the annual report of the Supervisory Board on the compensation | 825 | 1 077 |
| 3. Tax advisory services | 0 | 0 |
| 4. Other services (including training) provided for TAURON Capital Group | 0 | 0 |

| Services provided for TAURON Capital Group's subsidiaries | Year ended on December 31, 2022 (PLN '000) | Year ended on December 31, 2021 (PLN '000) |
|---|--|--|
| Total | 2 987 | 2 455 |

(*) as part of the amount of PLN 1,566,000 related to examination of standalone financial statements of subsidiaries, the amount of PLN 1,423,000 is related to the audit firm Ernst & Young Audyt Polska and compensation in the amount of PLN 143,000 is related to other audit firms.

7. FINANCIAL RESOURCES AND INSTRUMENTS

7.1. Proceeds from security issues

The Company did not issue any securities in 2022.

On March 10, 2022 (an event that took place after the balance sheet date), the Company signed an annex to the documentation of the subordinated bond issuance program worth up to PLN 450 million, concluded in 2021 with Bank Gospodarstwa Krajowego (BGK). The annex extends to 36 months, from the date of signing the documentation, the period allowing for the issuance of the subordinated bonds.

The Company may conduct the issues in several series for a financing period of up to 12 years from the date of issue, with the first financing period (the so-called non-call period) defined at 7 years, in accordance with the characteristics of the hybrid financing, during which no early redemption of the subordinated bonds by TAURON will be allowed, and no early sale of the bonds by BGK to the third parties will be allowed (in both cases subject to the exceptions provided for in the documentation). The agreement also provides for the possibility of deferring the payment of interest on the bonds, up to the date of their redemption at the latest. The subordinated nature of the hybrid bonds means that in the event of TAURON's bankruptcy or liquidation, the obligations stemming from them will have a priority ranking for the satisfaction of obligations only ahead of the claims of TAURON's shareholders. A potential issuance of the subordinated bonds will have a positive impact on TAURON's financial stability, as they are excluded from the calculation of the leverage ratio, which is a covenant of certain TAURON financing programs.

7.2. Financial instruments

Application of the financial instruments with respect to eliminating price changes, credit risk, material disruptions of cash flows and loss of financial liquidity

The financial risk at TAURON Capital Group is managed by TAURON. The centralizing of the financial risk management function is aimed at optimizing the process, including minimizing TAURON's and TAURON Capital Group's costs in the above mentioned respect. As part of the financial risk management in 2022 TAURON Capital Group continued to hedge the risk of volatility of the cash flows resulting from its debt based on the WIBOR reference rate by continuing the interest rate swap (IRS) hedging transactions that it had entered into earlier.

In addition, in 2022 TAURON hedged its FX exposure arising from the trading operations (mainly due to the purchase of the CO₂ emission allowances) as well as from the investing activities related to the implementation of the projects in the field of renewable energy sources by concluding the forward contracts. In 2022 TAURON was also continuing the strategy of hedging its foreign currency exposure generated by the interest payments on the financing obtained in EUR by concluding the forward contracts. The goal of such transactions was to hedge against the risk of the cash flow volatility resulting from the FX rate fluctuations.

With respect to hedging the credit risk, TAURON Capital Group did not use any financial instruments.

As part of the efforts aimed at eliminating the price risk (loss of margin), the contracting of the electricity sales is followed by the contracting of the CO₂ emission allowances. Such a method of hedging the positions allows for minimizing the risk of the CO₂ costs not being covered by the contracted electricity price. The basis for determining the CO₂ sales price for the emission allowances volume defined this way is the CO₂ price on the exchange from the time when the CO₂ volume is contracted.

On the other hand, as part of the liquidity loss risk management, the instruments referred to in section 7.3 of this report are used.

Objectives and methods of the financial risk management

As part of the financial risk management, TAURON Capital Group is managing the FX risk and the interest rate risk, based on *TAURON Group's Financial Risk Management Policy* as well as the Risk Tolerance approved by the Management Board, the Global Financial Risk Limit including the decomposition thereof into the individual financial risk types. The main goal of managing such risks is to minimize the sensitivity of TAURON Capital Group's cash flows to the financial risk factors and to minimize the financial costs and the hedging costs as part of the transactions with the use of the derivative instruments. In cases when it is possible and economically justified, TAURON uses the derivative instruments the characteristics of which allow for applying the hedging accounting.

With respect to the financial risks TAURON Capital Group also identifies and actively manages the liquidity risk understood as a potential loss or limitation of the ability to pay the current expenses, due to an inadequate value or structure of liquid assets in relation to the short term obligations or an insufficient level of the actual net inflows from the operating activities.

As part of the identified financial risks TAURON is also managing the risk of financing understood as a lack of the possibility to acquire the new funding, an increase of the cost of funding and the risk of the termination of the existing financing agreements. As part of the efforts aimed at minimizing the financing risk, TAURON is conducting a policy

of acquiring the funding for TAURON Capital Group with an adequate advance notice in relation to the planned date of the use thereof, i.e. up to 24 months in advance of the planned funding requirement. This means that TAURON Capital Group should hold signed programs of guaranteed financing or hedging for such financing by accumulating the funds on TAURON Capital Group's accounts. Such a policy is first and foremost aimed at ensuring a flexible choice of the financing sources and taking advantage of the favorable market conditions as well as reducing the risk of the need to take on the new liabilities under unfavorable market conditions. TAURON's policy also covers the standardizing of the covenants and the provisions of the financing agreements in the most important elements of the documentation.

7.3. Assessment of the financial resources management

TAURON is conducting the corporate financial management policy and as a result of that effective management of the finances of entire TAURON Capital Group is possible. The main tools enabling effective management include adequate internal corporate regulations as well as the *cash pool* service functioning within TAURON Capital Group and the intra-Group loans. In addition, the adopted financial management model is supported by the *Policy with respect to TAURON Capital Group's financial risk management* and the *TAURON Capital Group's Insurance Policy*. In these areas the Company is performing the function of the management body (manager) and the decision maker with respect to the directions of the measures to be undertaken, enabling the setting of the relevant limits of the risk exposure.

In accordance with the adopted financing policy the Company is responsible for acquiring the financing for TAURON Capital Group's subsidiaries. The funds acquired both internally (from TAURON Capital Group's subsidiaries generating financial surpluses), as well as externally (from the financial market) are subsequently transferred to TAURON Capital Group's subsidiaries that are reporting the need for the financing.

The conducted policy with respect to the acquiring of the funding sources enables, first of all, to increase the possibility of obtaining the financing for the general corporate purposes and the capital expenditures (CAPEX), decrease the cost of the external capital, curtail the establishing of the number and forms of the collaterals (pledges) on the assets of TAURON Capital Group as well as the covenants required by the financial institutions, and also leads to the reduction of the administrative (overhead) costs. The corporate financing model also enables acquiring of the funding sources that are not available for the individual subsidiaries. The Company is also considering implementing the method of acquiring funding using the *project finance* formula with respect to the RES projects. The Company has an option to exclude the financing obtained by TAURON's selected special purpose vehicles (SPV) for the implementation of the RES investment projects from the net debt / EBITDA ratio calculation. In case of the *project finance* solutions, the funds will be obtained directly by the companies implementing the investment projects in the field of the renewable energy sources (RES) in cooperation with TAURON, where TAURON will be performing the arrangement (organizational) functions. The above mentioned action should enable a greater use of the debt financing as part of the Green Turn strategy implemented by TAURON.

The other key element impacting the financial management efficiency is the financial liquidity management policy, implemented, among others, through the determination of the liquidity position and implementation of the liquidity controlling processes. TAURON Capital Group manages cash flows efficiently, maintains adequate liquidity of TAURON Capital Group by optimizing the level of expenses and cash balances at the subsidiaries. The above mentioned activities lead to improving the selection of the moment of fund raising and determining the maturity date, as well as to maintaining an adequate level of the liquidity reserve, and also bring about the reduction of the financial costs.

In order to optimize TAURON Capital Group's financial liquidity management and the decision making processes, in particular with regard to the total working capital and approving the liquidity position of TAURON Capital Group's subsidiaries for the given year, as well as for the purpose of the ongoing monitoring and developing the management guidelines for the subsidiaries, the Liquidity Committee is in place at TAURON Capital Group.

The liquidity management is supported by the implemented *cash pool* mechanism. Its overarching goal is to ensure TAURON Capital Group's ongoing financial liquidity, while at the same time curbing the costs of the short term external financing and minimizing the financial costs related to maintaining cash surpluses on the bank accounts. Due to the functioning of the cash pool structure, TAURON Capital Group's subsidiaries, facing short term funding deficits, may use the funds of the subsidiaries generating the financial surpluses, without the need to acquire the external financing.

Both, the financing policy, as well as TAURON Capital Group's liquidity management policy conducted by TAURON are aimed, apart from increasing the efficiency of managing TAURON Capital Group's finances, first of all, at eliminating threats of the curtailment or loss of TAURON Capital Group's financial liquidity. The guaranteed sources of the financing, obtained with an adequate lead time, effectively eliminate the risk of TAURON Capital Group losing its liquidity. The Company is pursuing a policy of diversifying the financing instruments, but, first and foremost, it is seeking to secure the financing and to maintain the ability of TAURON Capital Group's subsidiaries to meet the current and future obligations in the short and long term.

In addition, TAURON Capital Group has dedicated agreements in place to provide the collateral for the liabilities towards IRGiT (Warsaw Commodity Exchange Clearing House) and the bank guarantee programs, as part of which it is possible to issue guarantees to provide the collateral (pledges) for the liabilities of TAURON Capital Group's subsidiaries within the centralized bank limits. The above mentioned measure curtailed the costs of the guarantees acquired and curbed the formal actions required to obtain a guarantee.

In 2022 the Company and TAURON Capital Group demonstrated full capacity to pay its accounts payable within the payment deadlines thereof.

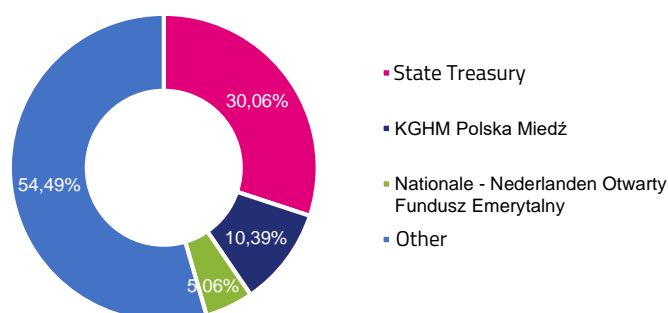
8. SHARES AND SHAREHOLDERS OF TAURON POLSKA ENERGIA S.A.

8.1. Shareholding structure

As of December 31, 2022, and as of the date of drawing up this report the Company's share capital, in accordance with an entry in the National Court Register, stood at PLN 8 762 746 970 and was split into 1 752 549 394 shares with a nominal value of PLN 5 per share, including 1 589 438 762 ordinary AA series bearer shares and 163 110 632 registered ordinary BB series shares.

The below figure presents the shareholding structure as of December 31, 2022, and as of the date of drawing up this report.

Figure no. 65. Shareholding structure as of December 31, 2022, and as of the date of drawing up this report



The detailed information regarding the shareholding structure is presented in section 9.4. of this report.

8.2. Dividend policy

As part of the Strategy adopted in June 2022, TAURON also adopted a dividend policy assuming a minimum dividend payment of 40% of the consolidated net profit in the long term. During the time frame covered by the Strategy, i.e. until 2030, due to the high level of the planned capital expenditures associated with the implementation of the strategic projects, the dividend policy assumes that the Company's Management Board will not recommend to the Company's General Meeting of the Shareholders the payout of the dividend, provided that, in the opinion of the Management Board, such a retention of the funds by TAURON Group will contribute to an increase in the value of its assets. The decision to pay out the dividends will be made by the Company's General Meeting following a recommendation by the Management Board, which will take into account the circumstances set forth in the dividend policy when determining the recommended level of dividends.

The dividend was last time paid out by the Company in 2015, in the amount of PLN 262 882 409.10 for the financial year 2014. Starting from 2015, the Company has not paid out any dividend.

On May 24, 2022, the Ordinary General Meeting (GM) of the Company passed a resolution on the distribution of the net profit for the financial year 2021 by allocating the full net profit amount to the reserve capital of the Company.

8.3. Number and nominal value of TAURON Polska Energia S.A.'s shares, as well as of the shares and interests in the related units, held by the Members of the Management Board and the Supervisory Board

The below table presents the Company's shares held by the Members of the Company's Management Board as of December 31, 2022, and as of the date of drawing up this report.

Table no. 49. Company's shares held by the Members of the Company's Management Board as of December 31, 2022, and as of the date of drawing up this report

| First name and last name | Date of appointment to the Management Board of the Company | Number of the Company's shares held | Nominal value of the Company's shares held |
|--------------------------|--|-------------------------------------|--|
| 1. Paweł Szczeszek | 11.04.2022 | 0 | 0 |
| 2. Patryk Demski | 05.08.2021 | 0 | 0 |
| 3. Bogusław Rybacki | 09.09.2022 | 0 | 0 |
| 4. Krzysztof Surma | 05.08.2021 | 10 000 | PLN 50 000 |
| 5. Tomasz Szczegielniak | 06.09.2022 | 0 | 0 |

| First name and last name | Date of appointment to the Management Board of the Company | Number of the Company's shares held | Nominal value of the Company's shares held |
|--------------------------|--|-------------------------------------|--|
| 6. Artur Warzocha | 21.01.2022 | 0 | 0 |

As of December 31, 2022, and as of the date of drawing up this report, the Members of the Management Board of the Company did not hold any shares or interest in the units related to the Company.

As of December 31, 2022, and as of the date of drawing up this report, the Members of the Supervisory Board of the Company did not hold any TAURON shares or any shares or interests in the units related to the Company.

8.4. Agreements related to potential changes to the shareholding structure

The Company does not have any information on the existence of agreements (including also the agreements concluded past the balance sheet date), as a result of which changes in the proportions of shares held by the existing shareholders and bondholders may occur in the future.

8.5. Share buybacks

In 2022 and as of the date of drawing up this report TAURON and its subsidiaries have not purchased and have not held own shares, with the exception of TAURON Dystrybucja, which is described below.

Acquiring of the shares in TAURON Dystrybucja S.A.

In 2022 TAURON Dystrybucja purchased for redemption a total of 649 500 of its own shares with a total nominal value of PLN 12 990, which, after rounding up, represents 0.002% of the company's share capital. Pursuant to Article 418¹, § 6 of the *Commercial Companies Code*, the share repurchase price is equal to the value of the net assets per share, as shown in the financial statements for the last financial year, less the amount to be distributed to the shareholders. Accordingly, the shares were repurchased at a price of PLN 0.45 per share.

Pursuant to Article 418¹, § 4 of the *Commercial Companies Code*, if a resolution on the obligatory repurchase of shares is not adopted at the General Meeting, the company shall be obliged to purchase, for redemption, the shares of the minority shareholders, within 3 months from the date of the General Meeting.

Taking into account art. 418¹, § 4 of the *Code of Commercial Companies*, the Management Board of TAURON Dystrybucja took steps aimed at redeeming its own shares purchased from the minority shareholders, i.e.:

1. on January 11, 2022, the Management Board of TAURON Dystrybucja adopted the resolutions on the redemption of the company's shares purchased by TAURON Dystrybucja in 2021 from the shareholders representing no more than 5% of the share capital and on the lowering of TAURON Dystrybucja's share capital as well as the amendments to the company's articles of association. The Management Board of TAURON Dystrybucja took the decision to lower the company's share capital from PLN 560 489 734.52 by the amount of PLN 9 613.90, i.e. to PLN 560 480 120.62,
2. on January 24, 2023, the Management Board of TAURON Dystrybucja adopted the resolutions on the redemption of the company's shares purchased by TAURON Dystrybucja from the shareholders representing no more than 5% of the share capital and on the lowering of TAURON Dystrybucja's share capital as well as the amendments to the company's articles of association. The Management Board of TAURON Dystrybucja took the decision to lower the company's share capital from PLN 560 489 734.52 by the amount of PLN 12 990.00, i.e. to PLN 560 467 130.62.

Following the abovementioned redemption of purchased shares, TAURON Dystrybucja does not hold any own shares.

8.6. Employee stock award programs

No employee stock award programs were implemented by the Company in 2022.

8.7. Share price performance on the Warsaw Stock Exchange (WSE)

TAURON shares have been listed on the Main Market of the Warsaw Stock Exchange (WSE) since June 30, 2010.

TAURON share price fluctuated between PLN 1.745 and PLN 3.562 (at the closing prices) in 2022. During the last stock market session of 2022 the share price stood at PLN 2.119.

2022 was marked by the Russian Federation's aggression against Ukraine. The event had a material impact on the majority of the sectors of the economies around the world, including, in particular, on the situation on the electricity and fuel markets. The majority of the global stock exchanges experienced declines. The rapid diversion of the supply routes' directions due to the raw materials embargo, the commodity availability problems and as a consequence rising fuel and energy prices led to a significant increase in the level of the inflation rate, which

averaged 14.4% in Poland in 2022. The high rate of inflation has resulted in a number of high interest rate hikes, which have had a negative impact on the sentiment on the WSE.

After an upbeat 2021, the Warsaw trading floor experienced a halt to the good times and suffered a reversal of the upward trends. After a sharp downturn caused by the start of the hostilities by the Russian Federation, the sentiment began to gradually and slowly improve in the fourth quarter of 2022, but for all of 2022 the Polish stock market was among the weakest exchanges in the world. Most indices recorded double digit declines, the largest in recent years - the WIG index fell 17.08% over the course of 2022, the WIG20 plummeted 20.95%, the mWIG40 dived 21.49%, while the WIG-Energia index, which groups the energy sector companies, posted a 12.68% drop.

Despite the difficult stock market situation, the Polish economy reported the quarterly gains. The domestic GDP grew 8.6% in the first quarter of 2022, 5.8% in the second quarter, 3.6% year on year in the third quarter, and 2.0% in the fourth quarter, which led to a 4.9% economic growth rate for all of 2022.

The price performance of TAURON shares and the shares of the entire energy sector were impacted in 2022, in addition to the above mentioned macro economic factors, by the information related to the situation on the electricity market, the prices of coal and the problems with the availability thereof, the transition of the energy sector under way, carried out as part of the Government's NABE (The National Energy Security Agency) Concept, the shutdowns of the 910 MW power generation unit in Jaworzno as well as the process of the sale of the coal mining assets operating thus far as part of TAURON Capital Group to the State Treasury completed at the end of 2022.

As of December 31, 2022, TAURON shares were included in the following stock exchange indices:

1. **WIG** – an index that includes all of the companies listed on WSE's Main Market that meet the basic criteria for the inclusion in the indices. TAURON's share in the WIG index: 0.7448%,
2. **WIG-Poland** – a national index that groups solely shares of the domestic companies listed on WSE's Main Market that meet the basic criteria for the inclusion in the indices. TAURON's share in the WIG-Poland index: 0.7783%,
3. **WIG30** – an index that includes 30 of the largest and most liquid companies listed on WSE's Main Market. TAURON's share in the WIG30 index: 1.0377%,
4. **WIG40** – an index that includes 40 of the largest and most liquid companies listed on WSE's Main Market. TAURON's share in the WIG40 index: 4.0121%,
5. **WIG-Energia** – a sector based index that comprises companies that are included in the WIG index and also qualified to the energy sector. TAURON's share in the WIG-Energia index: 17.153%,
6. **WIG-ESG** – an index that includes the shares of the companies considered as socially responsible, i.e. those that comply with the principles of the corporate social responsibility, in particular with respect to the environmental, social, economic and corporate governance issues. TAURON's share in the WIG-ESG index: 0.6026%.

The below table presents the key data on the Company's shares price performance in 2011-2022.

Table no. 50. Key data on the Company's shares in 2011-2022

| Year | Share price high (PLN) | Share price low (PLN) | Last share price (PLN) | Market capitalization at the end of the period (PLN m) | Market capitalization at the end of the period (%) | Book value (PLN m) | Price / Earnings |
|------|------------------------|-----------------------|------------------------|--|--|--------------------|------------------|
| 2011 | 6.81 | 4.65 | 5.35 | 9 376 | 2.1 | 15 922 | 8.1 |
| 2012 | 5.61 | 4.08 | 4.75 | 8 325 | 1.59 | 16 839 | 5.5 |
| 2013 | 5.39 | 3.85 | 4.37 | 7 659 | 1.29 | 17 675 | 5.5 |
| 2014 | 5.69 | 4.04 | 5.05 | 8 850 | 1.5 | 18 107 | 7.8 |
| 2015 | 5.29 | 2.37 | 2.88 | 5 047 | 0.98 | 18 837 | 4.2 |
| 2016 | 3.19 | 2.31 | 2.85 | 4 995 | 0.9 | 16 349 | - |
| 2017 | 4.12 | 2.75 | 3.05 | 5 345 | 0.8 | 17 880 | 3.02 |
| 2018 | 3.28 | 1.67 | 2.19 | 3 838 | 0.66 | 18 967 | 3.7 |
| 2019 | 2.44 | 1.43 | 1.64 | 2 874 | 0.52 | 19 168 | 13.9 |
| 2020 | 3.26 | 0.82 | 2.72 | 4 770 | 0.89 | 18 071 | - |
| 2021 | 3.82 | 2.495 | 2.654 | 4 651 | 0.66 | 16 497 | - |
| 2022 | 3.562 | 1.745 | 2.119 | 3 714 | 0.65 | 17 235 | 13.5 |

| Year | Price / Book Value | Rate of return ytd* (%) | Dividend yield (%) | Trading volume (PLN m) | Trading volume share (%) | Average volume per session (pcs) | Average number of transactions per session (pcs) |
|------|--------------------|-------------------------|--------------------|------------------------|--------------------------|----------------------------------|--|
| | | | | | | | |

| | | | | | | | |
|------|------|--------|-----|-------|------|-----------|-------|
| 2011 | 0.59 | -16.73 | 2.8 | 5 575 | 2.21 | 3 721 539 | 1 373 |
| 2012 | 0.49 | -5.03 | 6.5 | 3 199 | 1.7 | 2 667 725 | 960 |
| 2013 | 0.43 | -3.64 | 4.6 | 3 104 | 1.41 | 2 793 020 | 1 022 |
| 2014 | 0.49 | 20.07 | 3.8 | 3 135 | 1.53 | 2 489 329 | 1 106 |
| 2015 | 0.27 | -40.78 | 5.2 | 3 063 | 1.5 | 3 190 195 | 1 431 |
| 2016 | 0.31 | -1.04 | - | 3 199 | 1.69 | 4 662 087 | 1 465 |
| 2017 | 0.31 | 7.02 | - | 2 737 | 1.16 | 3 261 765 | 1 323 |
| 2018 | 0.2 | -28.2 | - | 3 104 | 1.52 | 5 622 737 | 1 769 |
| 2019 | 0.15 | -25.11 | - | 2 001 | 1.04 | 4 508 965 | 1 699 |
| 2020 | 0.26 | 65.98 | - | 3 233 | 1.09 | 6 807 622 | 2 523 |
| 2021 | 0.28 | -2.50 | - | 3 015 | 0.96 | 3 883 666 | 2 167 |
| 2022 | 0.22 | -20.16 | - | 2 651 | 0.93 | 4 086 822 | 2 026 |

[†]Rate of return calculated taking into account the investor's income from the dividend and assuming that the additional income realized is re-invested. Methodology in accordance with Biuletyn Statystyczny GPW (WSE Statistical Bulletin)
Source: Biuletyn Statystyczny GPW (WSE Statistical Bulletin)

Following the stock market session on March 18, 2022, an annual portfolio review of the WIG20, WIG20TR, mWIG40, mWIG40TR, sWIG80, sWIG80TR, WIG30 and WIG30TR indices was carried out, as a result of which TAURON left the WIG20 index and became a part of the mWIG40 index.

The below graphs present the historical TAURON share price performance and trading volumes, including against the backdrop of the WIG20, mWIG40 and WIG-Energia indices.

Figure no. 66. TAURON share price performance and trading volumes in 2022

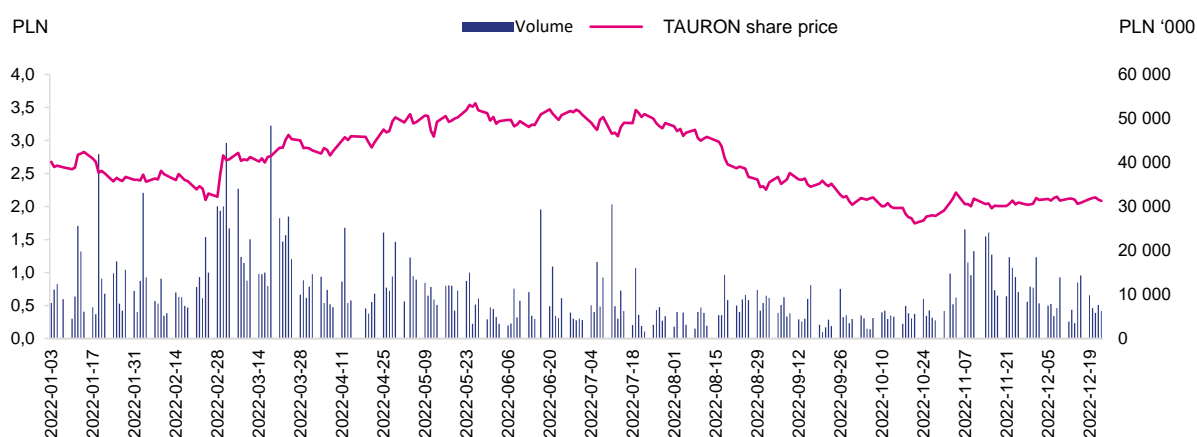


Figure no. 67. TAURON share price and trading volumes since the market debut until December 31, 2022

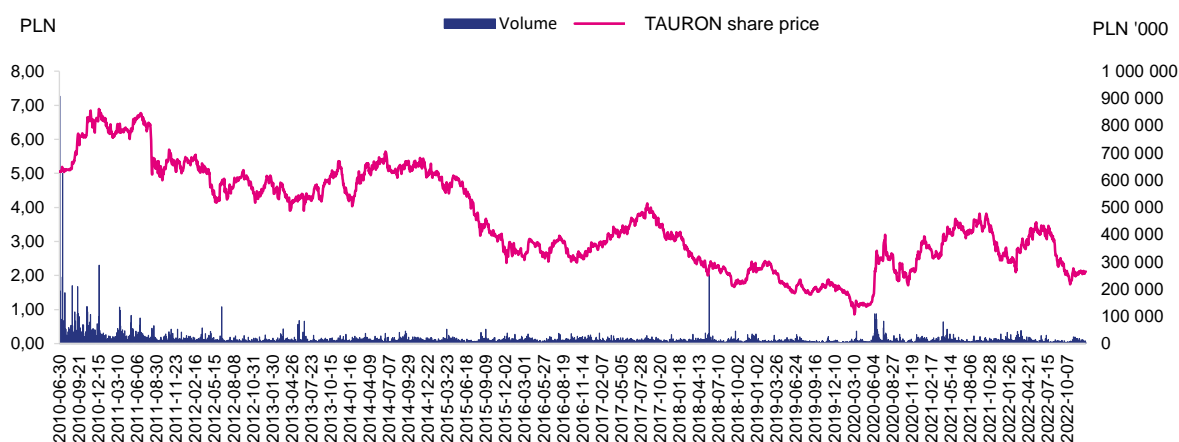


Figure no. 68. TAURON share price (in PLN) versus WIG20 and WIG-Energia indices since the market debut until December 31, 2022

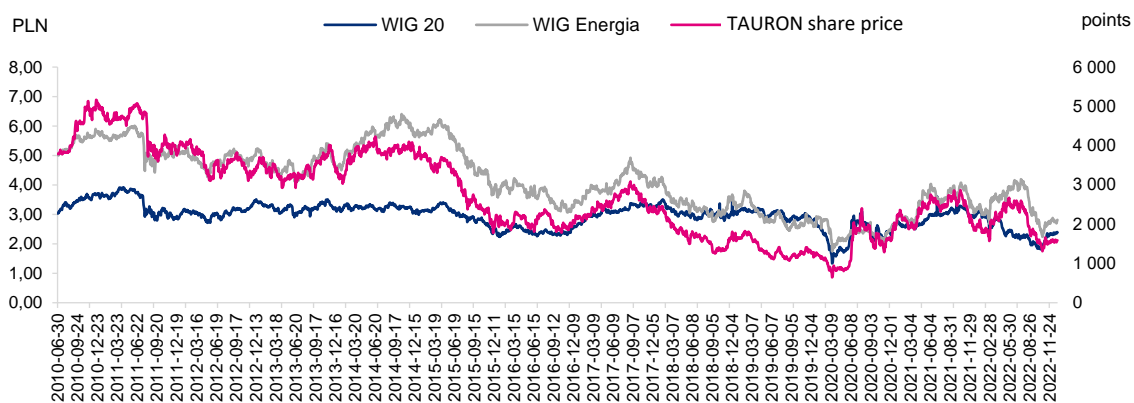
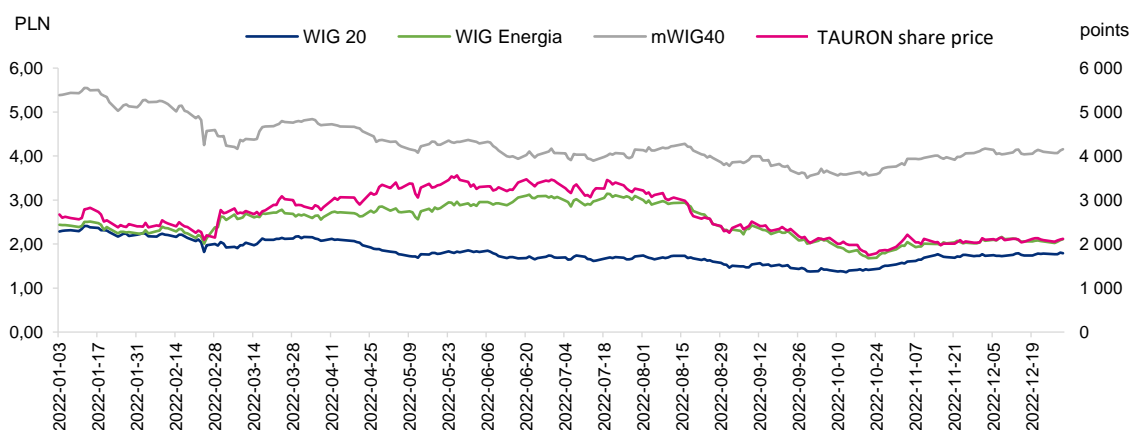


Figure no. 69. TAURON share price versus WIG20, mWIG40 and WIG-Energia indices in 2022



Analysts from brokerage houses and investment banks issued, in total, 10 recommendations for TAURON shares in 2022, including:



The below table presents a list of recommendations issued in 2022.

Table no. 51. Recommendations issued in 2022

| Date of issuing recommendation | Institution issuing recommendation | Recommendation / target price |
|--------------------------------|------------------------------------|-------------------------------|
| 12.01.2022 | Citi | Buy / PLN 4.70 |
| 21.04.2022 | Santander | Buy / PLN 6.40 |
| 22.04.2022 | Societe Generale | Buy / PLN 6.40 |
| 09.05.2022 | PKO Securities | Buy / PLN 4.40 |
| 07.06.2022 | Santander BM | Buy / PLN 5.80 |
| 29.06.2022 | Wood&Co. | Buy / PLN 6.20 |
| 14.10.2022 | Biuro Maklerskie Pekao | Buy / PLN 5.90 |
| 2.12.2022 r. | Santander BM | Buy / PLN 4.20 |
| 9.12.2022 | Biuro Maklerskie Pekao | Buy / PLN 3.40 |
| 12.12.2022 | TRIGON DM | Hold / PLN 2.23 |

8.8. Investor relations

Transparent, accurate and regular communications is the foundation of TAURON's investor relations (IR) program. It is taking place not only in the form of the mandatory activities required by the legal regulations, i.e. by disclosing the information in the current and periodic regulatory filings (current reports) for example, but it is also supplemented via a number of additional activities and tools addressed directly to all of the stakeholders. As a consequence, the high quality communications leads to the higher level of trust among the investors, financing institutions and business partners. Building the relationships with the investors is based on both implementing the best practices applied around the world, as well as setting the highest standards on the Polish capital market.

The analysts, fund managers and shareholders had access to a wide spectrum of the information on TAURON Capital Group in 2022, through the use of various communications tools.

In connection with the publication of the periodic, interim reports, the Company was organizing the earnings conference calls for the investors and analysts, each time attended by several dozen representatives of the capital markets and media. Such events were simultaneously interpreted into English. The ability to replay them at a later date was also provided. As a result, all of the interested parties were guaranteed an equal access to the information. In addition, the Company organized three chats with the representatives of the Management Board, dedicated to the individual (retail) investors.

Apart from the meetings accompanying the publication of the periodic, interim reports, the Members of the Management Board and the representatives of the Investor Relations Team took part in the meetings with the investors and the conferences for the investors in 2022, during which several dozen meetings with the investment fund managers and the capital market analysts were held. During the meetings with the investors, the Members of TAURON's Management Board and the key managers were presenting TAURON Capital Group's strategy, discussing the most important capex projects, the financial position, as well as the current situation on the market and the outlook for the energy sector.

In 2022, similar as in the previous years, TAURON also participated in the events addressed to the individual investors. The Company was, inter alia, a partner of the "WallStreet" conference organized by the Individual Investors Association (Stowarzyszenie Inwestorów Indywidualnych).

In connection with the growing importance of the online channels and the social media, the Company is placing a lot of weight on the development of the use thereof with respect to the communications with the investors. The broadcasts of the events that are important for the investors are provided via the YouTube service, for example, the earnings conference calls or the General Meetings. TAURON also has a corporate profile on Twitter where the entries related to, among others, the investor relations are posted. Being aware of the fact that the website is a significant source of information for the investors, in particular, its *Investor Relations* tab; the Company takes care of its content and the validity of the content provided therein. The *Investor Relations* section contains a lot of useful information on both the current events as well as the planned ones, the financial results or the strategy of TAURON Capital Group. The presentations and the video broadcasts of the conference calls summarizing the financial results are also posted thereupon.

The activities with respect to the investor relations are regularly appreciated by the participants of the capital market, as well as by the investors.

The detailed information on the awards and accolades (honorable mentions) received by TAURON and TAURON Capital Group's subsidiaries is presented in section 2.7. of this report.

The below table presents a timeline of the investor relations highlights (events) and activities that took place in 2022.

Table no. 52. Timeline of the investor relations highlights (events) and activities that took place in 2022

| Date | Highlight (event) |
|------------|--|
| 30.03.2022 | Full year 2021 standalone and consolidated earnings reports published |
| 31.03.2022 | Video conference call for the analysts, fund managers and the media to present the FY 2021 financial results |
| 31.03.2022 | Chat for the individual investors as part of the cooperation with the Individual Investors Association |
| 24.05.2022 | Ordinary General Meeting of the Company |
| 25.05.2022 | Q1 2022 consolidated earnings report published |
| 26.05.2022 | Video conference call for the analysts, fund managers and the media to present the Q1 2022 financial results |
| 26.05.2022 | Participation in the WallStreet conference organized by the Individual Investors Association |
| 2.06.2022 | Participation in the CEE Days Conference, Ipopema |

| Date | Highlight (event) |
|-------------|--|
| 13.07.2022 | Extraordinary General Meeting of the Company |
| 7.09.2022 | H1 2022 consolidated earnings report published |
| 8.09.2022 | Video conference call for the analysts, fund managers and the media to present the H1 2022 financial results |
| 8.09.2022 | Chat for the individual investors as part of the cooperation with the Individual Investors Association |
| 27.09.2022 | Participation in the <i>RES Energy Conference</i> , BM Pekao |
| 5-6.10.2022 | Participation in <i>The Finest CEElection 2022 Conference</i> , Erste Group |
| 23.11.2022 | Q3 2022 consolidated earnings report published |
| 24.11.2022 | Video conference call for the analysts, fund managers and the media to present the Q3 2022 financial results |
| 25.11.2022 | Chat for the individual investors as part of the cooperation with the Individual Investors Association |

9. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

Pursuant to § 70, clause 6, sub-clause 5) of the Regulation of the Minister of Finance of March 29, 2018 on current and periodic (interim) information disclosed by the issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a non-member state (i.e. Journal of Laws of 2018, item 757), the Management Board of the Company presents the statement on the application of corporate governance in 2022.

9.1. Applied set of corporate governance rules

In 2022 the Company was subject to the corporate governance rules, described in the Best Practice of the WSE (GPW) Listed Companies 2021 (Best Practice 2021), adopted by the Supervisory Board of the WSE (GPW) by way of the resolution no. 13/1834/2021 of March 29, 2021, which came into force on July 1, 2021, and have been applied by the Company since that date.

The text of the Best Practice 2021 document is published on the WSE (GPW) website at the address: <https://www.gpw.pl/dobre-praktyki2021>.

Up to date Information on the application by the Company of the principles contained in the Best Practice 2021 document is posted on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/lad-korporacyjny>.

Description of the manner in which the Company is applying the principles provided in the Best Practice 2021

The Company presents the below information on the rules applied by the Company that.

The rules related to the information disclosure policy and communications with the investors

Section 1 of the Best Practice 2021 sets out the rules for ensuring the proper communications with the stakeholders and conducting a transparent and reliable information disclosure policy.

The Company uses various channels of communications with the capital market participants. All of the information required by the law is posted and updated on an ongoing basis on the Company's website. The Company maintains ongoing contacts with the investors (institutional and individual) as well as the analysts from the brokerage houses and the investment banks. The Company communicates with them at the conferences organized following the publication of every interim report, individual meetings organized at the request of the investors and analysts, and the regularly organized chats for the retail investors. The contact details for the investors along with the available telephone numbers and e-mail addresses, as well as a contact form (rule 1.1.), are provided on the website <https://www.tauron.pl/tauron/relacje-inwestorskie>.

The Company prepares and publishes, on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie>, the periodic (interim) reports containing the financial results as soon as possible following the end of the reporting period. In order to reduce the investors' uncertainty with respect to the Company's financial standing, the Company publishes the estimated financial results prior to the publication of the periodic (interim) reports (rule 1.2.).

The Company also incorporates the ESG subjects into its business strategy, including in particular:

1. environmental issues, including the metrics and risks related to climate change and the sustainability issues,
2. social and labor issues, including the measures, taken and planned, aimed at, among others, ensuring gender equality, sound working conditions, respect for the employees' rights, dialogue with the local communities, customer relations.

The Group's Strategy also covers the ESG subjects and it was described in current report no. 27/2022 of June 22, 2022. The detailed information on the adopted Strategy is provided in the presentation posted along with the current report on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/raporty-biezace/raport-biezacy?id=8361315>. In addition, the most relevant information with respect to the Strategy was included in the 2021 Integrated Report published on the Company's website at the address: <https://raport.tauron.pl/> (rule 1.3.).

In order to ensure proper communications with the stakeholders, with respect to the adopted business strategy, the Company posts, on the Company's website at the addresses: <https://www.tauron.pl/tauron/o-tauronie/tauron-dla-otoczenia/zielony-zwrot> and <https://www.tauron.pl/tauron/o-tauronie/raportowanie-esg>, the information on the assumptions of the strategy it has, measurable goals, including in particular the long term goals, planned activities and the progress in the implementation thereof, defined by the metrics, financial and non-financial. The information on strategy in the ESG area, among other things: explains how the climate change issues are taken into account in the decision making processes of the Company and those of its Group's entities, indicating the risks involved with respect thereto (rule 1.4.).

The Company discloses the expenses incurred thereby and its Group to support culture, sports, charitable institutions, the media, social organizations, trade unions, etc. in the Report of the Management Board on the Operations of TAURON Polska Energia S.A. and TAURON Capital Group in section 2.9. (rule 1.5.).

The Company holds conference calls for the investors, analysts and media representatives every time after the publication of the financial results. These conference calls are made available online in real time to all of the interested parties. During the earnings conference calls, the representatives of the Management Board of the Company present and comment on the financial results posted, the adopted strategy and the implementation thereof, as well as the most important events that have an impact on the operations of the Company and TAURON Capital Group, as well as the outlook for the future. During the meetings, the Management Board of the Company publicly provides explanations and gives answers to the questions asked (rule 1.6.).

Investors may submit their questions in writing, by phone, via e-mail or using the contact form available on the website <https://www.tauron.pl/tauron/relacje-inwestorskie/kontakt-dla-inwestorow/formularz>. The Company has adopted a Procedure for disclosing the information on the Company and the subsidiaries thereof for the purpose of the Investor Relations, along with an indication of the deadlines for completing the individual activities. The answers to the questions are provided immediately, and in the case of the issues that would require in-depth analyses / calculations, within 10 days (rule 1.7.).

The rules related to the Management Board and the Supervisory Board

Section 2 of the Best Practice 2021 sets out the rules with respect to the performance of the Management Board and the Supervisory Board of their duties.

At least two members of the Supervisory Board shall meet the independence criteria listed in the Act of May 11, 2017, on certified auditors, audit firms and public oversight, and have no actual and material ties to a shareholder holding at least 5% of the total number of votes in the company (rule 2.3.).

The Company shall ensure that the voting of the Supervisory Board and the Management Board is public, unless otherwise provided for by the legal regulations (rule 2.4.).

The Rules of Procedure of the Company's Supervisory Board and the Rules of Procedure of the Company's Management Board shall provide for the voting Members of the Management Board and the Supervisory Board to submit a dissenting opinion to the minutes (rule 2.5.).

Serving on the Company's Management Board shall be the main area of the professional activity of the Members of Management Board, and the performance of functions by the Members of the Management Board on the corporate bodies of the entities outside of the Capital Group shall require an approval of the Supervisory Board (rule 2.6. and rule 2.7.). The Members of the Supervisory Board shall be able to devote the required amount of time to perform their duties (rule 2.8.), the Chairperson of the Supervisory Board shall not manage the works of the Audit Committee (rule 2.9.), and the administrative and financial resources shall be delegated in accordance with the Company's size and the Company's financial position to ensure the efficient functioning of the Supervisory Board (rule 2.10.).

Once a year, the Supervisory Board shall prepare and submit to the Ordinary General Meeting for approval an annual report that includes at least the information indicated in rule 2.11.

The rules related to the internal systems and functions

Section 3 of the Best Practice 2021 refers to the efficient operation of the Company's internal systems and functions as the tools to be used for the oversight.

The Company shall maintain the following effective systems: internal control system, risk management system and compliance system, as well as an effective internal audit function, corresponding to the size of the Company and the type and scale of its operations (rule 3.1.). The Company shall have in place separate units responsible for the tasks of the individual systems or functions (rule 3.2.).

The Company has appointed an internal auditor who shall manage the internal audit function acting in accordance with generally recognized international standards of professional internal audit practice (rule 3.3.).

The compensation of the persons responsible for the risk management and compliance as well as that of the head of the internal audit shall depend on the performance of the assigned tasks and not on the Company's short term results (rule 3.4.). The persons responsible for the risk management and compliance shall report directly to the President or another Member of the Management Board (rule 3.5.).

At least once a year, the person in charge of internal audit shall submit to the Supervisory Board an assessment of the effectiveness of the systems and functions referred to in rule 3.1, along with a corresponding report (rule 3.8.). The Audit Committee shall monitor the effectiveness of the following systems: internal control system, risk management system, compliance system, and the internal audit function, while the Supervisory Board shall perform an annual assessment of the effectiveness of the functioning of these systems and functions (rule 3.9.). By 2026, the Company is planning to perform an independent assessment of the internal audit function (rule 3.10.).

The rules related to the General Meeting and the relations with the shareholders

Section 4 of the Best Practice 2021 sets out the rules for holding the General Meetings and the other rules aimed at encouraging the shareholders to get involved in the Company's affairs.

Pursuant to the Regulations of the General Meeting, the Company shall determine the place and date, as well as the form of the General Meeting in a manner that would enable the participation of as many shareholders as possible (rule 4.2.).

The Company shall provide a publicly available broadcast, in real time, of the General Meeting, and the representatives of the media shall be allowed to attend the General Meetings (rule 4.3. and rule 4.4.).

In case the General Meeting is convened by an entity or authority other than the Management Board pursuant to the provisions of the Code of Commercial Companies, the Management Board shall take all of the required steps to convene, organize and conduct the General Meeting (rule 4.5.).

The draft resolutions of the General Meeting related to the issues and decisions other than those of a procedural nature shall include a justification (statement of reason), unless it stems from the documentation presented to the General Meeting (rule 4.6.).

The Supervisory Board shall provide its opinion (feedback) on the draft resolutions to be put on the agenda of the General Meeting by the Management Board (rule 4.7.).

In accordance with the Regulations of the General Meeting the Shareholders should submit draft resolutions of the General Meeting on the issues put on the agenda of the General Meeting no later than 3 days prior to the General Meeting (rule 4.8.).

Pursuant to the Regulations of the General Meeting, the shareholders who intend to propose candidates for the members of the Supervisory Board should provide the Company with the justification of the candidates along with the professional CVs of the candidates and a complete set of materials related thereto, by the deadline that would enable the other shareholders to study them before the General Meeting is held and to make a decision on the appointment of a member of the Supervisory Board based on the adequate knowledge, but not later than 3 days prior to the General Meeting. The information received from the shareholders shall promptly be made available by the Company to the other shareholders in the manner specified in the announcement (notice) on the General Meeting for the provision of the documentation and the draft resolutions to be presented to the General Meeting. A shareholder proposing the candidates for the members of the Supervisory Board shall submit to the Company, along with the justification for the candidate, a statement of the candidate on the candidate's compliance or non-compliance with the independence criteria specified in the *Act of May 11, 2017 on certified auditors, audit firms and public oversight*, as well as on the existence or non-existence of the actual and material ties between this candidate and a shareholder holding at least 5% of the total number of votes in the Company (rule 4.9.).

The Members of the Management Board and of the Supervisory Board shall participate in the sessions of the General Meeting in a group of its representatives that would enable them to provide substantive answers to the questions asked during the General Meeting. The Members of the Management Board and of the Supervisory Board as well as the certified auditor of the Company shall, within the limits of their competences and to the extent required to evaluate the matter included in the agenda of the General Meeting, provide the participants of the Meeting with the explanations and information regarding the Company. The Management Board shall present to the participants of the Ordinary General Meeting the financial results of the Company and other material information contained in the financial statements subject to the approval by the General Meeting (rule 4.11.).

In accordance with the Regulations of the General Meeting, a resolution of the General Meeting on the issue of the shares with the subscription rights (rights issue) shall specify in detail the issue price or the mechanism for the determination thereof, or shall oblige the authorized body to determine it prior to the subscription right date, within the time that would enable making of the investment decision. Since the date of the Best Practices 2021 coming into force, there have been no resolutions of the General Meeting on the issue of shares with the subscription rights (rights issue) (rule 4.12.).

In accordance with the Regulations of the General Meeting a resolution on a new issue of the shares with the exclusion of the subscription rights, which at the same time grants the pre-emptive right to take up the newly issued shares to the selected shareholders or other entities, may be adopted if at least the following conditions are met:

1. The Company has a rational, economically justified need to urgently raise capital or the issue of the shares is related to the rational, economically justified transactions, among others such deals as a merger with or an acquisition of another company, or the shares are to be taken up under the incentive program adopted by the Company,
2. people who will be entitled to the pre-emptive rights will be identified according to the objective general criteria,
3. the price of the shares to be taken up will be in a rational relation to the current price of the Company's shares or will be determined as a result of the market based book building process.

Since the date of the Best Practices 2021 coming into force, there have been no resolutions of the General Meeting on the new issue of shares with the exclusion of the subscription rights (rule 4.13.).

The rules on the conflict of interest and the related party transactions

Section 5 of the Best Practice 2021 sets out the procedures for managing a conflict of interest and concluding transactions with the related entities under such conditions when there is a possibility of a conflict of interest arising.

In accordance with the Regulations of the Management Board and the Regulations of the Supervisory Board of TAURON Polska Energia S.A., the Members of the Management Board or of the Supervisory Board shall inform the Management Board or the Supervisory Board, respectively, of any conflict of interest or the possibility of the occurrence thereof and they shall not participate in the consideration of a matter in which a conflict of interest may arise with respect thereto (rule 5.1.).

In accordance with the Regulations of the Management Board of TAURON Polska Energia S.A., if a Member of the Management Board or of the Supervisory Board considers that a decision of the Management Board or of the Supervisory Board, respectively, is contrary to the interests of the Company, he/she should demand that his/her dissenting opinion on the matter be included in the minutes of the meeting of the Management Board or of the Supervisory Board (rule 5.2.).

In accordance with the procedures implemented in the Company, no shareholder shall be privileged over the other shareholders in relation to the transactions with the related entities. This shall also be applicable to the transactions between the Company's shareholders and the entities that are a part of the Company's group (rule 5.3.).

In accordance with the Company's Articles of Association a resolution of the General Meeting authorizing the Management Board of the Company to take steps aimed at acquiring the shares to be redeemed shall specify the conditions for the purchase of the shares by the Company (buy-back), while ensuring that the rights of all of the shareholders are respected (rule 5.4.).

In case a transaction of the Company with a related entity requires an approval of the Supervisory Board, prior to adopting a resolution on granting the approval, the Supervisory Board shall assess whether it is necessary to first consult an external entity that will carry out the valuation of the transaction and analyze its economic effects (rule 5.5.). On the other hand, if the conclusion of a transaction with a related entity requires an approval of the General Meeting, the Supervisory Board shall prepare an opinion on the legitimacy of concluding such a transaction and, in such a case, shall assess the need to consult an external entity referred to in the previous sentence (rule 5.6.).

In case the decision on the conclusion by the Company of a material transaction with a related entity is made by the General Meeting, prior to making such a decision, the Company shall provide all of the shareholders with access to the information required to assess the impact of this transaction on the Company's interest, including providing the opinion of the Supervisory Board referred to in rule 5.6. (rule 5.7.).

The Company publishes on its website a list of the material transactions with the related entities drawn up in accordance with Art. 90i of the *Act of July 29, 2005, on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies*: <https://www.tauron.pl/tauron/relacje-inwestorskie/wykaz-istotnych-transakcji>.

The rules related to the compensation

Section 6 of the Best Practice 2021 sets out transparent, fair, consistent and non-discriminatory principles for the compensation of the management team.

The compensation of the Members of the Management Board of the Company and of the Supervisory Board of the Company as well of the key managers is sufficient to attract, retain and motivate people with the competencies required for the proper management and oversight of the Company. The amount of the compensation is adequate to the tasks and duties performed by the individuals and the responsibility related thereto (rule 6.1.). The amount of compensation of the Members of the Supervisory Board is not dependent on the Company's short term performance (rule 6.5.).

9.2 Set of abandoned rules of corporate governance

The Company did not apply the following rules provided in the Best Practice 2021 in 2022:

1. 1.4.2. – the rule related to the presentation of the value of the ratio expressing the equal compensation paid out to its employees, calculated as a percentage difference between the average monthly compensation of women and men for the last year and the information on the actions taken in order to eliminate any potential inequalities in this respect, including the presentation of the risks related thereto and the time horizon over which achieving of equality is planned.

This rule was not applied by the Company due to the fact that this ratio did not reflect the actual conditions for the possibility of employing women and men in the Company's selected lines of business.

Regardless of this, the Company is guided by the principle of equal treatment of its employees and does not tolerate discrimination on any grounds, in particular, based on age, gender, race, nationality, religion, sexual orientation, appearance, fitness or difference of opinion. Measures are taken as well as procedures and mechanisms are implemented to protect the employees against discrimination and unequal treatment, and to ensure the detection and elimination of the cases of such unlawful practices. The above mentioned principles stem from TAURON Group's Corporate Social Responsibility Code of Conduct ([https://www.tauron.pl/tauron/o-
tauronie/kodeks-odpowiedzialnego-biznesu](https://www.tauron.pl/tauron/o-tauronie/kodeks-odpowiedzialnego-biznesu)) and TAURON Group's Respect for Human Rights Policy.

2. 2.1. – the rule related to having a diversity policy in place with respect to the Management Board and the Supervisory Board, adopted by the Management Board or the Supervisory Board, respectively, defining the diversity goals and criteria, among others in terms of gender, education background, specialist knowledge, age and professional experience, as well as indicating the date and method of monitoring the achievement of such goals. In terms of the diversity with respect to gender the prerequisite for ensuring the diversity of the Company's authorities is the participation rate (share) of the minority in the given authority at a level of not less than 30%.

The Company has implemented TAURON Group's Diversity Policy, on the basis of which TAURON Capital Group applies the policy of equal treatment and strives to ensure diversity in terms of gender, education, age and professional experience for all employees. However, the Company does not have a diversity policy with respect to the Management Board and the Supervisory Board in terms of the minority share in the given authority at a level of not less than 30%, due to the adoption by the Company of the solutions in accordance with the Act of December 16, 2016, on the principles of state assets management regarding the appointment of the members of the Management Board following the conducting of the recruitment procedure aimed at checking and assessing the qualifications of the candidates and selecting the best candidate to be a member of the Management Board. In the case of appointing the members of the Supervisory Board, the minister competent to exercise the rights related to the rights attached to the shares of the State Treasury has the statutory power to appoint the majority of the members of the Supervisory Board.

3. 2.2. – the rule stating that the persons making the decisions on the appointment of the members of the Management Board or the Supervisory Board should ensure the versatility of these authorities by selecting as the members thereof the persons that would ensure the diversity, enabling, inter alia, achieving of the target minimum minority participation rate (share), set at a level of not less than 30%, in line with the goals set out in the adopted diversity policy referred to in rule 2.1.

The Company currently does not ensure a 30% diversity level with respect to the share of women in the membership of the Management Board and of the Supervisory Board. The General Meeting, having in mind the goal of ensuring the diversity with respect to the shares of women and men in the membership of the Supervisory Board, on May 24, 2021, adopted the amendments to the Regulations of the General Meeting of the Company, inter alia, by adding in § 24, section 5 with the following wording: "Persons making the decisions on the appointment of the members of the Supervisory Board should ensure the versatility of the authority by selecting as the members thereof the persons that would ensure the diversity, enabling, inter alia, achieving of the target minimum minority participation share, set at a level of not less than 30%, in line with the goals set out in the diversity policy adopted by the Company". With regard to appointment of the Members of the Management Board, the Company applies the provisions of the Act of December 16, 2016, on the principles of state assets management, in line with which the members of the Management Board shall be appointed following the conducting of the recruitment procedure aimed at verifying and assessing the qualifications of the candidates and selecting the best candidate to be a Member of the Management Board.

4. 3.6. – the rule stating that the Head of the Internal Audit reports organizationally to the President of the Management Board, and functionally to the chairperson of the audit committee or the chairperson of the supervisory board, if the supervisory board performs the function of the audit committee.

The internal audit unit, headed by the Executive Director for Audit and Internal Control, is placed in the organizational structure of the Company under the direct authority of the President of the Management Board. Functionally, the Head of the Internal Audit does not report to the Chairperson of the Audit Committee, however, in order to maintain the independence, objectivity and proper performance of the audit and control functions, the Executive Director for Audit and Internal Control is provided with the option of the periodic reporting to the Audit Committee and the Supervisory Board of the Company.

5. 3.7. – the rule stating that that rules 3.4. - 3.6. shall also apply to those entities from the company's group that are of material importance to the operations thereof, in case they have designated (appointed) persons to perform these tasks.

The Risk Management Coordinators and the Compliance Coordinators, who do not always report directly to the president or another member of the subsidiary's management board, have been appointed at TAURON Capital Group's subsidiaries that are of material importance to the operations thereof. The solutions adopted at these subsidiaries in terms of the organizational structure, in spite of the fact that they do not always ensure the direct reporting to a member of the company's management board, do not restrict the possibility of the

direct reporting to the members of the company's management board. In December 2021, TAURON Group's Compliance Policy was updated, where it was indicated that the Compliance Coordinator should report directly to the President of the Management Board or another Member of the Management Board of the Company. Accordingly, actions have been initiated to implement the above mentioned provision. With regard to the Audit and Internal Control Area, the audit function is centralized, and no persons have been designated (appointed) to perform the audit tasks at the subsidiaries.

6. 4.1. – the rule related to allowing the shareholders to take part in a general meeting by means of electronic communication, if it is justified due to the shareholders' expectations reported to the company, provided that it is able to provide the technical infrastructure required to conduct such a general meeting.

The Company monitors, on an ongoing basis, the changes in the shareholding structure that could affect the way the communication is conducted during the general meeting. In addition, in the event that the Company receives requests from the shareholders to conduct a general meeting using the electronic means of communication, the Company will verify the technical possibilities that would ensure the safe conduct of the general meeting for the shareholders and the Company, and in the absence of any contraindications, the Company will take actions in accordance with this recommendation.

7. 4.14. – the rule stating that the company should strive to distribute the profit by paying out a dividend, while retaining of the entire profit in the company is possible if any of the following reasons occur:

- 1) the amount of this profit is minimal, and as a consequence the dividend would be insignificant in relation to the value of the shares
- 2) the company reports uncovered losses from the previous years, and the profit is to be used to reduce such losses,
- 3) the company justifies that the allocation of the profit to the investments will bring tangible benefits to the shareholders,
- 4) the company has failed to generate cash that would enable the payout of the dividend,
- 5) the payout of the dividend would significantly increase the risk of a breach of the covenants included in the credit agreements that are binding for the company or the terms of the bond issue,
- 6) leaving the profit in the company is in line with the recommendation of the institution exercising the supervision over the company due to its specific type of operations.

In accordance with the adopted Dividend Policy, the Company is planning, in the long term, to pay out a dividend in the amount of at least 40% of the consolidated net profit. The intention of the Company is to ensure a dividend yield at a competitive level in relation to the long term debt instruments issued on the Polish market by companies with the investment grade ratings.

Over the time frame covered by the Strategy, i.e. until 2030, due to the high level of the planned capital expenditures associated with the implementation of the strategic projects, the dividend policy assumes that the Management Board of the Company will not be recommending to the General Meeting of the Company the payout of the dividends, provided that, in the opinion of the Management Board, such a retention of the funds by TAURON Group will contribute to an increase in the value of its assets

The decision with respect to the payout of the dividend is made by the General Meeting of the Company having obtained the recommendation of the Management Board of the Company, which takes into account, in particular, the following factors: the legal requirements and the provisions of the financial agreements, in particular with respect to not exceeding a certain level of the leverage ratio, ensuring an investment grade rating, the implementation of the investment policy, the Group's liquidity position and the cost and options for obtaining of the financing,.

The Company's Dividend Policy is largely in line with rule 4.14. of the Best Practice 2021, although it also provides for a broader range of the events or circumstances justifying the lack of the dividend payout, and thus the Company's decision may be made on the basis of the premises that are not referred to in the catalog specified under rule 4.14. of the Best Practice 2021.

8. 6.2. – the rule regarding such a structuring (design) of the incentive programs that, inter alia, the level of the compensation of the members of the management board of the company and that of the key managers thereof would be made dependent on the actual, long term situation of the company in terms of the financial and non-financial results as well as the long term increase in the shareholder value and the sustainable development, as well as the stability of the company's operations.

The level of the variable compensation of the Members of the Management Board and the key managers of the Company is dependent on the annual consolidated financial results of the Company and the long term standing of the Capital Group in terms of the non-financial results. The principles of compensating the Members of the Management Board, that would assume, inter alia, that the variable compensation should be dependent on the annual results, were adopted by the General Meeting of the Company at the request of a shareholder State Treasury. Changing of the above mentioned principles shall require a decision of the Shareholders

9. 6.3. – the rule stating that if one of the company's incentive programs is a management options program, then the implementation of the options program should be conditional on the eligible persons achieving, for at least 3 years, the predetermined, realistic and adequate financial and non-financial, as well as the sustainable development goals, and the established price at which the eligible persons would purchase the shares or settle the options may not differ from the value of the shares from the period when the program was adopted.

The compensation and bonus system for the Members of the Management Board of the Company and the key managers thereof in force does not provide for linking the compensation with the instruments tied to the Company's shares.

10. 6.4. – the rule stating that the supervisory board shall perform its tasks on a continuous basis, therefore the compensation of the members of the supervisory board may not depend on the number of the meetings held. The compensation of the members of the committees, in particular the audit committee, should take into account the additional workload related to the work in such committees.

Members of the Supervisory Board receive a fixed monthly compensation, regardless of the number of the convened meetings and regardless of the participation of the Members of the Supervisory Board in the works of the committees, including the Audit Committee.

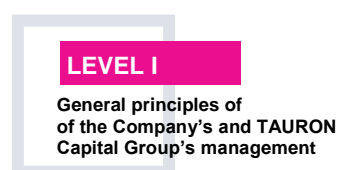
The other rules included in the Best Practice 2021 were applied by the Company in 2022.

Information on the change of the scope of the application by the Company of the rules included in the Best Practice 2021 in 2022

In an effort to apply the broadest possible scope of the Best Practice 2021, the Company in 2022 began applying rule 3.4. and rule 3.5. in 2022.

9.3. Main characteristics of the internal controls and risk management systems in relation to the process of drawing up the financial statements and the consolidated financial statements

The internal control (audit) and risk management system with respect to the process of drawing up the financial statements and the consolidated financial statements is implemented on 3 levels:



Pursuant to the adopted internal regulations TAURON Capital Group's subsidiaries operate based on the organizational regulations and have defined organizational structures in place, where the applicable business units are assigned the responsibility for drawing up the financial statements and the consolidated financial statements. Such units are obliged to perform the ongoing control that is built into the tasks performed and the functional control of their activities. Based on TAURON Capital Group's Business

Model put in place the Process Documentation of Mega-process 3.4 *Accounting* was implemented, containing, among others, processes associated with the financial reporting of the Company and TAURON Capital Group. The process documentation defines the responsibilities of the business units within the reporting processes.



TAURON Capital Group has put the Risk Area in place, whose role is to oversee and establish TAURON Capital Group's risk management system. These functions are implemented within the Company by the Corporate, Market and Credit Risk Management Teams as well as by the Autonomous (Independent) Specialist for the Transaction Control (Audit) Positions. The purpose of the risk management is to ensure the improvement of the predictability of attaining of the strategic objectives by TAURON Capital Group, including the stable creation of the financial result through adequately early identification of threats allowing the preventive activities to be undertaken. Risk management standards applicable at TAURON Capital Group have been defined in *TAURON Group's Corporate Risk Management Strategy* and in the policies for managing the specific risks. The ERM system encompasses all of TAURON Capital Group's lines of business and the business processes carried out within TAURON Capital Group, including the process of drawing up the financial statements. The risks associated with this process are managed, monitored and reported within the ERM System. The goal of the standardization is to ensure consistency in managing the individual risk categories, by defining the general principles, standards and tools of the system's architecture. The oversight of the ERM system at TAURON Capital Group is performed by the Risk Committee, which as an expert team, on a permanent basis and continuously, initiates, analyzes, monitors, controls (audits) and supports the functioning of TAURON Capital Group's risk management system.

The detailed information on the risk management system is provided in section 3.1. of this report.

LEVEL III

Internal audit

The Audit and Internal Control Area is functioning within TAURON Capital Group, with the goal to plan and implement, within TAURON Group, the audit and control tasks, developing and coordinating the principles of audit and internal control within TAURON Group and supporting the organization in maintaining an effective internal control system.

The audit activities are conducted by the audit teams composed of the employees holding the Autonomous (Independent) Specialist for the Transaction Control (Audit) Positions as part of TAURON's Audit and Internal Control Area, carrying out the scheduled and ad hoc audit tasks both at TAURON as well as at TAURON Capital Group's subsidiaries. The audit teams, based on the Audit Plan for the given calendar year, by performing the process based audit tasks, make an assessment of the current level of the individual risks and the effectiveness of the management thereof. As part of the audit activities the correctness of the audited processes is also verified, as well as the adequacy and implementation of the control mechanisms in the audited processes. If any irregularities are identified, the auditors recommend taking adequate corrective actions. The implementation of the recommendations is the responsibility of the management of the audited entities, and the degree of the implementation of the audit recommendations is monitored on an ongoing basis using the dedicated MRA application.

The internal (conducted by the owner) control, understood as a set of activities of a detective (detection control), preventive (preventive control) and corrective (correction of irregularities and deficiencies) nature, as part of the functioning internal control system, is carried out at the level of TAURON Capital Group by the control teams composed of the employees holding the Autonomous (Independent) Specialist for the Transaction Control (Audit) Positions as part of TAURON's Audit and Internal Control Area, as well as by the organizational units competent for the internal control, operating at some of the subsidiaries. The control tasks are performed in the form of the ad hoc and the scheduled controls.

A new Model for Periodic Evaluation of the Internal Control System has also been implemented to provide the Company's Management Board and the Audit Committee of the Company's Supervisory Board with the independent and objective information on the operation of the control mechanisms in the business processes. As part of the above mentioned model, the assessment of the adequacy, implementation and effectiveness of the selected control mechanisms related to the risks assessed as significant for the Internal Control System was initiated, for the first time, in 2022.

The goal of the organization of the Audit and Internal Control Area is to enable the scope of audits and controls to cover the entire operations of the organization, both from the perspective of the needs of TAURON Capital Group as well as those of the individual subsidiaries. The direct organizational reporting to the President of the Management Board allows the Area to maintain the necessary independence and objectivity needed to perform its duties effectively. The Executive Director for Audit and Internal Control has also been provided with the ability to periodically report directly to the Audit Committee, as a standing committee established within the Supervisory Board of the Company. This empowerment is implemented in the Company's Organizational Regulations currently in force.

Most important aspects related to the internal controls and risk management with respect to the process of drawing up the financial statements and the consolidated financial statements

Supervision over the application of consistent (uniform) accounting rules by TAURON Capital Group's subsidiaries when developing reporting packages for the purpose of drawing up TAURON Capital Group's consolidated financial statements

In order to ensure consistent accounting principles based on International Financial Reporting Standards (IFRS), approved by the European Union, the *Accounting Policy of TAURON Polska Energia S.A. Capital Group* (Accounting Policy) was developed and implemented by TAURON Capital Group. This document shall be accordingly updated in case there are changes to the regulations. The rules defined in the Accounting Policy shall be applicable to TAURON's standalone financial statements and TAURON Capital Group's consolidated financial statements. TAURON Capital Group's subsidiaries shall be obligated to apply the Accounting Policy when preparing the reporting packages that provide the basis for preparing TAURON Capital Group's consolidated financial statements.

In addition, TAURON Capital Group developed and implemented an intra-group regulation that comprehensively regulates issues related to the rules and deadlines for preparing the reporting packages for the purpose of consolidated financial statements. The reporting packages shall be validated by the holding company's Consolidation and Reporting Team and by an independent certified auditor during an audit or review of TAURON Capital Group's consolidated financial statements.

Procedures used to authorize and provide opinions on the Company's financial statements and TAURON Capital Group's consolidated financial statements.

The Company has implemented financial statements' authorization procedures. Quarterly, half year and full year financial statements of the Company and TAURON Capital Group's consolidated financial statements shall be approved by the Company's Management Board before being published. Full year financial statements of TAURON and TAURON Capital Group's consolidated financial statements shall be additionally presented for evaluation to the Company's Supervisory Board before being published. The Company's Vice President of the Management Board for Finance (Chief Financial Officer) shall oversee the preparation of financial statements, while the Management Boards of the subsidiaries included in the consolidation shall be responsible for preparing the reporting packages for TAURON Capital Group's consolidated financial statements.

The Supervisory Board's structure includes the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.

The detailed information on the composition, competences and description of the operations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. is presented in section 9.11. of this report.

IT systems as well as financial and accounting processes

TAURON Capital Group's subsidiaries maintain accounting books (ledgers) which constitute the basis for preparing financial statements using ERP grade financial and accounting computer systems, enabling system audits of the correctness of the document flow and classifying of the business events. Consolidated financial statements are prepared using an IT tool used to consolidate financial statements, providing system control with respect to the consistency (integrity) and timeliness of preparing the consolidation data.

TAURON Capital Group's subsidiaries have implemented IT and organizational solutions that provide control of access to the financial and accounting system and ensure adequate protection and archiving of the accounting books. Access to IT systems is restricted based on applicable access rights assigned to authorized personnel. Control mechanisms are applied in the process of granting and changing access rights to the financial and accounting systems. The rights granted are also subject to periodic verification.

The accounting functions at TAURON Group's subsidiaries are to a significant degree integrated - TAURON Capital Group's material subsidiaries' financial and accounting services are performed by CUW-R (Shared Services Center – Accounting) and as a result of that TAURON Capital Group's financial and accounting processes are to a large degree unified. The subsidiaries adjusted their own procedures to the flow of the financial and accounting processes, taking into account the specifics of the individual segments. In 2022, as part of the implementation of the government's program of Poland's electricity sector's transition, which envisages the spinning off of the coal assets from power companies that the State Treasury is a shareholder of to the National Energy Security Agency, the reorganization works were carried out to integrate the assets intended to be spun off into a single entity (i.e. TAURON Wytwarzanie S.A. subsidiary), which also included the transfer of the accounting services for the assets to be spun off to TAURON Wytwarzanie S.A.

TAURON Capital Group's Business Model clearly distributes responsibilities with respect to the financial and accounting processes between the Company (indicated as the Corporate Centre) and the subsidiaries and CUW R, indicating that the Corporate Centre is the owner of processes associated with accounting and reporting of TAURON Capital Group. With respect to the tasks of the Corporate Centre, strategic functions associated with the development of the model of operations and standards of TAURON Capital Group were indicated in the area of accounting and supervision of the implementation of standards in the accounting area in the subsidiaries and CUW R. Moreover, it was indicated that the Company as the Corporate Centre is responsible for drawing up the Company's financial statements and the consolidated financial statements of TAURON Capital Group. A clear split of responsibilities and strong emphasis on the fulfillment of the supervisory functions by the Corporate Centre in relation to CUW R and the subsidiaries is, inter alia, aimed at improving the process of preparing the financial statements.

Subjecting the Company's financial statements and TAURON Capital Group's consolidated financial statements to an audit and reviews by an independent certified auditor

The Company's full year financial statements and TAURON Capital Group's full year consolidated financial statements are subject to an audit by a certified auditor. In November 2021, the Company selected an entity authorized to audit and review the financial statements as well as the consolidated financial statements of the Company and to audit the financial statements of selected TAURON Capital Group's subsidiaries. The contract with the entity authorized to audit financial statements was concluded for the audit of the financial statements and the consolidated financial statements for the years 2022-2024, as well as for the review (audit) of the interim financial statements and the interim consolidated financial statements for the 6-month periods ending on June 30, 2022, June 30, 2023 and June 30, 2024.

The rule related to changing the audit firm of the Company and TAURON Capital Group

The Company has in place the *Policy for selecting an audit firm to conduct an audit and review of the financial statements and the consolidated financial statements of TAURON Polska Energia S.A.*, adopted by the Audit Committee of the Company's Supervisory Board, which includes the following rule:

1. maximum duration of continuous audit engagements (mandates) carried out by the same audit company or an entity related to that audit company or any member of the network operating in the EU countries that such audit companies are members of, shall not exceed 10 years,
2. after the 10-year duration of the mandate (engagement) neither the audit company, nor any member of its network operating within the European Union shall conduct an audit of the Company for the subsequent 4 years,
3. a key certified auditor shall not conduct an audit of the Company for a period longer than 5 years,
4. a key certified auditor may again conduct an audit of the Company after at least 3 years have elapsed from the completion of the last audit.

9.4. Shareholders holding substantial blocks of shares

The below table presents shareholders holding, as of December 31, 2021, and as of the date of drawing up this report, directly or indirectly via subsidiaries, substantial blocks of the Company's shares.

Table no. 53. Shareholders holding, directly or indirectly, substantial blocks of shares as of December 31, 2022, and as of the date of drawing up this report

| Shareholders | Number of shares held | Percentage share in share capital | Number of votes held | Percentage share in the total number of votes |
|---|-----------------------|-----------------------------------|----------------------|---|
| 1. State Treasury | 526 848 384 | 30.06% | 526 848 384 | 30.06% |
| 2. KGHM Polska Miedź (Polish Copper) | 182 110 566 | 10.39% | 182 110 566 | 10.39% |
| 3. Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open Pension Fund) | 88 742 929 | 5.06% | 88 742 929 | 5.06% |

There had been no changes in the holdings of the substantial blocks of TAURON shares in 2022.

9.5. Holders of securities providing special control rights

The Company did not issue securities that would grant special control rights with respect to the Company.

9.6. Restrictions on exercising the voting right

Restrictions on exercising the right to vote are included in § 10 of the Company's Articles of Association which are available on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/dokumenty-spolki>.

The above mentioned restrictions on exercising the voting right are formulated in the following way:

1. The voting right of shareholders holding over 10% of total votes in the company shall be limited so that none of them can exercise more than 10% of the total votes in the company at the General Meeting of Shareholders.
2. The restriction on exercising the voting right mentioned in clause 1 above shall not apply to the State Treasury and entities controlled thereby in the period during which the State Treasury, together with entities controlled thereby, hold a number of the company's shares that entitle them to exercise at least 25% of the total votes in the company.
3. Votes of shareholders who have a parent / subsidiary relationship within the meaning of § 10 of the Articles of Association (Shareholder Cluster) shall be aggregated; in case the aggregate number of their votes exceeds 10% of total votes in the company it shall be subject to reduction. Rules of votes' aggregation and reduction are defined in clauses 6 and 7 below.
4. A shareholder, within the meaning of § 10 of the Articles of Associations, shall be any party (entity, person), including its parent and subsidiary company, entitled directly or indirectly to a voting right at the General Meeting of Shareholders on the basis of any legal title; it shall also be applicable to a party (entity, person) that does not hold the company's shares, and in particular to a user, lien holder, party (entity, person) entitled on the basis of a depositary receipt under regulations of the Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies, as well as a party (entity, person) entitled to take part in the General Meeting of Shareholders in spite of disposing of its shares after the date of establishing (registering) the right to take part in the General Meeting of Shareholders.
5. A parent company and subsidiary company, for the purposes of § 10 of the Company's Articles of Association, shall be understood, accordingly, as a party (entity, person):
 - 1) with a status of a controlling undertaking, controlled undertaking or, at the same time, both the status of a controlling undertaking and controlled undertaking in the understanding of the *Act of February 16, 2007, on the protection of competition and consumers*, or
 - 2) with a status of a parent company, higher level parent company, subsidiary company, lower level subsidiary company, co-controlled company or one that has both the status of a parent company (including a higher level parent company) and the status of a subsidiary (including a lower level subsidiary company and a co-controlled company) in the understanding of the *Act of September 29, 1994 on accounting*, or
 - 3) which has (parent company) or one which is under (subsidiary company) controlling influence in the understanding of the *Act of September 22, 2006, on transparency of financial relationships between public bodies and public undertakings and on financial transparency of some undertakings*, or
 - 4) whose votes due to the company's shares owned directly or indirectly are subject to aggregation with votes of another party (entity, person) or other parties (entities, persons) on conditions defined in the *Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies* in connection with holding, disposing of or acquiring substantial blocks of the Company's shares.
6. Aggregation of votes is based on totaling the number of votes held by individual shareholders that are members of the Shareholders' Cluster
7. Reduction of the votes involves decreasing the total number of votes in the Company that shareholders that are members of the Shareholders' Cluster, are entitled to exercise at the General Meeting of Shareholders to the level of 10% of total votes in the Company. Reduction of the votes shall take place in accordance with the following rules:
 - 1) number of votes of a shareholder who holds the largest number of votes in the company among all shareholders that are members of the Shareholders' Cluster shall be reduced by a number of votes equal to a surplus above 10% of total votes in the company held by all shareholders that are members of the Shareholders' Cluster,
 - 2) if, despite the reduction mentioned in 1) above, the total number of votes that shareholders that are members of the Shareholders' Cluster are entitled to exceeds 10% of the total votes in the company, a further reduction of votes held by other shareholders that are members of the Shareholders' Cluster shall be made. The further reduction of individual shareholders' votes shall take place in an order established on the basis of the number of votes that individual shareholders that are members of the Shareholders' Cluster hold (from the highest to the lowest one). The further reduction shall take place until the total number of votes held by shareholders that are members of the Shareholders' Cluster does not exceed 10% of the total votes in the Company,
 - 3) in any case a shareholder whose voting rights have been reduced shall have the right to exercise at least one vote,
 - 4) restriction on exercising the voting right shall also apply to a shareholder absent at the General Meeting of Shareholders.

8. Each shareholder who is going to take part in the General Meeting of Shareholders, in person or through a proxy, shall be obliged to, without a separate notice mentioned in clause 9 below, notify the Management Board or the Chairperson of the General Meeting of Shareholders that she/he holds, directly or indirectly, more than 10% of the total votes in the Company.
9. Notwithstanding the provisions of clause 8 above, in order to establish the basis for aggregating and reducing the votes, a Company's shareholder, Management Board, Supervisory Board and individual members of such bodies shall have the right to demand that a shareholder of the Company provide information whether she/he is a party (entity, person) having the status of a parent or subsidiary company towards another shareholder in the understanding of § 10 of the Company's Articles of Association. The entitlement mentioned in the preceding sentence shall also include the right to demand the revealing of the number of votes that the company's shareholder holds on its own or jointly with other shareholders of the Company.
10. A party (entity, person) that has failed to fulfill or has fulfilled the information obligation mentioned in clauses 8 and 9 above improperly, shall, until the failure to fulfill the information obligation has been remedied, be able to exercise its voting right with respect to one share only; exercising voting rights with respect to other shares by such party (entity, person) shall be null and void.

9.7. Restrictions on the transfer of the ownership right to securities

As of December 31, 2022, and as of the date of drawing up this report the Company's Articles of Association do not envisage restrictions on the transfer of the ownership right to the Company's securities.

However, in accordance with the *Act of July 24, 2015 on the control of certain investments* (Journal of Laws of 2022, item 1137), an entity intending to purchase or achieve a material shareholding or purchase the dominating control over TAURON, which is, in accordance with the *Regulation of the Council of Ministers of December 16, 2022, on the list of entities subject to protection and their competent control bodies* (Journal of Laws of 2022, item 2838), an entity subject to protection, shall, each time, be obligated to submit a notification to the control body – the competent Minister of the State Assets of its intention to do so, unless such obligation rests on other entities.

9.8. Rules on appointing and dismissing the Members of the Management Board and of the Supervisory Board of TAURON Polska Energia S.A., and the empowerments thereof

Management Board of TAURON Polska Energia S.A.

Rules on appointing and dismissing the Members of the Company's Management Board

The Management Board of the Company shall be composed of 1 to 6 persons, including the President and Vice Presidents. The Members of the Management Board shall be appointed and dismissed by the Company's Supervisory Board for a common term of office lasting 3 years, except for the 1st term that lasted 2 years. The term of office of a Member of the Management Board shall expire, at the latest, as of the date of the General Meeting which approves the financial statements for the last full financial year of the Member of the Management Board's term of office. In accordance with the Company's Articles of Association, each of the Members of the Management Board can be dismissed or suspended from office by the Company's Supervisory Board or the General Meeting of the Company.

In order to recruit a person with whom an agreement for providing the management services at the Company will be concluded, the Company's Supervisory Board shall announce a competition and conduct a recruitment procedure for the position of the President or Vice President aimed at verifying and assessing the candidates' qualifications and selecting the best candidate. A candidate for a Member of the Company's Management Board must meet the requirements set forth in § 16, clauses 3 and 4 of the Company's Articles of Association. The announcement of the recruitment process is published on the Company's web site at the address: <https://www.tauron.pl> and in the Public Information Bulletin of the Minister competent to exercise the rights related to the State Treasury's shares. The Company notifies the shareholders of the results of the recruitment procedure.

Supervisory Board of TAURON Polska Energia S.A.

Rules on appointing and dismissing the Members of the Company's Supervisory Board

The Supervisory Board of the Company shall be composed of 5 to 9 persons, appointed for a common term of office lasting 3 years, except for the first term that lasted 1 year. The term of office of a Member of the Supervisory Board shall expire, at the latest, as of the date of the General Meeting which approves the financial statements for the last full financial year of the Member of the Supervisory Board's term of office. In accordance with the Company's Articles of Association, the Members of the Company's Supervisory Board shall be appointed and dismissed by the General Meeting, subject to the following:

1. during the time when the State Treasury, together with the State Treasury controlled entities within the meaning of § 10, clause 5 of Company's Articles of Association, hold a number of the Company's shares that entitle them to exercise at least 25% of the total votes in the Company, the State Treasury shall be entitled to appoint and

dismiss Members of the Company's Supervisory Board in the number equal to half of the maximum number of members of the Company's Supervisory Board defined in the Company's Articles of Association (in case such number is not integral it shall be rounded down to an integral number, for example 4.5 shall be rounded down to 4) and increased by 1, provided that the State Treasury:

- 1) shall be obliged to vote at the General Meeting of Shareholders on establishing the number of Members of the Company's Supervisory Board that would correspond to the maximum number of Members of the Company's Supervisory Board defined in the Company's Articles of Association in case such a motion is submitted to the Company's Management Board by a shareholder or shareholders who hold a number of votes that entitle them to exercise at least 5% of the total number of votes in the Company,
- 2) shall be excluded from the voting at the General Meeting of Shareholders on appointing and dismissing of the other members of the Company's Supervisory Board, including independent members of the Company's Supervisory Board; this shall not, however, apply to the case when the Company's Supervisory Board cannot act due to its membership being smaller than required by the Company's Articles of Association, and the shareholders present at the General Meeting of Shareholders, other than the State Treasury, do not supplement the membership of the Company's Supervisory Board in accordance with the distribution of seats in the Company's Supervisory Board defined in this section,
2. during the time when the State Treasury, together with the State Treasury controlled entities within the meaning of § 10, clause 5 of the Company's Articles of Association, hold a number of the Company's shares that entitle them to exercise less than 25% of the total number of votes in the Company, the State Treasury, represented by the minister competent to exercise the rights related to the State Treasury's shares, shall be entitled to appoint and dismiss one member of the Company's Supervisory Board,
3. appointing and dismissing members of the Company's Supervisory Board by the State Treasury pursuant to the above mentioned clause 1 or 2 shall take place by means of a statement submitted to the Company.

In accordance with the Company's Articles of Association at least two members of the Company's Supervisory Board shall meet the criteria of independence listed in the *Act of May 11, 2017 on certified auditors, audit firms and public oversight*, and shall not to have the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company.

Independent Members of the Company's Supervisory Board shall submit to the Company, prior to their appointment as members of the Company's Supervisory Board, a written statement on the compliance with the independence criteria.

The detailed information on the independence of the Members of the Company's Supervisory Board is presented in section 9.11. of this report.

9.9. Procedure of amending TAURON Polska Energia S.A.'s Articles of Association

Amendments to the Company's Articles of Association shall be made in accordance with the provisions of the Code of Commercial Companies, in particular: an amendment to the Company's Articles of Association shall take place by way of a resolution of the GM, passed by the majority of three fourths of the votes, and shall, subsequently, require issuing of a decision by a competent court on entering the amendment into the register of entrepreneurs (business register). The consolidated text of the Company's Articles of Association, including the amendments passed by the General Meeting, shall be adopted by the Supervisory Board of the Company by way of a resolution.

In accordance with the Company's Articles of Association, a material amendment to the subject of the Company's operations shall require the majority of two thirds of the votes in the presence of persons representing at least half of the share capital.

Information on the amendment of the Company's Articles of Association in 2022.

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

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

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

9.10. General Meeting of TAURON Polska Energia S.A. and the shareholders' rights

General Meeting of TAURON Polska Energia S.A.

The Company's General Meeting of Shareholders' procedures and its empowerments are defined in the Company's Articles of Association and in the *Regulations of the General Meeting of the Shareholders of TAURON Polska Energia S.A.* (GM Regulations) which are available on the Company's website at the address: <http://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/dokumenty-spolki>.

Procedures of the General Meeting of the Company

General Meeting (GM) shall be convened by way of a notice published on the Company's website and in a manner defined for providing the current information (regulatory filings) by the public companies. In case the General Meeting (GM) is convened by an entity or a body other than the Management Board pursuant to the regulations of the Code of Commercial Companies, as convening a General Meeting requires the Management Board's cooperation, the Management Board shall be obliged to perform any activities required by law in order to convene, organize and conduct the General Meetings (GMs) that take place either at the Company's registered office or in Warsaw.

General Meeting shall be opened by the Chairperson of the Company's Supervisory Board, and in case he/she is absent, the following persons shall be entitled to open the General Meeting in the given order: Vice Chairperson of the Company's Supervisory Board, President of the Company's Management Board, a person designated by the Company's Management Board or the shareholder who registered at the General Meeting such a number of shares that grant the right to exercise the highest number of votes. Subsequently, the chairperson of the General Meeting shall be elected from among the persons entitled to participate in the General Meeting.

General Meeting shall pass resolutions irrespective of the number of shares represented at the General Meeting, unless the regulations of the Code of Commercial Companies, as well as the provisions of the Company's Articles of Association state otherwise.

A General Meeting may order a break in the meeting by the majority of two thirds of the votes. The breaks shall not last longer than 30 days in total. A break in the GM session may take place only in exceptional situations, every time indicated on a case-by-case basis in the justification to the resolution, prepared based on the reasons presented by a shareholder requesting the break to be ordered. A GM resolution related to the ordering of a break shall clearly indicate the date (time) of the resumption of the session, however, such a date (time) must not create a barrier for the participation of the majority of the shareholders in the resumed meeting, including the minority shareholders.

Competence of the General Meeting of the Company

In accordance with the Company's Articles of Association the matters listed in the below table shall require a resolution of the General Meeting (GM) of the Company as of December 31, 2022, and as of the date of drawing up this report.

Table no. 54. Competence of the General Meeting of the Company as of December 31, 2022, and as of the date of drawing up this report

| Matters that require a resolution of the General Meeting of the Company | |
|---|--|
| 1. | reviewing and approving the financial statements of the Company and the consolidated financial statements of the Capital Group for the previous financial year as well as the Management Board's report on the Company's operations (Directors' Report) and the Management Board's report on the operations of the Capital Group |
| 2. | granting the acknowledgement of the fulfillment of the duties to the members of the Company's corporate bodies (authorities), |
| 3. | distribution of the profit and covering of the loss, |
| 4. | appointing and dismissing the Members of the Company's Supervisory Board, |
| 5. | suspending the Members of the Company's Management Board in the performance of their duties, |
| 6. | establishing the amount of compensation for the Members of the Company's Supervisory Board, subject to § 29, clause 4 of the Company's Articles of Association, |
| 7. | establishing the principles of determining compensation and the amount of compensation of the Members of the Company's Management Board taking into account the provisions of the <i>Act of June 9, 2016, on the principles of determining compensation of the management personnel of certain companies</i> , |
| 8. | adopting, not less often than every four years, the compensation policy for the Members of the Management Board and the Supervisory Board of the Company, taking into account the requirements of the <i>Act of July 29, 2005, on the public offering and the conditions for introducing financial instruments to an organized trading system and on public companies</i> , |
| 9. | selling and leasing out the Company's enterprise or its organized part as well as establishing a limited pledge (property right) thereupon, |
| 10. | concluding a credit, loan, surety agreement or any other similar agreement by the Company with a member of the Management Board, Supervisory Board, proxy, liquidator (receiver) or for the benefit of any such person. Concluding a credit, loan, surety or any other similar agreement by a subsidiary with a member of the Management Board, Supervisory Board, proxy, liquidator (receiver) or for the benefit of any such person, |
| 11. | increasing and decreasing the Company's share capital, |
| 12. | issuing convertible bonds or senior bonds as well as registered securities or bearer securities entitling the holder thereof to subscribe or take up the shares, |
| 13. | purchasing (buyback) of own shares in the cases required by the regulations of the Code of Commercial Companies, |
| 14. | mandatory buyback of shares (squeeze-out) in accordance with the provisions of art. 418 of the Code of Commercial Companies, |

Matters that require a resolution of the General Meeting of the Company

15. setting up, using and liquidating reserve capitals,
16. using supplementary capital,
17. provisions related to the claims to repair damage caused while establishing the Company or performing the management or supervision functions,
18. merger, transformation and division of the Company,
19. redemptions (retirements) of the shares,
20. amendment to the Company's Articles of Association and change of the subject of the Company's operations,
21. dissolving and liquidating the Company.
22. providing an opinion on the report on the compensation of the Members of the Management Board and the Supervisory Board, referred to in § 20, clause 1, item 19 of the Company's Articles of Association,
23. approving of the report on the activities of the Supervisory Board, referred to in § 20, clause 1, item 4 of the Company's Articles of Association.

In accordance with the provisions of the Code of Commercial Companies the decision on the issue and repurchase of the shares shall be included within the competence of the General Meeting.

General Meeting of the Company in 2022

The General Meeting of the Company was held two times in 2022.

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

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

Shareholders' rights and the manner of exercising thereof

The below table presents the description of the Company's shareholders' rights related to the General Meeting in accordance with the Company's Articles of Association, Code of Commercial Companies and the Regulations of the General Meeting.

Table no. 55. Description of the Company's shareholders' rights related to the General Meeting of the Company

| Shareholders' rights | Description of shareholders' rights |
|--|---|
| 1 Convene a General Meeting (GM) | Shareholders representing at least 1/20 of the share capital, may request convening of an Extraordinary General Meeting. Such a request should include a concise justification. It may be submitted to the Company's Management Board in writing or in an electronic form, to the Company's e-mail address, provided by the Company on its website under the <i>Investor Relations</i> tab. Shareholders representing at least a half of the share capital or at least half of all of the votes in the Company may convene an Extraordinary General Meeting (GM) and appoint a chairperson of such General Meeting. |
| 2 Include matters (items) in the agenda of the General Meeting | Shareholders representing at least 1/20 of the share capital, may request that certain matters (items) be included in the agenda of the forthcoming General Meeting. Such a request, including a justification or a draft resolution related to the proposed item of the agenda, should be submitted to the Company's Management Board not later than 21 days prior to the set date of the General Meeting in electronic form to the Company's e-mail address or in writing to the Company's address. |
| 3 Become acquainted with the list of shareholders | Shareholders may become acquainted with the shareholders' list at the Company's Management Board's seat for 3 weekdays preceding directly the General Meeting's date. Shareholders may also request that the list of shareholders be sent to them free of charge to the address for electronic deliveries or by electronic mail, providing the address to which the list should be sent. |
| 4 Participate in the General Meeting | Only persons who are the Shareholders 16 days before the date of the General Meeting (date of registering to participate in the General Meeting) shall have the right to take part in the General Meeting. In order to participate in the General Meeting the shareholders should submit a request to issue a name bearing affidavit on the right to take part in the General Meeting to an investment |

| Shareholders' rights | Description of shareholders' rights |
|--|---|
| | (brokerage) company maintaining their securities account. Such a request should be submitted not earlier than following the announcement (notice) on the convening of the General Meeting and not later than on the first weekday following the day of registering to participate in the General Meeting. |
| 5 Represent a shareholder by a proxy (power of attorney) | Shareholders may take part in the General Meeting as well as exercise the voting right in person or through a proxy (power of attorney). Shares' co-owners may take part in the General Meeting and exercise the voting right only through a joint representative (proxy). A proxy (power of attorney) may represent more than one shareholder and vote differently based on the shares of each shareholder. |
| 6 Elect the Chairperson of the General Meeting | Shareholders shall elect the Chairperson of the General Meeting from among the persons entitled to take part in the General Meeting. Each of the participants of the General Meeting shall have the right to propose one candidate. The Chairperson shall be elected by a secret ballot, by an absolute majority of the votes. In case there is just one candidate for the Chairperson, the election can take place by acclamation. |
| 7 Elect the Returning Committee | Each shareholder may propose no more than 3 candidates for the members of the Returning Committee to be elected by the General Meeting, and vote for maximum 3 candidates. |
| 8 Submit a draft resolution | During the General Meeting shareholders shall have the right, until the discussion on a certain item of the agenda is closed, to submit a proposal of changes to the content of a draft resolution proposed for adoption by the General Meeting, as part of the given item of the agenda. |
| 9 Raise an objection | Shareholders who have voted against a resolution and, after the General Meeting has adopted it, want to raise their objection, should, immediately after the results of the voting have been announced, raise their objection and request it be included in the minutes of the meetings before proceeding to the next item of the agenda. In case such an objection is raised later, which however shall not take place later than by the time the General Meeting is closed, the shareholders shall indicate against which resolution passed by the General Meeting they are raising their objection. The shareholders raising their objection against a resolution of the General Meeting may request their concise justification of the objection be recorded in the minutes of the meeting. |

9.11. Management Board and Supervisory Board of TAURON Polska Energia S.A. and the committees thereof

Management Board of TAURON Polska Energia S.A.

The current, sixth term of office of the Company's Management Board began its run on July 15, 2020.

In accordance with the Company's Articles of Association the common term of office shall last 3 financial years.

The Management Board of the Company held a total of 53 meetings and passed 501 resolutions during the period covered by this report.

The composition of the Company's Management Board as of December 31, 2022, and as of the date of drawing up this report

1. Paweł Szczeszek - President of the Management Board (CEO),
2. Patryk Demski - Vice President of the Management Board for Strategy and Development,
3. Bogusław Rybacki - Vice President of the Management Board for Asset Management,
4. Krzysztof Surma - Vice President of the Management Board for Finance (CFO),
5. Tomasz Szczegiński - Vice President of the Management Board for Trading,
6. Artur Warzocha - Vice President of the Management Board for Corporate Affairs.

The changes to the composition of the Company's Management Board in 2022 and by the date of drawing up this report

As of January 1, 2022, the Company's Management Board was composed of the following persons: Artur Michałowski (Vice President of the Management Board for Trading and acting as the President of the Management Board), Patryk Demski (Vice President of the Management Board for Strategy and Development), Krzysztof Surma (Vice President of the Management Board for Finance) and Jerzy Topolski (Vice President of the Management Board for Asset Management).

On January 20, 2022, the Company's Supervisory Board appointed Artur Warzocha to be a member of the Company's Management Board, effective as of January 21, 2022, entrusting him with the function of the Vice President of the Management Board for Corporate Affairs.

On April 8, 2022, the Company's Supervisory Board appointed Paweł Szczeszek to be a member of the Company's Management Board, effective as of April 11, 2022, entrusting him with the function of the President of the Management Board.

On August 12, 2022, the Company's Supervisory Board dismissed Artur Michałowski and Jerzy Topolski from the Company's Management Board, effective as of the end of the day on August 12, 2022.

On September 5, 2022, the Company's Supervisory Board appointed Tomasz Szczegieliński to be a member of the Company's Management Board, effective as of September 6, 2022, entrusting him with the position of the Vice President of the Management Board for Trading. On the same day, the Company's Supervisory Board appointed Bogusław Rybacki to be a member of the Company's Management Board, effective as of September 9, 2022, entrusting him with the position of the Vice President for Asset Management.

There had been no other changes to the composition of the Company's Management Board by the date of drawing up this report.

Experience and competences of the Members of the Company's Management Board who continue to hold their positions in the Company's Management Board as of the date of drawing up this report

Paweł Szczeszek – President of the Management Board



A graduate of the Faculty of Mechanical Engineering and Computer Science and the Faculty of Management of the Częstochowa University of Technology.

From June 30, 2020, to April 10, 2022, Paweł Szczeszek had been the President of the Management Board of Enea S.A. In the period from December 2018 to June 2020 he had been the President of the Management Board of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.

In the years 2017-2018 Paweł Szczeszek had held the position of the Vice President of the Management Board of PGNiG TERMIKA Energetyka Przemysłowa S.A., and in the years 2016-2017 he had been the President of the Management Board of Przedsiębiorstwo Energetyki Ciepłej PEC S.A. in Jastrzębie-Zdrój.

Paweł Szczeszek was a member of the Supervisory Boards of the following companies: Górnośląskie Towarzystwo Lotnicze S.A., Jelcz Sp. z o.o., Przedsiębiorstwo Energetyki Ciepłej – Geotermia Podhalańska S.A., Radomskie Przedsiębiorstwo Energetyki Ciepłej "RADPEC" S.A., Wojewódzkie Przedsiębiorstwo Robót Drogowych w Katowicach Sp. z o.o., Agencja Rozwoju Regionalnego w Częstochowie S.A.

Patryk Demski – Vice President of the Management Board for Strategy and Development



A graduate of the Faculty of Law at the Nicolaus Copernicus University (Uniwersytet Mikołaja Kopernika) in Toruń, Executive Master of Business Administration studies at the University of Commerce and Services (Wyższa Szkoła Handlu i Usług) in Poznań and postgraduate studies in Tax Law at the Nicolaus Copernicus University (Uniwersytet Mikołaja Kopernika) in Toruń

In the years 2020-2021 Patryk Demski had been a Member of the Management Board of Centralny Port Komunikacyjny Sp. z o.o., and from February 2020 to April 2020 he had been the Chair of the Supervisory Board of Centralny Port Komunikacyjny Sp. z o.o. In 2018-2019, he had held the position of the Vice President of the Management Board for Investments and Innovation of Grupa Lotos S.A. He had also been the Mayor of the City and Municipality of Pelplin (2014-2018), Deputy Director of the Branch / acting Branch Director / Chief Specialist at the Agricultural Real Estate Agency (Agencja Nieruchomości Rolnych) in Gdańsk (2006-2014). In 2006, he had been the Deputy Director of the Cabinet of the Pomeranian Province Governor.

Bogusław Rybacki – Vice President of the Management Board for Asset Management



A graduate of the Faculty of Mechanical Engineering of the Wrocław University of Science and Technology. He also completed several postgraduate courses in the following fields: enterprise management in the context of European integration at the SGH Warsaw School of Economics, economic issues of the power sector transformation at the SGH Warsaw School of Economics, management of business entities at the University of Wrocław, economic analysis and assessment of business organizations at the Wrocław University of Economics and Business, nuclear power plants at the Poznań University of Technology.

From July 2020 to September 2022, Bogusław Rybacki had held the position of the President of the Management Board of Enea Elektrownia Połaniec S.A.

From 1982 to 2020 Bogusław Rybacki had worked at Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A., where he held a number of management positions, including: Director of Elektrociepłownia Czechnica, Trade and Development Director, Production Director's Deputy, Director of Economic and Trade Affairs.

In 2009 Bogusław Rybacki had held the position of the President of the Management Board of TermHydral sp. z o.o. – a subsidiary of Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.

Krzysztof Surma – Vice President of the Management Board for Finance (CFO)



A graduate of the Cracow University of Economics (Akademia Ekonomiczna w Krakowie), with the major in finance and banking, specialization: corporate finance. He also completed the Master of Business Administration studies for Financiers at Kozminski University (Akademia Leona Koźmińskiego), postgraduate studies in the Practical Application of International Financial Reporting Standards at the Warsaw School of Economics (Szkoła Główna Handlowa w Warszawie) and the Manager Development Program organized by the ICAN Institute. He is a member of the Association of Chartered Certified Accountants (ACCA). Krzysztof Surma has been associated with TAURON since 2009, holding the position of the Executive Director for Finance Management, and from May 2021 to August 4, 2021, he had been the Director of the Finance Division. While performing the above functions within the Issuer's Group, he was holding, among others, the following positions: Vice President of the Management Board of TEC1, TEC2, TEC3 (2019), President of the Management Board of Finance Grupa TAURON sp. z o.o. (2019), President of the Management Board of PKE Broker Sp. z o.o. (2008-2009), General Director of TAURON Sweden Energy AB (2014-2019).

In the years 2001-2009 he had worked at Południowy Koncern Energetyczny S.A., including, among others, as the Head of the Risk and Insurance Department (2005-2009).

Tomasz Szczegieliak – Vice President of the Management Board for Trading



A graduate of the Faculty of Law and Administration of the University of Lodz. He also completed Executive Master of Business Administration course at the Warsaw Management University/ Fachhochschule Des Mittelstands (FHM) and postgraduate course in the field of financial and economic law at the University of Lodz.

From August 2020 to June 2022 he had been the Vice President of the Management Board for Corporate Affairs at Enea S.A.

From November 2019 to June 2020 he had been an undersecretary of state at the Ministry of State Assets and also a member of the Standing Committee of the Council of Ministers.

From July to November 2019 he had been an undersecretary of state at the Chancellery of the Prime Minister. During that period he had also been a secretary of the Council of Ministers, a deputy chair of the Standing Committee of the Council of Ministers and a member of the Social Committee of the Council of Ministers.

He had worked at the Chancellery of the President of the Republic of Poland and had held management positions in self-government administration. He had gained his experience also in the Polish Chamber of Liquid Fuels, Chancellery of the Sejm of the Republic of Poland and the Patent Office of the Republic of Poland.

Mr. Tomasz Szczegieliak had been a member of the Supervisory Boards of Enea Trading Sp. z o.o. and Grupa Azoty ZAK S.A.

Artur Warzocha – Vice President of the Management Board for Corporate Affairs



A graduate of the College of Education (currently Jan Długosz University) in Częstochowa and the postgraduate studies in the European financial, economic and legal relations at the SGH Warsaw School of Economics.

From September 2020 to January 2022 Artur Warzocha had been the President of the Management Board of TAURON Nowe Technologie S.A. (TAURON's wholly owned subsidiary), where he supervised strategic projects related to the cogeneration, renewable energy sources and electromobility. From November 2019 to September 2020 he had been the Vice President of the Agricultural Social Insurance Fund. In the years 2015-2019 he had been a senator of the Republic of Poland of the 9th term of office. In the years 2008-2015 he had worked at the Supreme Audit Office where he had been the chief state audit expert. From 2010 to 2014 he had held a councilor's seat in the Silesian Regional Assembly of the 4th term of office. From 2008 to 2016 he had been a research assistant at the Institute of Political Sciences and National Security at the Jan Długosz University in Czestochowa. From 2006 to 2007 he had been the 1st Vice Governor of the Silesia province.

In addition, he had been, inter alia, the deputy director at the Agricultural Advisory Center in Częstochowa, a political assistant to the Head of the Chancellery of the Prime Minister, a town councilor in Częstochowa, the press spokesman for the Governor of the Częstochowa province and a journalist.

Description of the procedures of the Company's Management Board

The Management Board of the Company shall act on the basis of the Code of Commercial Companies and other legal regulations, the provisions of the Company's Articles of Association and the provisions of the *Regulations of*

the Management Board of TAURON Polska Energia Spółka Akcyjna with its registered office in Katowice which are available on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/dokumenty-spolki>. When performing their duties the Members of the Company's Management Board shall be acting in accordance with the principles provided in the Best Practice 2021.

Two Members of the Management Board or one Member of the Management Board together with a proxy shall be entitled to make valid statements on behalf of the Company. In case the Management Board includes one person, one Member of the Management Board or a proxy shall be entitled to make valid statements on behalf of the Company.

The meetings of the Management Board shall be convened by the President of the Management Board or a Vice President of the Management Board designated thereby. The meetings of the Management Board shall also be convened on the motion of the majority of the Vice Presidents of the Management Board as well as on the motion of the Chairperson of the Supervisory Board. The meetings shall be held at the Company's registered office on the date set by the person that has convened the meeting. In justified cases the meetings of the Management Board may be held outside the Company's registered office. The President of the Management Board or a Vice President of the Management Board designated thereby shall chair the meetings of the Management Board

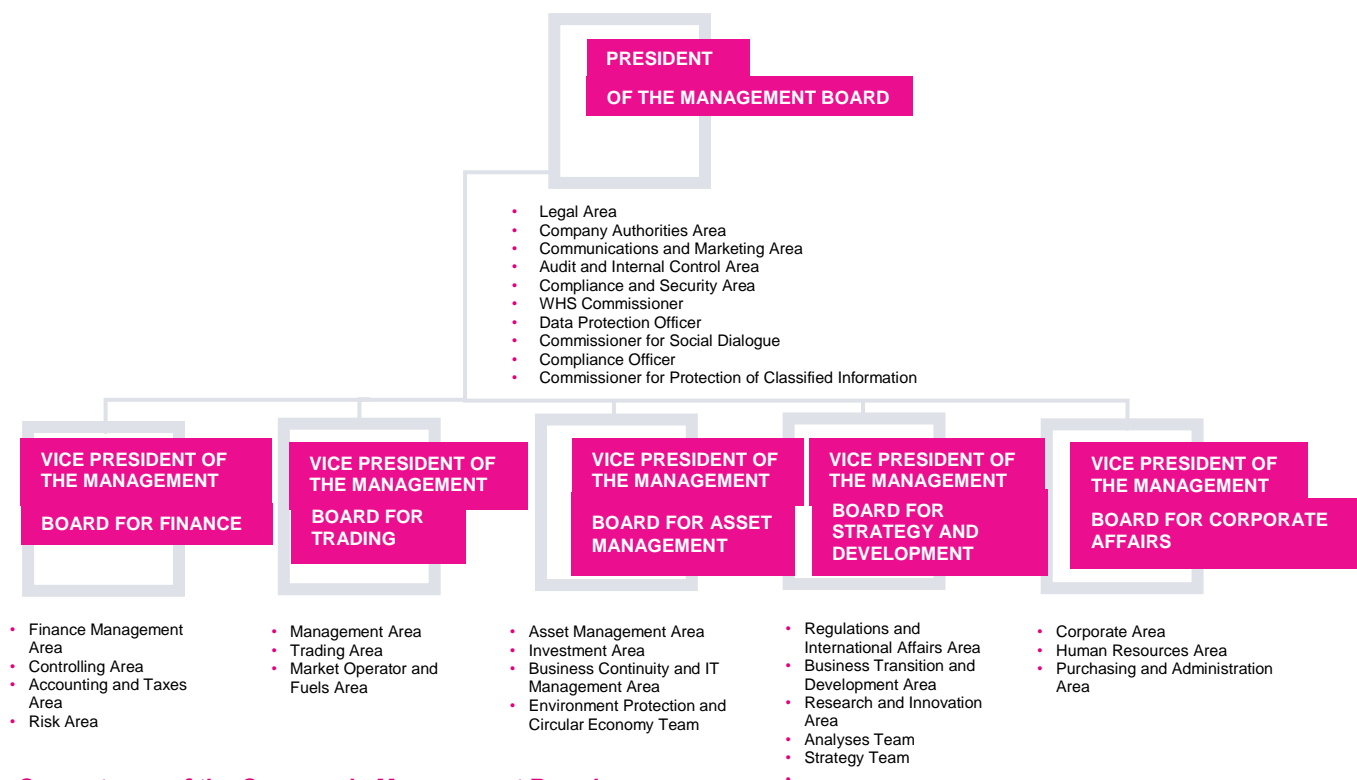
The Management Board shall vote in an open ballot, unless otherwise provided for in the legal regulations. The result of the ballot shall be recorded in the minutes of the meeting.

The resolutions of the Management Board shall be passed by an absolute majority of the votes in the presence of at least the majority of the Members of the Management Board. In case of an equal number of the votes the President of the Management Board shall have a casting vote. A Member of the Management Board shall inform the Management Board of any conflict of interest that has arisen or the possibility of the arising thereof and shall not participate in the reviewing of the matter or the voting on a resolution in a matter in which a conflict of interest may arise in relation thereto. The Management Board may pass resolutions by voting in writing or using the means of direct remote communications. The resolution shall be valid when all of the Members of the Management Board have been notified of the content of the draft resolution and at least the majority of the Members of the Management Board participated in adopting the resolution. The voting in accordance with the above procedures shall be ordered by the President of the Management Board or a Member of the Management Board designated thereby, including setting the final deadline for casting of the votes by the Members of the Management Board. The Members of the Management Board voting against the resolution may submit a dissenting opinion to the minutes, which shall be recorded in the minutes along with the justification thereof. The decisions of the Management Board which are the decisions on the ongoing matters (daily business) that do not require a resolution shall be recorded only in the minutes.

The internal division, among the Members of the Management Board, of the tasks and responsibilities for the individual business areas of the Company's operations, as defined in the Organizational Regulations and including the independent (autonomous) work positions, as well as the organizational units reporting directly to the Executive Directors, whose work is managed (supervised) by the Members of the Company's Management Board, is defined by the Company's Management Board Resolution No. 366/VI/2022 of September 15, 2022 *regarding the assignment of individual organizational units of the Company and independent work positions directly reporting to the Members of the Management Board of TAURON Polska Energia S.A.* The structure of the Company's business areas reporting to the individual Members of the Company's Management Board is posted on the Company's web site at the address: <https://www.tauron.pl/tauron/o-tauronie/wladze-spolki>.

The below figure presents the diagram (flowchart) showing the division of the responsibilities of the Members of the Company's Management Board, as of the date of drawing up this report.

Figure no. 70. Diagram (flowchart) showing the division of the responsibilities of the Members of the Company's Management Board, as of the date of drawing up this report



Competence of the Company's Management Board

The Management Board shall conduct the Company's affairs and represent the Company in all court and out of court proceedings. Any matters related to conducting the Company's affairs, not assigned, based on the legal regulations or the provisions of the Company's Articles of Association, to the scope of competence of the General Meeting (GM) or the Supervisory Board, shall be within the scope of competence of the Company's Management Board.

In accordance with the Company's Articles of Association, all issues which go beyond the regular scope of the Company's activities shall require a resolution of the Company's Management Board, in particular, the following issues listed in the below table, as of December 31, 2022, and as of the date of drawing up this report.

Table no. 56. Competence of the Company's Management Board as of December 31, 2022, and as of the date of drawing up this report

| Matters that require a resolution of the Company's Management Board | |
|---|--|
| 1. | Regulations of the Company's Management Board, |
| 2. | Company's enterprise organizational regulations, |
| 3. | establishment and liquidation of branches, |
| 4. | appointment of a proxy, |
| 5. | taking on credits and loans, |
| 6. | approving annual material and financial plans of the Company and of the Capital Group as well as the Capital Group's Corporate Strategy, |
| 7. | assuming contingent liabilities within the meaning of the <i>Act of September 29, 1994 on accounting</i> , including granting guaranties and sureties by the Company as well as issuing bills of exchange, subject to § 20 clause 2 items 3 and 4 of the Company's Articles of Association, |
| 8. | making donations, cancelling interest or releasing from debt, subject to § 20 clause 2 items 11 and 12 of the Company's Articles of Association, |
| 9. | purchase of real estate, perpetual usufruct or shares in real estate or in perpetual usufruct, subject to § 20 clause 2 item 1 of the Company's Articles of Association, |
| 10. | purchase of fixed assets excluding real estate, perpetual usufruct or share in real estate or perpetual usufruct with the value equal to or exceeding PLN 40 000, subject to the provisions of § 20 clause 2 item 1 of the Company's Articles of Association, |
| 11. | disposal (control) of fixed assets including real estate, perpetual usufruct or share in real estate or perpetual usufruct with the value equal to or exceeding PLN 40 000, subject to the provisions of § 20 clause 2 item 2 of the Company's Articles of Association, |
| 12. | defining the way the voting right will be exercised at the General Meeting of Shareholders or the Meeting of Shareholders of companies in which the company holds shares, on matters within the scope of competence of the General Meeting of Shareholders or the Meeting of Shareholders of such companies, subject to the provisions of § 20 clause 4 items 9 and 10 of the Company's Articles of Association, |
| 13. | rules of conducting sponsoring activities, |
| 14. | adoption of the annual plan of sponsoring activities, |
| 15. | matters which the Company's Management Board refers to the Company's Supervisory Board or the General Meeting of the Company for review |

Supervisory Board of TAURON Polska Energia S.A.

The current, sixth term of office of the Company's Supervisory Board, began its run on July 15, 2020,

In accordance with the Company's Articles of Association it is a common term of office and it shall last 3 full financial years.

The Company's Supervisory Board held a total of 16 meetings and passed 127 resolutions during the period covered by this report.

All of the Members of the Supervisory Board of the Company were present During 9 meetings. 1 Member of the Supervisory Board of the Company was absent during 5 meetings, while 2 Members of the Supervisory Board of the Company were absent during 2 meetings. The absences of the Members of the Supervisory Board of the Company were excused by way of the relevant resolutions of the Supervisory Board of the Company.

The composition of the Company's Supervisory Board as of December 31, 2022, and as of the day of drawing up this report

1. Piotr Tutak - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Marcin Wawrzyniak - Secretary of the Supervisory Board,
4. Stanisław Borkowski - Member of the Supervisory Board,
5. Dariusz Hryniów - Member of the Supervisory Board,
6. Leszek Koziarowski - Member of the Supervisory Board,
7. Ryszard Madziar - Member of the Supervisory Board,
8. Grzegorz Peczkis - Member of the Supervisory Board.

The changes to the composition of the Company's Supervisory Board in 2022 and by the date of drawing up this report

As of January 1, 2022, the Company's Supervisory Board was composed of the following members: Piotr Tutak (Chair of the Supervisory Board), Teresa Famulska (Vice Chair of the Supervisory Board), Katarzyna Taczanowska (Secretary of the Supervisory Board), Stanisław Borkowski (Member of the Supervisory Board), Leszek Koziarowski (Member of the Supervisory Board), Ryszard Madziar (Member of the Supervisory Board), Grzegorz Peczkis (Member of the Supervisory Board) and Marcin Wawrzyniak (Member of the Supervisory Board).

On January 26, 2022, the Minister of State Assets, acting pursuant to § 23, section 1, clause 3) of the Company's Articles of Association, appointed Dariusz Hryniów to be a Member of the Company's Supervisory Board.

On May 23, 2022, Katarzyna Taczanowska submitted a statement on her resignation, as of May 24, 2022, from the membership of the Company's Supervisory Board, and thus from holding the position of the Secretary of the Supervisory Board of the Company.

On May 24, 2022, the Ordinary General Meeting of the Company passed a resolution to appoint Marcin Chludziński to be a member of the Supervisory Board of the Company as of May 25, 2022.

On June 10, 2022, the Supervisory Board of the Company elected Marcin Wawrzyniak to be the Secretary of the Supervisory Board of the Company.

On November 30, 2022, Marcin Chludziński submitted a statement on his resignation, as of the same day, from the function of the Member of the Company's Supervisory Board.

There had been no other changes to the composition of the Company's Supervisory Board by the date of drawing up this report.

Information on the independence of the Members of the Company's Supervisory Board

In accordance with the Company's Articles of Association at least two Members of the Company's Supervisory Board should meet the criteria of independence listed in the *Act of May 11, 2017 on certified auditors, audit firms and public oversight*, and also should not have the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company.

The Members of the Company's Supervisory Board shall submit to the Company, prior to their appointment as members of the Company's Supervisory Board, a written statement on compliance with the independence criteria listed in the above mentioned act as well as on the existence or non-existence of the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company. In case a situation occurs where the independence criteria are not complied with, a Member of the Supervisory Board shall be obliged to inform the Company promptly thereof.

Information on the compliance of the Members of the Supervisory Board of the Company with the independence criteria is posted on the Company's website at the address: <https://www.tauron.pl>.

The below table presents the information on the compliance or non-compliance of the Members of the Company's Supervisory Board with the independence criteria as well as on the existence or non-existence of the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company as of December 31,

2022. The information has been prepared based on the statements made by the individual Members of the Supervisory Board of the Company.

Table no. 57. Compliance of the Members of the Company's Supervisory Board with the independence requirements and the actual ties to a shareholder holding at least 5% of the total number of votes in the Company, as of December 31, 2022, and as of the date of drawing up this report

| First and last name | Compliance with the independence requirements | | Actual ties to a shareholder | |
|------------------------|---|--|------------------------------|--|
| | as of December 31, 2022 | as of the date of drawing up this report | as of December 31, 2022 | as of the date of drawing up this report |
| 1. Piotr Tutak | Independent | Independent | Did not exist | Do not exist |
| 2. Teresa Famulska | Independent | Independent | Did not exist | Do not exist |
| 3. Marcin Wawrzyniak | Independent | Independent | Did not exist | Do not exist |
| 4. Stanisław Borkowski | Independent | Independent | Did not exist | Do not exist |
| 5. Dariusz Hryniów | Independent | Independent | Did not exist | Do not exist |
| 6. Leszek Koziowski | Independent | Independent | Did not exist | Do not exist |
| 7. Ryszard Madziar | Independent | Independent | Did not exist | Do not exist |
| 8. Grzegorz Peczkis | Independent | Independent | Did not exist | Do not exist |

Experience and competences of the Members of the Supervisory Board who continue to hold their seats on the Company's Supervisory Board as of the date of drawing up this report

Piotr Tutak - Chair of the Supervisory Board

A graduate of the political science faculty at the Institute of Social Sciences of the Pedagogical University in Cracow. He completed post-graduate studies in management at the SGH Warsaw School of Economics, public administration at the Jagiellonian University and the regional development at the University of Warsaw.

Piotr Tutak has extensive experience in public administration, including in the Chancellery Office of the Prime Minister, among others as an advisor to the Prime Minister, the Secretary of State and the Deputy Head of the Chancellery Office of the Prime Minister and the President of the Government Center for Strategic Studies. He also gained professional experience working in management and control (supervision, oversight) authorities of the commercial law companies, among others in the finance, energy and real estate sectors. He participated in professional internships in the US and Japan. A Member of the Consultative Council of the Faculty of Building Services, Hydro and Environmental Engineering of the Warsaw University of Technology. He completed a course for the candidates for members of the supervisory boards of the State Treasury companies. He has been the President of the Management Board of EuRoPol Gaz S.A. since 2016.

He has been a Member of the Company's Supervisory Board since November 16, 2021.

In the Company's Supervisory Board of the 6th common term of office he is the Chair of the Company's Supervisory Board and the Head of the Nominations and Compensation Committee of the Company's Supervisory Board and is a Member of the Strategy Committee of the Company's Supervisory Board.

Teresa Famulska - Vice Chair of the Supervisory Board

A graduate of the Academy of Economics in Katowice (currently the University of Economics in Katowice). She holds a title of a Professor of economics appointed by the President of the Republic of Poland at the request of the Board of the Faculty of Finance and Insurance of the University of Economics in Katowice. She is a professional tax advisor.

Since graduation she has been associated with the University of Economics in Katowice. She is currently the Head of the Public Finance Department holding the full Professor's position. In 1998 - 2013 she had been working at the School of Banking and Finance, recently as a dean, holding the full Professor's position.

An author of more than 150 domestic and foreign publications in the field of finance, mainly public finance and corporate finance. Apart from academic work she is continuously involved in business practice, participating, among others, in several dozen science and research projects. She conducted numerous lectures and training courses for the finance and management personnel of enterprises and for the tax authorities staff. In 2007 - 2018 she had worked for three consecutive terms at the State Examination Commission on Tax Advisory Services, where, since 2010, for two consecutive terms based on the Minister of Finance's appointment, she was the Head of the Commission. In 2007 - 2019 a member of the Financial Education Committee of the Polish Academy of Science, where, in 2011 - 2015, she was a member of the Board of the Committee. Furthermore, she is a member of the Polish Finance and Banking Association (since 2004, a member of the Board), International Fiscal Association, Center for Information and Organization of Public Finance and Tax Law Research of Central and Eastern European Countries and the Polish Economic Society.

In the period from May 29, 2017, until July 14, 2020, she had been a member of the Supervisory Board of TAURON Polska Energia S.A., holding the position of the Vice Chair of the Supervisory Board and the Head of the Audit Committee of the Supervisory Board.

She was awarded the following orders and accolades: Silver Cross of Merit, Silver Medal for Long Term Service, Medal of the Commission of National Education, awards of the Minister of National Education and of the President of the University of Economics in Katowice.

She has been a Member of the Supervisory Board of TAURON Polska Energia S.A. of the 6th common term of office since August 3, 2020, holding the position of the Vice Chair of the Company's Supervisory Board and the Head of the Audit Committee of the Company's Supervisory Board.

Marcin Wawrzyniak - Secretary of the Supervisory Board

A graduate of the Faculty of Law and Administration of the Cardinal Stefan Wyszyński University in Warsaw (Uniwersytet Kardynała Stefana Wyszyńskiego w Warszawie). Entered on the list of legal counsels (attorneys-at-law) at the District Chamber of the Legal Counsels (Attorneys-at-law) in Warsaw (Warsaw Bar Association). An attorney-at-law (barrister), a member of the Warsaw Bar Association. A Member of the Tribunal of State.

He has had many years of professional experience with respect to providing legal services and consultancy for business entities, including the energy sector companies. A legal advisor to the central and local government administration bodies (authorities) with respect to investment processes. A partner at the law firm Wawrzyniak i Partnerzy Radcowie Prawni sp. p. (Wawrzyniak and Partners Legal Counsels Limited Liability Partnership - LLP). He was a member of the supervisory boards and the management boards of public and private sector companies. An author of several dozen publications in the field of business law, including books and comments to an act of law.

He has been a Member of the Company's Supervisory Board since April 21, 2021.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Nominations and Compensation Committee of the Company's Supervisory Board and a Member of the Strategy Committee of the Company's Supervisory Board.

Stanisław Borkowski - Member of the Supervisory Board

A graduate of the Executive MBA studies at the University of Quebec in Montreal and a graduate of the Master of Business Administration studies at the SGH Warsaw School of Economics (Szkoła Główna Handlowa w Warszawie). In addition, a graduate of the Faculty of Medicine at the University of Oslo.

He gained professional experience in the insurance sector, holding the position of the director of the health insurance department and a member of the management board at insurance companies, including, among others, at PZU S.A., Allianz Bank Polska S.A., Credit Agricole Ubezpieczenia, in the years 2001-2015. He had been a partner at Mangogross Sp. z o.o., responsible for consulting and investments, in the years 2015-2017. He had also been the President of the Management Board of Uzdrowisko Konstancin Zdrój S.A. and the Medical Institution (Zakład Lecznicy) Uzdrowisko Nałęczów S.A. in the years 2016-2017.

Currently, since 2017, he has been the President of the Management Board of Colbird Sp. z o.o. (Ltd), and he has been acting as the financial director at Voico Inc. in Laval (Canada) since 2020.

He was a member of the supervisory boards of joint stock companies, where he was the chair of the supervisory board, as well as the head of the audit committees. Currently, he is a Member of the Supervisory Board and at the same time the Head of the Audit Committee of UNUM Polska S.A., as well as the Head of the Audit Committee at the Polish-Canadian Chamber of Commerce.

Decorated with the Golden Cross of Merit.

He has been a Member of the Supervisory Board of the Company since May 24, 2021.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Audit Committee of the Company's Supervisory Board and a Member of the Strategy Committee of the Company's Supervisory Board.

Dariusz Hryniów - Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the University of Opole (master's degree in law) and the Executive Master of Business Administration (MBA) studies at Koźmiński University, ESCP Europe. He is a legal counsel. He also completed technical education in the field of energy.

From 2015 to 2020, he had been holding the position of the Director of the Corporate and Legal Services Department at Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG"). There he had been responsible, inter alia, for supervising the legal services provided for PGNiG Capital Group's subsidiaries, as well as the legal services related to the key projects, including the arbitration and acquisition processes, infrastructure investment projects, capital transactions as well as import contracts.

From 2016 to 2020, Dariusz Hryniów had been the Vice Chair and then the Chair of the Supervisory Board of PGNiG Termika S.A.

In the years 2017-2019 he had been the Chair of the Supervisory Board of PGNiG Supply & Trading GmbH, and in the period from 2016 to 2018 he had been a member of the Supervisory Board of Zakłady Wytwórcze Urządzeń Gazniczych "Intergaz" sp.z o.o.

From 2015 to 2016, he had been the Chair of the Supervisory Board of Opole TBS in Opole. In addition, he is the Managing Partner at Hryniów, Łebek i Partnerzy law firm.

He has been a Member of the Supervisory Board of the Company since January 26, 2021.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Strategy Committee of the Company's Supervisory Board.

Leszek Koziowski - Member of the Supervisory Board

A graduate of the Faculty of Law and Administration of the University of Warsaw (Uniwersytet Warszawski), Registered on the list of attorneys-at-law of the Warsaw Bar Association (Okręgowa Izba Radców Prawnych w Warszawie).

From the beginning of his professional career, he has been associated with the capital market. In the years 1994-1999 at the Securities Commission (Komisja Papierów Wartościowych - KPW), initially at the Office of Brokerage Houses and Trust Funds (Biuro Domów Maklerskich i Funduszy Powierniczych), subsequently as an advisor to the Chair of the Securities Commission (KPW).

During his work at the Securities Commission (KPW), he had also been holding the position of the Deputy Chairman of the Examination Committee for Investment Advisors.

Currently at GESSEL, KOZIOROWSKI Kancelaria Radców Prawnych i Adwokatów sp. p., where he has created and manages the capital market law department - employed since 1999, a partner since 2002.

He had been an arbitrator at the Stock Exchange Court at the Warsaw Stock Exchange (Sąd Giełdowy przy Giełdzie Papierów Wartościowych w Warszawie).

Since 2015, he has been a member of the Corporate Governance Committee at the Warsaw Stock Exchange (Komitet Ładu Korporacyjnego przy Giełdzie Papierów Wartościowych w Warszawie), where he was a co-author of the Best Practice of WSE Listed Companies 2016 and of the latest: the Best Practice of WSE Listed Companies 2021.

He had been holding the position of the chair and a member of the Supervisory Boards at a number of private and public joint stock companies, for example, IGLOTEX S.A. (the chair of the Supervisory Board), ESALIENS TFI S.A. (the chair of the Supervisory Board), Zakłady Odzieżowe BYTOM S.A., TETA S.A. (the chair of the Supervisory Board), TAURON Polska Energia S.A. (in the years 2010-2017).

An author of numerous publications in the field of the capital market law.

He has been a Member of the Supervisory Board of the Company since May 24, 2021.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Audit Committee of the Company's Supervisory Board. and a Member of the Nominations and Compensation Committee of the Company's Supervisory Board.

Ryszard Madziar - Member of the Supervisory Board

A graduate of the faculty of political science of the University of Warsaw. He holds an MBA degree obtained at the Warsaw Management University (Wyższa Szkoła Menedżerska w Warszawie).

He has an extensive experience in public administration. He has held the following positions: the Mayor of Wołomin, the Head of the Political Cabinet of the Vice Chairman of the Council of Ministers, and prior to that, the Deputy Director of the Mazovian Regional Office of the Agency for Restructuring and Modernization of Agriculture (Agencja Restrukturyzacji i Modernizacji Rolnictwa).

He is a member of the Supervisory Board of, among others, Totalizator Sportowy.

He had been the Head of the Political Cabinet of the Vice Chair of the Council of Ministers (Deputy Prime Minister) in the Chancellery of the Prime Minister until June 2021 and currently he is holding the position of an advisor to the Management Board of the Pekao S.A. bank.

He has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since July 15, 2020.

In the Company's Supervisory Board of the 6th common term of office he is a Member of the Nominations and Compensation Committee of the Company's Supervisory Board and a Member of the Strategy Committee of the Company's Supervisory Board.

Grzegorz Peczkis - Member of the Supervisory Board

A graduate of the Faculty of Environment and Energy Engineering of the Silesian University of Technology, specializing in Machine Mechanics and Design. He holds a PhD degree in technical science in the field of machine design and operation. He also completed post-graduate studies in enterprise (business) management and pedagogical professional development studies for university lecturers.

Grzegorz Peczkis gained experience both in business, as a proxy at the Diapom sp. z o.o. company, as well as at academic institutions as an Assistant Lecturer and then an Assistant Professor at the Silesian University of Technology.

He is holding the position of the Vice Chair of the Supervisory Board of Grupa Azoty Zakłady Azotowe Kędzierzyn S.A.

He is an author of several dozen scientific (research) and popular (journalistic) publications. He holds rights under ten patents granted by the Patent Office of the Republic of Poland.

He has been a Member of the Supervisory Board of TAURON Polska Energia S.A. since December 6, 2019.

In the Company's Supervisory Board of the 6th common term of office he is the Head of the Strategy Committee of the Company's Supervisory Board and a Member of the Audit Committee of the Company's Supervisory Board.

Description of the procedures of the Company's Supervisory Board

The Supervisory Board of the Company shall act on the basis of the Code of Commercial Companies and other legal regulations, the provisions of the Company's Articles of Association and the provisions of the *Regulations of the Supervisory Board of TAURON Polska Energia S.A. with its registered office in Katowice* which are available on the Company's website at the address: <http://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/dokumenty-spolki>. When performing their duties the Members of the Company's Supervisory Board shall be acting in accordance with the principles provided in the Best Practice 2021.

The Members of the Supervisory Board of the Company, when performing the functions and duties assigned, shall be guided in their conduct, including in making decisions, by the independence of their own opinions and judgments, acting in the interest of the Company.

The Supervisory Board of the Company shall work by way of a debate, analyzing the situation of the Company and the Group against the background of the industry and the market on the basis of the materials provided thereto by the Management Board of the Company and the internal systems and functions of the Company, as well as obtained from outside the Company, using the results of the works of its Committees.

The main form of the Supervisory Board performing the oversight of the Company's operations shall be the meetings of the Supervisory Board. The Supervisory Board shall perform its obligations collectively. The meetings of the Company's Supervisory Board shall be convened by the Chair of the Supervisory Board or the Vice Chair of the Supervisory Board by presenting a detailed agenda of the meeting:

1. in accordance with the decisions taken by the Supervisory Board,
2. of his/her own initiative,
3. at a request of each Member of the Supervisory Board,
4. at a request of the Management Board.

The meetings of the Supervisory Board shall be held at the Company's registered office. In justified cases a meeting may be convened at a different venue.

In order to convene a meeting all of the Members of the Company's Supervisory Board must be invited in writing at least 7 days before the date of the Supervisory Board's meeting. For important reasons the Chair of the Supervisory Board may shorten this period to 2 days, defining the way the invitations should be distributed. The notifications of the Supervisory Board's meeting shall be sent by electronic mail. In the notification of the Supervisory Board's meeting the Chair shall define the date of the meeting, the venue of the meeting and the detailed draft agenda. The Supervisory Board of the Company shall meet on as needed basis, however not less frequently than once every 2 months. The Supervisory Board may hold meetings without convening a formal meeting if all of the Members of the Supervisory Board are present and nobody objects against the fact of holding the meeting or against the agenda of the meeting.

A change of the proposed agenda of the meeting may occur when all of the Members of the Company's Supervisory Board are present at the meeting and no one raises an objection against the changed agenda of the meeting. An issue not included in the agenda of the meeting should be included in the agenda of the next meeting.

The participation in a meeting of the Supervisory Board shall be a Supervisory Board Member's duty. A Member of the Supervisory Board shall provide information on the reason for his/her absence in writing. Excusing an absence of a Member of the Supervisory Board shall require a resolution of the Company's Supervisory Board. The Members of the Company's Management Board may take part in the Supervisory Board's meetings unless the Supervisory

Board raises an objection. The participation of the Company's Management Board's members in the Supervisory Board meetings shall be mandatory if they have been invited by the person convening the meeting of the Supervisory Board. Other persons may also take part in the meetings if they have been invited in the above mentioned way.

The Supervisory Board may seek opinions of experts using the knowledge of the Company's employees, including in particular, the legal counsels who provide regular legal assistance for the Company.

The Supervisory Board may also appoint independent experts to obtain an opinion and make the appropriate decision, as well as invite them to the meetings of the Supervisory Board. In case a transaction of the Company with a related entity requires an approval of the Supervisory Board of the Company, before adopting a resolution on granting such a consent, the Supervisory Board shall assess whether it is necessary to first seek an opinion of an external entity that will carry out the valuation of the transaction and the analysis of its economic effects. If the conclusion of the transaction with a related entity requires the approval of the General Meeting, the Supervisory Board of the Company shall draw up an opinion on the legitimacy of concluding such a transaction and in such a case it shall assess the need for a prior seeking of an opinion of an external entity. In the cases referred to above, the Supervisory Board of the Company shall adopt a resolution to commission the selected expert to carry out the work, obliging the Management Board of the Company to conclude the applicable agreement.

The meetings of the Supervisory Board shall be chaired by the Chair of the Supervisory Board, and in case of his/her absence, by the Vice Chair of the Supervisory Board. For important reasons, with the consent of the majority of the Members of the Supervisory Board present at the meeting, the person chairing the meeting shall be obliged to subject to a vote a motion to interrupt the meeting and set the date of resuming the meeting of the Company's Supervisory Board. The Supervisory Board shall make its decisions in the form of resolutions. The Supervisory Board's resolutions shall be passed mainly during the meetings thereof. The Supervisory Board shall pass resolutions if at least half of its members are present at the meeting and all of its members have been invited in the appropriate manner defined in the Regulations of the Supervisory Board. Subject to the mandatory legal regulations in force, including the Code of Commercial Companies and the provisions of the Company's Articles of Association, the Supervisory Board shall pass resolutions by an absolute majority of votes of the persons present at the meeting where the absolute majority of votes shall be understood as more votes cast "for" than "against" and "abstain". Resolutions shall not be passed on matters not included in the agenda unless all of the Members of the Supervisory Board are present and nobody raises an objection. This shall not apply to the resolutions on excusing a Supervisory Board's Member's absence at the meeting. The resolutions shall be voted on in an open ballot. A secret ballot shall be ordered only in the cases stemming from the provisions of the law.

In accordance with the Company's Articles of Association, the Supervisory Board may pass resolutions in writing or using the means of direct remote communications. Passing a resolution in such a way shall require a prior notification of all of the Members of the Supervisory Board of the content of the draft resolution and the participation of at least half of the Members of the Supervisory Board in passing the resolution. The Company's Supervisory Board may pass resolutions this way as long as no Member of the Company's Supervisory Board raises an objection. When voting on a resolution in the above mentioned way a Member of the Company's Supervisory Board shall indicate his/her vote, i.e. "for", "against" or "abstain". A resolution with a note that it has been passed in writing or by voting using the means of direct remote communications shall be signed by the Chair of the Supervisory Board. The resolutions passed this way shall be presented at the forthcoming meeting of the Supervisory Board along with the result of the voting.

The participation in a meeting of the Company's Supervisory Board using the means of direct remote communications, i.e. a conference call or a video conference, shall be allowed. In case the Members of the Company's Supervisory Board take part in a meeting of the Company's Supervisory Board using the means of direct remote communications, the resolutions shall be passed if at least half of the Members of the Company's Supervisory Board participate in the voting.

The Members of the Supervisory Board shall take part in the meetings and exercise their rights and responsibilities (duties) in person, and while performing their duties they shall be obliged to act with due diligence. The Members of the Supervisory Board shall be obliged to keep confidential the information related to the Company's activities that they have acquired in connection with holding their seat or on another occasion.

The Supervisory Board may, for important reasons, delegate its individual members to perform certain supervision (oversight) activities on their own for a defined period of time. The Supervisory Board may delegate its members, for a period not longer than three months, to temporarily perform the duties of the Members of the Management Board who have been dismissed, submitted their resignation or if for other reasons they cannot perform their functions. The above mentioned delegation shall require obtaining a consent of the Member of the Supervisory Board who is to be delegated.

The Company's Supervisory Board may appoint from among its members permanent or temporary (ad hoc) working groups (teams), committees to perform specific actions. The standing committees of the Company's Supervisory Board shall be:

1. Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. (Audit Committee),
2. Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A. (Nominations and Compensation Committee),
3. Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. (Strategy Committee).

The composition, tasks and procedures of the operation of the above mentioned committees shall be defined in the regulations thereof passed by the Supervisory Board.

Competence of the Company's Supervisory Board

Supervisory Board of the Company shall continuously oversee the Company's activities in all areas of its operations.

In accordance with the Company's Articles of Association, the Company's Supervisory Board's tasks and competences shall include in particular the matters listed in the below table, as of December 31, 2022, and as of the date of drawing up this report.

Table no. 58. Competence of the Company's Supervisory Board as of December 31, 2022, and as of the date of drawing up this report

| |
|--|
| Matters that require a resolution of the Company's Supervisory Board |
|--|

Competences related to providing opinions

1. evaluate the Company's Management Board's report on the Company's operations (Directors' Report) as well as the financial statements for the last financial year with respect to their compliance with the books, documents as well as with the actual status. This shall also apply to the Capital Group's consolidated financial statements,
2. evaluate the Company's Management Board's recommendations on the distribution of the profit or the covering of the loss,
3. submit a written report to the General Meeting of Shareholders on the outcome of the activities referred to in clauses 1 and 2 above,
4. draw up once a year and submit to the General Meeting a report on the activities of the Supervisory Board containing at least:
 - 1) information on: the composition of the Company's Supervisory Board and its Committees, including an indication which Members of the Supervisory Board comply with the criteria of independence listed in the *Act of May 11, 2017 on certified auditors, audit firms and public oversight*, as well as those that not to have the actual and material ties to a shareholder holding at least 5% of the total number of votes in the Company, and also the information on the composition (membership) of the Supervisory Board in the context of the diversity thereof,
 - 2) summary of the activities of the Supervisory Board and its Committees
 - 3) evaluation of the Company's situation on the consolidated basis, including the assessment of the internal controls, risk management, compliance systems and the internal audit functions, including the information on the steps that the Company's Supervisory Board took in order to perform such an evaluation, including all of the significant control mechanisms, in particular the ones related to the reporting and operations
 - 4) assessment of the application of the corporate governance principles and the method of fulfilment of the information (disclosure) obligations in relation to the application thereof, defined in the Regulations of the Exchange and the provisions related to the current and periodic information (disclosures, regulatory filings) filed by the issuers of securities. including the information on the steps that the Company's Supervisory Board took in order to perform such an assessment,
 - 5) assessment of the rationality (legitimacy) of the expenditures incurred by the Company and its group to support culture, sports, charity institutions, media, social organizations, trade unions, etc.,
 - 6) information on the degree of implementation of the diversity policy in relation to the Company's Management Board and the Supervisory Board of the Company, including the implementation of the objectives and criteria of diversity, including in such areas as gender, education background, specialist knowledge, age and professional experience
5. prepare, along with the report on the results of the Company's annual financial statements' evaluation, the Company's Supervisory Board's opinion on the financial viability of the Company's capital (equity) investments in other commercial law entities made in the given financial year,
6. draw up, once a year, a report on the compensation of the Members of the Company's Management Board and the Supervisory Board of the Company in accordance with the requirements defined in the *Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies*,
7. provide opinions on the Capital Group's Corporate Strategy,
8. provide opinions on the rules of conducting the sponsoring activities,
9. provide opinions on the annual plan of conducting the sponsoring activities as well as on the annual report on the implementation thereof,
10. provide opinions on the reports drawn up, by the Company's Management Board, on the entertainment expenses, the expenditures on the legal services, marketing services, public relations and social communications services as well as the advisory services related to management,
11. provide opinions on the Company's Management Board's motions regarding the matters referred to in § 35 of the Company's Articles of Association, excluding the motions regarding the Members of the Company's Supervisory Board,
12. provide opinions on the draft resolutions introduced by the Management Board of the Company to the agenda of the General Meeting,
13. provide opinions on the changes of the rules of divesting fixed assets, defined in § 38¹ of the Company's Articles of Association.

Competences that include

1. selecting a certified auditor to carry out an audit of the Company's financial statements and the Capital Group's consolidated financial statements,
2. defining the scope and deadlines for submitting the Company's and the Capital Group's annual material and financial plan by the Company's Management Board,
3. approving the Company's and the Capital Group's material and financial plan by the Company's Management Board
4. adopting the consolidated text of the Company's Articles of Association, drawn up by the Company's Management Board,
5. approving the Regulations of the Company's Management Board,
6. approving the organizational regulations of the Company's enterprise,
7. approving the capital group's compensation policy,
8. purchasing real estate asset components within the meaning of the *Act of September 29, 1994, on accounting*, with the value exceeding:
 - 1) PLN 20 000 000 or
 - 2) 5% of the total assets within the meaning of the *Act of September 29, 1994, on accounting*, determined on the basis of the last approved financial statements,
 subject to the provisions of § 20, clause 5 of the Company's Articles of Association,
9. disposing of fixed asset components, within the meaning of the *Act of September 29, 1994, on accounting*, classified as intangible and legal assets, tangible fixed assets or long term investments, including making a contribution to a company or cooperative if the market value of such

Matters that require a resolution of the Company's Supervisory Board

components exceeds PLN 20 000 000 or 5% of the total assets within the meaning of the *Act of September 29, 1994, on accounting*, determined on the basis of the last approved financial statements, subject to the provisions of § 20, clause 5 of the Company's Articles of Association, as well as handing over these components for use to another entity for a period longer than 180 days in a calendar year, based on a legal transaction, if the market value of the subject of the legal transaction exceeds PLN 500 000 or 5% of the total assets, where the handing over of such components for use in case of:

- 1) lease, tenancy and other contracts for the transfer of an asset for use by other entities for a fee - market value of the subject of legal action shall be understood as the value of services for: one year - if the asset was transferred on the basis of an agreement concluded for an indefinite period, the entire duration of the agreement - in case of contracts concluded for a fixed period,
 - 2) loan contracts and other free contracts for the handing over of an asset for use by other entities - the market value of the subject of legal transaction shall be understood as the equivalent of benefits that would be due if the lease or tenancy agreement were concluded, for: one year - if the asset is handed over under the contract concluded for an indefinite period, the entire duration of the contract - in case of contracts concluded for a definite period,
10. assuming contingent liabilities, including granting guaranties and sureties by the Company with the value exceeding the equivalent of PLN 20 000 000,
 11. issuing bills of exchange with the value exceeding the equivalent of PLN 20 000 000,
 12. making an advance payment on account of the expected dividend,
 13. taking up or purchasing shares in another company with the value exceeding:
 - 1) PLN 20 000 000 or
 - 2) 5% of the total assets within the meaning of the *Act of 29 September 29, 1994 on accounting*, determined on the basis of the last approved financial statements,
 14. selling shares in another company with the value exceeding:
 - 1) PLN 20 000 000 or
 - 2) 10% of the total assets within the meaning of the *Accounting Act of 29 September 1994*, determined on the basis of the last approved financial statements,
 15. concluding an agreement for legal services, marketing services, public relations and social communications services as well as advisory services related to management, if the amount of the total net compensation for the services provided exceeds PLN 500 000, on a yearly basis,
 16. amending an agreement for legal services, marketing services, public relations and social communications services as well as advisory services related to management, increasing the compensation above the amount mentioned in section 15 above,
 17. concluding an agreement for legal services, marketing services, public relations and social communications services as well as advisory services related to management, under which the maximum compensation amount (cap) is not envisaged,
 18. concluding a donation agreement or another agreement with similar consequences of the value exceeding PLN 20 000 or 0.1% of the total assets within the meaning of the *Act of September 29, 1994, on accounting*, determined on the basis of the last approved financial statements,
 19. relieving from debt or from another agreement with similar consequences of the value exceeding PLN 50 000 or 0.1% of the total assets within the meaning of the *Act of September 29, 1994, on accounting*, determined on the basis of the last approved financial statements,
 20. concluding a material agreement with a related entity within the meaning of the *Act of July 29, 2005 on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies*,
 21. granting a permission to establish the Company's branches abroad,
 22. defining the way of exercising the voting right at the General Meeting of Shareholders or at the Meeting of Shareholders (Partners) of companies in which the Company holds more than 50% of shares, with respect to the following matters:
 - 1) selling and leasing out the company's enterprise or its organized part as well as establishing a limited pledge (property right) thereupon them if their value exceeds the PLN equivalent of EUR 5 000 000,
 - 2) dissolving and liquidating the company
 23. defining the manner of exercising the voting right by a representative of TAURON during the GMs of companies (subsidiaries) with respect to which the Company is a dominating entrepreneur within the meaning of art. 4 section 3 of the *Act of February 16, 2007, on competition and consumer protection*, with respect to the following issues:
 - 1) a company setting up another company,
 - 2) a change to the Articles of Association or the shareholders agreement and the subject of the company's operations,
 - 3) merging, transforming, splitting, dissolving and liquidating the company,
 - 4) increasing or decreasing the company's share capital,
 - 5) selling and leasing out the company's enterprise or its organized part and establishing a limited pledge (property right) thereupon,
 - 6) redeeming (retiring) of shares,
 - 7) setting the compensation of members of the Management Boards and Supervisory Boards,
 - 8) provision related to the claims for remedying damage inflicted when setting up the company or performing the management or supervision,
 - 9) matters mentioned in art. 17 of the *Act of December 16, 2016, on the principles of state assets management*, subject to § 15, clause 5 of the Company's Articles of Association, with the exception of the matters relating to the legal transactions referred to in § 20. clause 5 of the Company's Articles of Association, and with the exception of matters regarding the acquisition or disposal of fixed assets constituting or intended to constitute assets necessary to conduct business operations with respect to the distribution of electricity by a company that is an operator of the power distribution system.

Competences related to the Management Board

1. appoint and dismiss members of the Company's Management Board,
2. establish the rules of compensation and the amounts of compensation for the Members of the Company's Management Board, subject to § 18 of the Company's Articles of Association,
3. suspend members of the Company's Management Board from office for important reasons,
4. delegate members of the Company's Supervisory Board to temporarily perform duties of the Members of the Company's Management Board who cannot perform their duties and establish their compensation subject to the provision that the total compensation of the delegated person as a Member of the Company's Supervisory Board's as well as on account of being delegated to temporarily perform duties of a Member of the Company's Management Board shall not exceed the compensation established for the Member of the Company's Management Board to replace whom the Member of the Company's Supervisory Board was delegated,
5. conduct a recruitment process for the position of a Member of the Company's Management Board,
6. conduct a competition in order to select a person with whom an agreement to perform the management board functions (services) in the Company shall be concluded and conclude such agreement to perform the management board functions (services) in the Company,
7. grant a permission to the Members of the Company's Management Board to take positions in governing bodies (authorities) of other companies

Other competences of the Company's Supervisory Board

1. approve the Company's Management Board's annual report on the supervision over the implementation of the investment projects

Matters that require a resolution of the Company's Supervisory Board

2. draw up reports on overseeing the implementation of investment projects by the Company's Management Board, including the fixed asset purchases, and in particular provide opinions on the correctness and effectiveness of the expenditures related thereto
3. approve the reports drawn up by the Company's Management Board on :
 - 1) entertainment expenses, expenditures on legal services, marketing services, public relations and social communications service as well as advisory services related to management,
 - 2) applying good practices defined by the Chairman of the Council of Ministers (Prime Minister) on the basis of art. 7, clause 3 of the *Act on the principles of state assets management* with respect to corporate governance, corporate social responsibility and sponsorship,
4. pass regulations describing in detail the Company's Supervisory Board's procedures.

The below table presents the main issues that the Company's Supervisory Board was dealing with during its meetings in 2022.

Table no. 59. Main issues that the Company's Supervisory Board was dealing with during its meetings in 2022.

Main issues that the Company's Supervisory Board was dealing with during its meetings in 2022

With respect to its competences related to the providing of the opinions / assessments:

1. completed an assessment of the *Financial Statements of TAURON Polska Energia S.A. for the year ended on December 31, 2021, prepared in accordance with the International Financial Reporting Standards approved by the European Union*, in terms of its consistency with the books and documents, as well as with the factual situation,
2. completed an assessment of the *Consolidated Financial Statements of TAURON Polska Energia S.A. Capital Group for the year ended on December 31, 2021, prepared in accordance with the International Financial Reporting Standards approved by the European Union*, in terms of its consistency with the books and documents, as well as with the factual situation,
3. completed an assessment of the Management Board's proposal (petition) submitted to the Company's General Meeting of Shareholders regarding the distribution of the net profit for the financial year 2021,
4. completed an assessment of the *Report of the Management Board (Directors' Report) on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2021 and the Non-financial Report of TAURON Capital Group for the year 2021*,
5. accepted the *Report of the Supervisory Board on the assessment of the Financial Statements of TAURON Polska Energia S.A., the Consolidated Financial Statements of TAURON Capital Group, the Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year ended on December 31, 2021, and the Management Board's proposal (petition) regarding the distribution of the net profit for the financial year 2021*,
6. issued a positive opinion on the *Report of TAURON Polska Energia S.A. on the entertainment expenses, the expenditures on the legal services, marketing services, public relations and social communications services as well as the advisory services related to management incurred in 2021*,
7. issued a positive opinion on the *Annual Report on the implementation of the Plan of conducting the sponsoring activities by TAURON Group in 2021, the Plan of conducting the sponsoring activities by TAURON Capital Group in 2023*, as well as on the changes to the *Principles of sponsoring activities at TAURON Group*,
8. issued a positive opinion on the *TAURON Group's Strategy for the years 2022 – 2030 with an outlook until 2050*,
9. issued a positive opinion on the proposal (petition) of the Management Board to the General Meeting of the Company regarding introducing amendments to the Articles of Association.

With respect to its competences that include:

1. adopted the *Report on the activities of the Supervisory Board of TAURON Polska Energia S.A. in the financial year 2021*, including in its content:
 - 1) assessment of the Company's situation, including the assessment of the internal control system, risk management system, compliance system as well as of the internal audit function, including all of the significant control mechanisms, including in particular the ones related to the financial reporting and operations,
 - 2) assessment of the method of fulfilment of the information (disclosure) obligations in relation to the application of the principles of corporate governance, defined in the Regulations of the Stock Exchange and the provisions related to the current and periodic information (disclosures, regulatory filings) filed by the issuers of securities,
 - 3) assessment of the rationality (legitimacy) of the policy conducted by the Company with respect to the sponsoring activities, charity activities or other activities of similar nature,
 - 4) assessment of the fulfillment of the independence criteria by the Members of the Supervisory Board,
2. adopted the consolidated text of the *Articles of Association of TAURON Polska Energia S.A.*,
3. adopted the *Report on the compensation of the Members of the Management Board and of the Supervisory Board of TAURON Polska Energia S.A. for the year 2021* and submitted it to the General Meeting in order to receive an opinion thereupon,
4. approved the amended *Organizational Regulations of TAURON Polska Energia S.A.*,
5. approved the *Material and financial plan of TAURON Group for the year 2022 and the Material and financial plan of TAURON Group Polska Energia S.A. for the year 2022*,
6. expressed a consent for the concluding of the agreements for the legal services, marketing services, public relations and social communications services as well as the advisory services related to the management, if the amount of the net total compensation envisaged for the services provided under the given agreement or under other agreements concluded with the given entity exceeded PLN 500 000, on a yearly basis,
7. defined the manner of exercising the voting right during the General Meetings / Meetings of Partners of companies (subsidiaries) with respect to which TAURON Polska Energia S.A. is a dominating entrepreneur within the meaning of art. 4, section 3 of the Act of February 16, 2007, *on competition and consumer protection*, with respect to the following issues: a change to the Articles of Association / Founding Acts, a change of the principles of the compensation of the members of the Management Boards, splitting and merging, acquiring of the fixed assets, increasing of the company's share capital, a change of the subject of the operations of the subsidiaries,
8. monitored the activities of the Supervisory Board's Committees, replenished their memberships.

With respect to the cooperation with the audit firm Ernst & Young Audyt Polska sp. z o.o. sp.k.:

1. held a meeting with the certified auditor to discuss the results of the audit of the Company's and TAURON Capital Group's financial statements for the financial year 2021,
2. became familiar with the conclusions of the audit of the Company's and the TAURON Capital Group's financial statements for the year 2021, as well as the supplementary report prepared for the Audit Committee,

Main issues that the Company's Supervisory Board was dealing with during its meetings in 2022

3. became familiar with the certified auditor's report on the assessment of the *Report on the compensation of the Members of the Management Board and of the Supervisory Board of TAURON Polska Energia S.A. for the year 2021*.

With respect to the oversight of the ongoing operations of the Company and TAURON Capital Group

1. analyzed the current economic and financial situation of the Company and of TAURON Capital Group, including the implementation of the material and financial plan, leverage ratio, utilization of the electricity generation potential, projected revenues and profits in the individual lines of business,
2. discussed a report on the implementation of the plan and schedule for the allocation of the funds raised from the bond issue worth PLN 1 billion,
3. granted an approval of the assumption by TAURON of a contingent liability in the form of a surety constituting a collateral for Bank Gospodarstwa Krajowego's receivables stemming from the loan granted to EC Stalowa Wola,
4. became familiar with the issues relating to the Polish capacity market,
5. discussed the key risks and the mitigations thereof, in particular the impact of the Russian Federation's aggression against Ukraine on TAURON Group's current and future operations,
6. discussed the information on the situation on the hard coal market, contracted volumes and demand of TAURON Group, as well as the process of rebuilding the hard coal inventories, negotiations related to the purchase of the hard coal for TAURON Group's subsidiaries,
7. granted an approval of the conclusion of the donation agreements with TAURON Foundation,
8. granted an approval of the assumption by TAURON of a contingent liability in the form of granting a surety for the liabilities of its subsidiary, TAURON Sprzedaż, towards Polska Spółka Gazownictwa sp. z o.o.,
9. granted an approval of the assumption of the contingent liabilities in the form of the bank guarantees issued at TAURON's request in order to hedge the transactions carried out on the Polish Power Exchange (Towarowa Gielda Energii S.A.) by TAURON on behalf of and for the benefit of TAURON and its subsidiaries,
10. became familiar with the content of the updated statement: *Information on the status of TAURON Polska Energia S.A.'s application of the rules contained in the Code of the Best Practices of the Companies Listed on the Warsaw Stock Exchange 2021* without making any comments thereto,
11. monitored the process of the implementation of the social dialogue at the Company and at TAURON Capital Group, held a meeting with the representatives of the Presidium of TAURON Capital Group's Social Council, explained the comments made, got acquainted with the agreement on the stabilization of the headcount at TAURON Group's subsidiaries, concluded in connection with the energy transition process,
12. became familiar with the information on the expenses incurred in 2021 and in the first half of 2022 on the consulting services at TAURON and at TAURON Capital Group, broken down into the business and strategic consulting, legal consulting, auditing services, tax consulting and other services,
13. became familiar with the report on the implementation in 2021 of the Regulation of the European Parliament and of the Council on the protection of personal data (GDPR),
14. became familiar with the up to date information related to, among other things: the completed and ongoing audit tasks at TAURON Capital Group, the compliance management area, court disputes of the PEPKH subsidiary, lists of the resolutions passed by the Management Board.

With respect to the competences related to the Management Board:

1. based on the recruitment procedures carried out, the Supervisory Board appointed the Members of the Management Board of TAURON Polska Energia S.A. of the 6th common term of office,
2. dismissed two Members of the Management Board of TAURON Polska Energia S.A. of the 6th common term of office,
3. submitted the motions to the General Meeting related to the acknowledgment of the fulfilment of the duties of the Members of the Company's Management Board in the financial year 2021, as well as of the former Members of the Management Board for 2020 and 2019,
4. conducted an analysis of the level of the accomplishment of the Management Objectives set for the Members of the Management Board of the Company of the 6th term of office to be implemented in 2021, and determined the amount of the variable compensation to be paid out thereto,
5. in connection with the adopted compensation system, the Supervisory Board detailed the Management Objectives for the Members of the Company's Management Board to be implemented in 2022, along with the specification of the weights of these objectives and the objective criteria for the implementation and accountability thereof,
6. amended the rules for establishing and dividing the Management Objectives, their weights and the criteria for the implementation and accountability thereof,
7. in connection with the Resolution of the Ordinary General Meeting, the Supervisory Board amended the principles of determining the compensation of the Members of the Management Board of TAURON Polska Energia S.A. and concluded Annexes no. 1 to the agreements for the provision of the management services with the Members of the Management Board,
8. granted an approval of the performance of the functions in the bodies of other companies and associations and of the training for the Members of the Management Board.

With respect to the oversight of the correctness and efficiency of the spending of the funds related to the implementation of investment projects by the Management Board of the Company, including purchasing of the fixed assets:

1. approved the *Report of the Management Board of TAURON Polska Energia S.A. on the oversight of the implementation of the investment projects at TAURON Group in 2021*,
2. approved the *Report of the Supervisory Board of TAURON Polska Energia S.A. on the oversight of the implementation by the Management Board of the investment projects including purchasing of the fixed assets in 2021*, and issued a positive opinion and raised no objections to the correctness and efficiency of the spending of the funds related to the purchasing of the fixed assets,
3. became familiar with the up to date information on the status of the implementation of the strategic investment projects,
4. granted an approval of the sale of TAURON Wydobycie's shares to the State Treasury,
5. discussed the progress of the works related to the implementation of the Program for the spin-off of TAURON Group's hard coal-fired generating assets to the National Energy Security Agency, granted an approval of the conclusion of the agreements for the conducting of the Vendor Due Diligence studies as part of the above mentioned Program,
6. granted an approval of the merger of TAURON Wytwarzanie with Nowe Jaworzno Grupa TAURON and of the sale of TAURON's shares in Nowe Jaworzno Grupa TAURON to TAURON Wytwarzanie,
7. granted an approval of the transfer of the shares in Bioeko Grupa TAURON to TAURON Wytwarzanie,
8. became familiar with the up to date information on the 910 MW power generation unit in Jaworzno, including with the issues related to the fixing of the failure and the investigation of the root causes thereof, the mediation proceedings,
9. became familiar with the status of the implementation of the RES projects at TAURON Group, including, among others, the ongoing and the planned RES projects, as well as the RES model implemented at TAURON Group.

Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.

The members of the Audit Committee were appointed for the current term of office on August 3, 2020, by the Company's Supervisory Board of the 6th common term of office from among its members.

The Audit Committee held a total of 7 meetings and passed 12 resolutions during the period covered by this report.

All of the Members of the Audit Committee were present during 6 meetings, while 1 Member of the Audit Committee was absent during 1 meeting. The absence of the Audit Committee Member was excused by the relevant resolution of the Audit Committee.

The Audit Committee was composed of 4 to 5 members in 2022.

The composition of the Audit Committee as of December 31, 2022, and as of the date of drawing up this report

1. Teresa Famulska - Head of the Audit Committee,
2. Stanisław Borkowski - Member of the Audit Committee,
3. Leszek Koziowski - Member of the Audit Committee,
4. Grzegorz Peczkis - Member of the Audit Committee.

The changes to the composition of the Audit Committee in 2022 and by the date of drawing up this report

As of January 1, 2022, the Audit Committee was composed of the following Members of the Supervisory Board of the Company: Teresa Famulska (Head of the Audit Committee), Stanisław Borkowski, Leszek Koziowski, Grzegorz Peczkis and Katarzyna Taczanowska.

On May 24, 2022, Katarzyna Taczanowska submitted a statement on her resignation from the membership of the Company's Supervisory Board, and thus her membership in the Audit Committee was terminated.

There had been no other changes to the composition of the Audit Committee by the date of drawing up this report.

Information on the independence of the Members of the Audit Committee

Pursuant to the *Act of May 11, 2017, on certified auditors, audit companies and public oversight*, the majority the members of the audit committee, including the head thereof, should be independent and at least one member of the audit committee should have the knowledge and skills with respect to accounting or auditing financial statements and at least one member of the audit committee should have the knowledge and skills with respect to the industry that the company is operating in.

In 2021 the composition of the Audit Committee was in compliance with the requirements defined in the above mentioned act. The evaluation of the independence and the statutory requirements with respect to the knowledge and skills of the individual Members of the Audit Committee was carried out by the Company's Supervisory Board based on the relevant statements submitted by the Members of the Audit Committee. The qualifications of the Members of the Audit Committee with respect to the accounting or auditing, as well as the industry that the Company is operating in, were based on the education and skills possessed by the Members of the Audit Committee.

The below table presents the information on the compliance, in 2022, of the Members of the Audit Committee with the independence requirements and the requirements with respect to the knowledge and skills held.

Table no. 60. Compliance, in 2022, of the Members of the Audit Committee with the independence requirements and the requirements with respect to the knowledge and skills held

| First and last name | Period of performing the function (tenure) in the Audit Committee in 2021 | Compliance with the independence requirements and the requirements with respect to the knowledge and skills held |
|--------------------------|---|---|
| 1. Teresa Famulska | 01.01.2022 – 31.12.2022 | Independent. She has knowledge and skills with respect to accounting and auditing of the financial statements. |
| 2. Stanisław Borkowski | 01.01.2022 – 31.12.2022 | Independent. He has knowledge and skills with respect to accounting and auditing of the financial statements. |
| 3. Leszek Koziowski | 01.01.2022 – 31.12.2022 | Independent. |
| 4. Grzegorz Peczkis | 01.01.2022 – 31.12.2022 | Independent. He has knowledge and skills with respect to the industry in which the Company operates. |
| 5. Katarzyna Taczanowska | 01.01.2022 – 24.05.2022 | Independent. |

Tasks and competences of the Audit Committee

In 2022 the Audit Committee was performing the tasks and competences defined in the currently applicable legal regulations and in the *Regulations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.* adopted by the Supervisory Board.

The tasks and competences of the Audit Committee as of December 31, 2022, and as of the date of drawing up this report, are presented in the below table.

Table no. 61. Competences of the Audit Committee as of December 31, 2022, and as of the date of drawing up this report

| Competences of the Audit Committee | |
|------------------------------------|--|
| 1. | Monitoring the Company's financial reporting process, the effectiveness of the internal control, risk management, compliance and internal audit systems, including with respect to the financial reporting, performing of the financial auditing activities, in particular performing of an audit by an audit company, taking into account any conclusions (motions) and findings of the Audit Supervision Committee stemming from an audit performed at an audit company. |
| 2. | controlling and monitoring of the independence of the certified auditor and the audit company, in particular in case other services than an audit are provided for the benefit of the Company by the audit company, |
| 3. | performing the evaluation of the independence of the certified auditor and expressing consent for the performance thereby of the permitted services that do not constitute an audit within the Company, |
| 4. | developing the policy for selecting the audit company to perform the audit, |
| 5. | developing the policy for performing by the audit company conducting the audit, entities related to such audit company and the members of the audit company's corporate network, of the permitted services that do not constitute an audit, |
| 6. | defining the procedure for selecting the audit company by the Company, |
| 7. | presenting to the Supervisory Board, for the purpose of selecting the audit company responsible for performing the statutory audit or review of financial statements, of the recommendation, referred to in Art. 130, clauses 2 and 3 of the <i>Act of May 11, 2017 on certified auditors, auditing companies and public oversight</i> and in Art. 16, clause 2 of the <i>Regulation (EU) No 537/2014 of the European Parliament and of the Council of April 16, 2014 on specific requirements regarding statutory audit of public-interest entities (...)</i> , in line with the policies referred to above in items 4 and 5, |
| 8. | informing the Supervisory Board of the audit results and explaining how the audit contributed to the accuracy (fairness) of the Company's financial reporting, and also what the role of the Audit Committee in the audit process was, |
| 9. | presenting the recommendations aimed at ensuring accuracy (fairness, reliability) of the Company's financial reporting process, |
| 10. | performing other activities vested with the audit committees pursuant to the Act and the Regulation mentioned in items 7 above and <i>the Act of September 29, 1994, on accounting</i> . |

The below table presents the main issues that the Audit Committee was dealing with during its meetings in 2022.

Table no. 62. Main issues that the Audit Committee was dealing with during its meetings in 2022

| Main issues that the Audit Committee was dealing with during its meetings in 2022 | |
|---|--|
| 1. | Monitoring of the Company's financial reporting process, including analyzing the reliability of the financial information presented by the Company in the following documents in terms of its compliance with the books and documents, as well as with the factual situation, and making the relevant recommendations to the Supervisory Board based on the assessment of the information contained in: <ol style="list-style-type: none"> 1) Financial statements of TAURON Polska Energia S.A. for the financial year ended on December 31, 2021, 2) Proposal of the Management Board of the General Meeting of TAURON Polska Energia S.A. with respect to the distribution of the net profit for the financial year 2021, 3) Consolidated financial statements of TAURON Polska Energia S.A. Capital Group for the financial year ended on December 31, 2021, 4) Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year ended on December 31, 2021, the Non-financial Report of TAURON for the year 2021, 5) Extended consolidated report of TAURON Polska Energia S.A. for the first quarter of 2022, the first half of 2022 and the third quarter of 2022. |
| 2. | Cooperation with the certified auditor with respect to: <ol style="list-style-type: none"> 1) audit of the financial statements of the Company and of the consolidated financial statements of the Capital Group for the financial year 2021 (discussion of the auditor's report on the audit conducted, discussion of the additional report prepared by the auditor for the Audit Committee, becoming familiar with the statement on the compliance with the independence requirements by the audit firm and the members of the team performing the financial audit activities and the information on the non-performance of the non-audit services by the audit firm for the Company and TAURON Group's subsidiaries), 2) review of the interim, abbreviated financial statements of the Company and of the consolidated financial statements of the Capital Group for the first half of 2022 (discussion of the results of the review conducted and becoming familiar with the statement on the compliance with the independence requirements with respect to TAURON Group's subsidiaries and remaining independent with respect to the entity being audited during the time frame from the date of the submission of the previous statement of independence), 3) process of auditing the financial statements of the Company and the consolidated financial statements of the Capital Group for the financial year 2022 (discussion of the general assumptions of the audit process, the timetable, the audit strategy and the non-financial reporting, as well as the results of the preliminary audit of the Company and the subsidiaries). |
| 3. | Presenting to the Supervisory Board of a positive assessment with respect to the independence of the financial audit process and the conducting of the assessment of the key auditor and the members of the team performing the financial audit activities as to whether they meet the criteria for the independence with respect to TAURON Group's subsidiaries and remain independent with respect to the audited entity during the time frame from the date of the previous assessment of the independence, |
| 4. | Presenting of a recommendation to the Supervisory Board on the acceptance of the <i>Report of the Supervisory Board on the Assessment of the Financial Statements of TAURON Polska Energia S.A., the Consolidated Financial Statements of TAURON Capital Group, the Report of the Management Board on the Operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year ended on December 31, 2021 and the Proposal of the Management Board with respect to the distribution of the net profit for the financial year 2021,</i> |
| 5. | Discussion of the draft <i>Report on the compensation of the Members of the Management Board and of the Supervisory Board of TAURON Polska Energia S.A. for the year 2021</i> in order to provide it to the certified auditors to receive the opinion thereof, |
| 6. | Analysis of the financial results of TAURON Group and TAURON Polska Energia S.A. for the full year 2021, the first quarter of 2022, the first half of 2022 and for the third quarter of 2022. |
| 7. | Becoming familiar with the detailed information on the overhead costs at TAURON and at TAURON Group, including a comparison of the costs in question over a period of 3 years, |
| 8. | Becoming familiar with and evaluating of the new wording of the <i>Accounting Policy of TAURON Polska Energia S.A. Capital Group,</i> |
| 9. | Becoming familiar with the information with respect to the implementation of the activities stemming from the <i>Procedure for ensuring compliance, within TAURON Group, with the requirement of the independence of the audit company conducting the audit and review of the financial statements and the consolidated financial statements of TAURON Polska Energia S.A.,</i> |

Main issues that the Audit Committee was dealing with during its meetings in 2022

10. Monitoring of issues with respect to the internal audit and the internal control systems, in particular, discussing of the degree of the implementation of the annual *Audit Plan for TAURON Group for 2021*, as well as of the implementation in each quarter of the plan of the audit tasks and the ad hoc controls adopted for 2022.
11. Becoming familiar with the self-assessment of the audit area's activities over a three year period with respect to the effectiveness of the audit and control projects undertaken at TAURON Capital Group and the covering with its activities of all significant areas of the operations of TAURON Capital Group's subsidiaries,
12. Discussing of the Internal Control System Assessment Report for 2021,
13. Monitoring of the issues with respect to the key corporate and specific risks at TAURON Group, as well as getting acquainted with the information on the impact of the armed conflict in Ukraine on TAURON Group's operations and the measures taken to support the refugees from Ukraine,
14. Monitoring of the quarterly reports on the tasks carried out by the compliance area, as well as getting acquainted with: *TAURON Polska Energia S.A.'s Compliance Report for 2021*, *TAURON Group's Compliance Plan for 2022*, and the reports on the periodic assessment of the transactions concluded with the related parties for the periods of: H2 2021 and H1 2022,
15. Analysis of the participation of TAURON Capital Group's subsidiaries in the industry organizations, as well as of the cost of the membership of individual subsidiaries, and the discussion of the forecast of the cost of the membership of the subsidiaries in the industry organizations,
16. Becoming familiar with the quarterly information with respect to the area of purchasing, including in particular: the analysis of the purchase order (contract) award proceedings as part of the monitoring of the effectiveness of the internal control system, including the non-tender proceedings at TAURON Capital Group's subsidiaries, the findings and the conclusions stemming from the analysis of the purchase orders (contracts) awarded on the emergency basis by the Company and by TAURON Capital Group's subsidiaries, getting acquainted with the amendments to TAURON Group's Purchase Order Award Regulations,
17. Adopting and submitting to the Supervisory Board of the *Report on the activities of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. in the financial year 2021*,
18. Carrying out of other tasks entrusted by the Supervisory Board, including, among others, analyzing and evaluating of the documents or legal actions performed by the Company with respect to their compliance with the applicable legal regulations and the internal regulations.

Permitted non-audit services provided by an audit company

The following permitted non-audit services were provided for TAURON and TAURON Capital Group's subsidiaries in 2022 by the audit firm auditing the financial statements:

1. confirmed in writing verification of the annual and interim (semi-annual) standalone consolidation packages of selected TAURON Capital Group's subsidiaries required to prepare the annual and interim consolidated financial statements,
2. completing the agreed procedures for the verification of the report of TAURON Dystrybucja subsidiary in connection with the requirement to estimate the Regulatory Asset Base (RAB) and the Regulatory Asset Base (RAB) for the AMI System for the needs of determining the justified return on capital employed by the President of ERO.
3. an assessment of the annual report of the Supervisory Board on the compensation of the Management Board and the Supervisory Board of TAURON Polska Energia S.A., drawn up in accordance with art. 90g of the *Act on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies*.

In connection with the provision of the above mentioned services, the Audit Committee performed an evaluation of the threats to and the safeguards of the independence of the audit company Ernst & Young Audyt Polska and expressed its consent for the provision of the above mentioned services.

Main assumptions of the policy for selecting an audit company to conduct the audit and the policy of providing the permitted non-audit services by the audit company conducting the audit, by the entities related to such an audit company and by a member of the audit company's network

The Audit Committee adopted the following regulations on October 16, 2017, prepared in connection with the coming into force of the *Act of May 11, 2017, on certified auditors, auditing companies and public oversight*:

1. *Policy for the selection of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.,*
2. *Procedure for the selection of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.*
3. *Policy for the provision of the permitted non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., the entities related to such an audit firm and by a member of the audit firm's network.*

On October 5, 2020, the Audit Committee adopted the new version of the *Policy for the selection of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.*, as well as the *Procedure for the appointment (selection) of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.*

Policy for the selection of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A. is aimed at ensuring the compliance of the selection of the audit firm to conduct the audit and review of the Company's financial statements with the legal regulations. The policy defines, in a clear manner, the principles and rules of the process for the appointment of the audit firm to

audit the reports of TAURON as a public interest entity, principles of the procedure for the appointment of the audit firm, principles of preparing the recommendations of the Audit Committee related to the appointment of the audit firm, as well as the principles of the rotation of the audit firm conducting the audit and review of the financial statements and consolidated financial statements of TAURON. The most important assumptions adopted in the policy include the fact that the process for the appointment of the auditor shall be based on the applicable legal regulations, ensuring the transparency and objectivity of the process for the appointment of the auditor and including in the process of the requirements necessary for the timely and correct performance of the audit services for the Company.

Procedure for the selection of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A. is aimed at ensuring the compliance of the process for the appointment of the audit firm with the legal regulations, as well as ensuring that the audit and review of the financial statements are conducted at a high quality level, within a specified time frame, while ensuring independence, objectivity, transparency and credibility of the audit firm and the certified auditors. The procedure defines in detail and accurately the individual stages of the process to select the audit firm, including indicating the corporate authorities (bodies) and organizational units responsible for such stages. Furthermore, the procedure defines the general conditions for the participation in the proceedings and the criteria for the selection of the audit firm as well as the time frame of the auditor selection process. The most important assumptions made in the procedure include adopting a clear and transparent, based on the legal regulations, split of the responsibilities in the process for the appointment of the auditor, as well as defining transparent and non-discriminatory conditions for the participation in the tender procedure and criteria for the appointment of the audit firm that the company may apply.

Policy for the provision of the allowed non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., the entities related to such an audit firm and by a member of the audit firm's network is aimed at defining clear rules aimed at meeting the requirement of the independence of the audit firm conducting the audit of the Company, in case such firm or entities that are members of its network are providing non-audit services. This policy defines the principles related to the provision for the benefit of TAURON Capital Group's entities, by the audit firm conducting the audit at TAURON, entities related to the audit firm and a member of the audit firm's network, of additional non-audit services or non-review services, in particular the conditions for the admissibility of the provision of the permitted services, the principles of the Audit Committee conducting an assessment of the threats to and safeguards of the independence of the audit firm, as well as the control mechanisms with respect to observing the principles of the independence of the certified auditor at TAURON Capital Group. The most important assumptions adopted in the policy include defining clear rules for the Audit Committee to conduct an assessment of the threats to and safeguards of the independence of the audit firm and expressing consent for the provision of the non-audit services, based on the compliance with the legal regulations and the purposefulness of the provision of such services.

Recommendations of the Audit Committee related to the selection of the audit firm

In 2021, the audit firm was selected to audit and review the financial statements and consolidated financial statements of TAURON for the years 2022-2024. The Supervisory Board selected the audit company based on the recommendation of the Audit Committee which met the applicable conditions and was drawn up as a result of the Company's public procurement proceedings, in accordance with the applicable criteria, including an indication of a second alternative entity to perform such activities and providing the justification for the preferences behind the selection of the recommended audit firm.

Controlling and monitoring the independence of the auditor

Controlling and monitoring the independence of the audit firm by the Audit Committee shall take place on the basis of the legal provisions and regulations adopted by the Audit Committee, in particular the *Policy for the provision of the allowed non-audit services at TAURON Group by the audit firm conducting the audit of the annual financial statements and consolidated financial statements of TAURON Polska Energia S.A., the entities related to such an audit firm and by a member of the audit firm's network* (Policy). In addition, the Company implemented the *Procedure for the selection of the audit firm to conduct the audit and review of the financial statements and consolidated financial statements of TAURON Polska Energia S.A.* (Procedure), which is aimed at ensuring the correct and timely performance by the Company of the activities required for the process of controlling and monitoring the independence of the audit firm and the entities that are members of its network by the Audit Committee.

The auditor's independence shall be assessed by the Audit Committee each time as part of reviewing the interim (semi-annual) and annual financial statements and the consolidated financial statements of the Company. In accordance with the Procedure, the Company shall obtain a declaration of compliance with the independence criteria referred to in the *Act of 11 May 2017 on certified auditors, audit firms and public oversight* from the audit firm at least once every six months. This statement shall be assessed by the Audit Committee.

The auditor's independence shall be assessed by the Audit Committee each time the Company or a subsidiary intends to commission services permitted to be performed by the audit firm or a member of the network that such an audit firm is a part of. In such a situation, the Audit Committee shall each time assess the threats and safeguards protecting the independence of the certified auditor and the audit firm. The assessment of threats and safeguards protecting the independence of the certified auditor and the audit firm carried out by the Audit Committee in accordance with the Policy shall include:

1. verification whether the given service is included in the list of the permitted services,
2. verification whether the requirements regarding the maximum limit of the compensation allowed by law for the provision of services other than an audit are met,
3. checking whether the subject of the permitted service to be commissioned to the certified auditor or audit firm, an entity related to that audit firm or a member of the network that the certified auditor or the audit firm is a part of, is not related to the Company's tax policy,
4. assessment of the statement on the compliance with the independence criteria obtained by the Company, in accordance with the Procedure, from the certified auditor or the audit firm that is to perform the permitted services, valid as of the date of the assessment,
5. an analysis of the substantive justification for the performance of the service by the certified auditor or the audit firm conducting the audit, an entity related to that audit firm or an entity that is a part of its network, indicating the key factors impacting the legitimacy of such a selection.

The Procedure implemented at the Company defines activities, the organizational units responsible for their execution and deadlines for the execution of the activities aimed at ensuring, within TAURON Group, of the compliance with the requirement of independence of the audit firm conducting the audit and review of the Company's financial statements and consolidated financial statements. In particular, the Procedure defines the principles of the intra-group communication with respect to the selection of the audit firm to audit the Company's financial statements and the principles and deadlines for obtaining, from the audit firm, of the statements on the independence. The Procedure also sets forth the principles and deadlines for the Company to collect and verify the information on the agreements entered into by TAURON Capital Group's subsidiaries with the audit firm auditing and reviewing the Company's financial statements and consolidated financial statements, as well as with the members of the network that such an audit firm is a part of. In addition, the Procedure regulates the principles and the deadlines for the collection of the information on transactions entered into by TAURON Capital Group's subsidiaries with the audit firm auditing and reviewing the Company's financial statements and consolidated financial statements, as well as with the members of the network that such an audit firm is a part of. At least once a year, the Company shall prepare information on the performance of the activities stemming from this procedure and submit it to the Audit Committee for evaluation.

Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A.

The members of the Nominations and Compensation Committee were appointed for the current term on August 3, 2020, by the Supervisory Board of the 6th common term of office from among its members.

The Nominations and Compensation Committee held a total of 9 meetings and passed 14 resolutions during the period covered by this report.

All of the Members of the Nominations and Compensation Committee were present during 7 meetings, while 1 Member of the Nominations and Compensation Committee was absent during 2 meetings. The absences of the Nominations and Compensation Committee Members were excused by the relevant resolutions of the Nominations and Compensation Committee.

The Nominations and Compensation Committee was composed of 4 to 5 members in 2022.

The composition of the Nominations and Compensation Committee as of December 31, 2022, and as of the date of drawing up this report

1. Piotr Tutak - Head of the Nominations and Compensation Committee,
2. Leszek Koziorowski - Member of the Nominations and Compensation Committee,
3. Ryszard Madziar - Member of the Nominations and Compensation Committee,
4. Marcin Wawrzyniak - Member of the Nominations and Compensation Committee.

The changes to the composition of the Nominations and Compensation Committee in 2022 and by the date of drawing up this report

As of January 1, 2022, the Nominations and Compensation Committee was composed of the following Members of the Supervisory Board of the Company: Piotr Tutak (Head of the Nominations and Compensation Committee), Leszek Koziorowski, Ryszard Madziar and Marcin Wawrzyniak.

On June 10, 2022, the Company's Supervisory Board supplemented the composition of the Nominations and Compensation Committee by appointing Marcin Chludziński to be a member thereof.

On November 30, 2022, Marcin Chludziński submitted a statement of his resignation from the membership of the Company's Supervisory Board, effective as of the same day. Thus, his membership of the Nominations and Compensation Committee was terminated.

There had been no other changes to the composition of the Nominations and Compensation Committee by the date of drawing up this report.

Tasks and competences of the Nominations and Compensation Committee

The tasks and competences of the Nominations and Compensation Committee, as of December 31, 2021, and as of the date of drawing up this report, are presented in the below table.

Table no. 63. Competences of the Nominations and Compensation Committee, as of December 31, 2022, and as of the date of drawing up this report

| Competences of the Nominations and Compensation Committee |
|--|
| <ol style="list-style-type: none">1. recommending to the Supervisory Board a recruitment procedure for the positions of the Members of the Company's Management Board,2. evaluating candidates for the Members of the Management Board and providing the Supervisory Board with opinions in this respect,3. recommending to the Supervisory Board a form and content of the agreements to be concluded with the members of the Management Board,4. recommending to the Supervisory Board a compensation and bonus system for the members of the Management Board,5. recommending to the Supervisory Board the need to suspend a member of the Management Board for important reasons,6. recommending to the Supervisory Board the need to delegate a member of the Supervisory Board to temporarily perform the duties of the Members of the Management Board who cannot perform their duties, along with a compensation proposal |

The below table presents the main issues that the Nominations and Compensation Committee was dealing with during its meetings in 2022.

Table no. 64. Main issues that the Nominations and Compensation Committee was dealing with during its meetings in 2022

| Main issues that the Nominations and Compensation Committee was dealing with during its meetings in 2022 |
|---|
| <ol style="list-style-type: none">1. Presentation of the recommendations to the Supervisory Board with respect to the determination of the compensation for the Members of the Management Board of TAURON Polska Energia S.A. and the conclusion of Annexes no. 1 to the agreements for the provision of the management services with the Members of the Management Board,2. Presentation of the recommendations to the Supervisory Board with respect to the adoption of the detailed Management Objectives for the Members of the Management Board of TAURON of the 6th common term of office to be implemented in 2022, along with the determination of the weights of these objectives as well as the objective and measurable criteria for the implementation and accountability thereof,3. Carrying out of an analysis and evaluation of the performance of the Management Objectives set for the Members of the Management Board of the Company of the 6th common term of office to be implemented in 2021, and the presentation of the adequate recommendations to the Supervisory Board, including the ones related to the amount of the payout of the Variable Compensation due to the Members of the Management Board for 2021,4. Adoption and submission to the Supervisory Board of the <i>Report on the activities of the Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A. in the financial year 2021</i>,5. Presentation of a recommendation to the Supervisory Board with respect to the announcement and conducting of the recruitment procedure for the positions of the President and the Vice Presidents of the Management Board of TAURON the common 6th term of office,6. Opening and verifying of the applications of the candidates with respect to the meeting of the formal requirements in the recruitment procedure for the individual positions in the Management Board of the Company of the 6th common term of office,7. Analyzing the quarterly information with respect to the proper performance of the duties of the Members of the Management Board under the agreements for the provision of the management services. |

Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.

The members of the Strategy Committee were appointed for the current term on August 3, 2020, by the Supervisory Board of the 6th common term of office from among its members.

The Strategy Committee held a total of 5 meetings and passed 6 resolutions during the period covered by this report.

All of the Members of the Strategy Committee were present during 3 meetings, while 1 Member of the Strategy Committee was absent during 2 meetings. The absences of the Strategy Committee Members were excused by the relevant resolutions of the Strategy Committee.

The Strategy Committee was composed of 5 to 6 members in 2022.

The composition of the Strategy Committee as of December 31, 2022, as of the date of drawing up this report

- | | |
|------------------------|-------------------------------------|
| 1. Grzegorz Peczkis | - Head of the Strategy Committee, |
| 2. Stanisław Borkowski | - Member of the Strategy Committee, |
| 3. Dariusz Hryniów | - Member of the Strategy Committee, |
| 4. Ryszard Madziar | - Member of the Strategy Committee, |
| 5. Piotr Tutak | - Member of the Strategy Committee, |
| 6. Marcin Wawrzyniak | - Member of the Strategy Committee. |

The changes to the composition of the Strategy Committee in 2022 and by the date of drawing up this report

As of January 1, 2022, the Strategy Committee was composed of the following Members of the Company's Supervisory Board: Grzegorz Peczkis (Head of the Strategy Committee), Stanislaw Borkowski, Ryszard Madziar, Piotr Tutak and Marcin Wawrzyniak.

On February 23, 2022, the Company's Supervisory Board supplemented the composition of the Strategy Committee by appointing Dariusz Hryniów to be a member thereof.

There had been no other changes to the composition of the Strategy Committee by the date of drawing up this report.

Tasks and competences of the Strategy Committee

The tasks and competences of the Strategy Committee as of December 31, 2022, and as of the date of drawing up this report are presented in the below table

Table no. 65. Competences of the Strategy Committee as of December 31, 2022, and as of the date of drawing up this report

| Competences of the Strategy Committee |
|---|
| <ol style="list-style-type: none">1. evaluating the Company's and TAURON Capital Group's Strategy and presenting the results of such evaluation to the Supervisory Board,2. recommending to the Supervisory Board the scope and deadlines for submitting the long term (multi-year) strategic plans by the Management Board,3. evaluating the impact of the planned and currently undertaken strategic investment projects on the Company's assets' position,4. monitoring the implementation of the strategic investment tasks,5. evaluating activities related to the use of the Company's material assets,6. providing opinions on the strategic documents submitted to the Supervisory Board by the Management Board |

The below table presents the main issues that the Strategy Committee was dealing with during its meetings in 2022.

Table no. 66. Main issues that the Strategy Committee was dealing with during its meetings in 2022

| Main issues that the Strategy Committee was dealing with during its meetings in 2022 |
|--|
| <ol style="list-style-type: none">1. Presentation of a recommendation to the Supervisory Board with respect to the issuing of a positive opinion on <i>TAURON Group's Strategy for the years 2022-2030 with an outlook until 2050</i>,2. Adoption and submission to the Supervisory Board of the <i>Report on the activities of the Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. in the financial year 2021</i>,3. Presentation of a recommendation to the Supervisory Board on the approval of the <i>Report of the Management Board on the oversight of the implementation of the investment projects at TAURON Group in 2021</i> and the acceptance of the <i>Report of the Supervisory Board of TAURON Polska Energia S.A. on the oversight of the implementation of the investment projects by the Management Board, including the purchasing of the fixed assets in 2021</i>,4. Site surveys at the 910 MW power generation unit in Jaworzno, the 56 MW hydro power plant in Rożnów and the 30 MW Piotrków wind farm,5. Discussion of the issues related to the implementation of the key investment projects for TAURON Group in 2022, with a particular emphasis on the projects at TAURON Dystrybucja and in the following Lines of Business: Generation, RES, Heat, Mining and Customer Service,6. Discussion of the RES model implemented at TAURON Group with respect to the division of the tasks among the various subsidiaries and the way TAURON is coordinating and supervising the implementation of the RES projects,7. Becoming familiar with the activities of TAURON Group's following subsidiaries: TAURON Zielona Energia, TAURON Ekoenergia, TAURON Nowe Technologie and TAURON Inwestycje,8. Discussion of the issues related to the implementation of the projects aimed at increasing the installed capacity of the renewable energy sources, as well as the agreements and memoranda of understanding signed by TAURON Zielona Energia with the external entities securing the land for the construction of the photovoltaic installations and wind farms,9. Becoming familiar with the planned undertakings with respect to the construction of the energy storage facilities by TAURON Group,10. Discussion of the most important issues related to the Polish capacity market,11. Discussion of the advancement progress of the R&D projects in 2021. |

Description of the activities of the Committees of the Supervisory Board of TAURON Polska Energia S.A.

The detailed description of the activities of the Committees of the Supervisory Board is provided in the Regulations of the individual Committees of the Supervisory Board.

The Committees of the Supervisory Board are advisory and opinion making bodies acting collectively as a part of the Company's Supervisory Board structure and perform the support and advisory functions for the Supervisory Board. The tasks of the Committees of the Supervisory Board are carried out by submitting motions, recommendations, opinions and statements related to the scope of their tasks to the Supervisory Board, by way of the resolutions passed. The Committees of the Supervisory Board are independent of the Management Board of the Company.

The Audit Committee and the Nominations and Compensation Committee of the Supervisory Board are composed of 3 to 5 members, while the Strategy Committee is composed of 3 to 7 members. The activities of the individual Committees are managed by the Chairpersons (Heads) thereof.

The meetings of the Committees of the Supervisory Board shall be convened by the Chairperson (Head) of the specific Committee on his / her own initiative or upon the motion of a member of the Committee or Chairperson of the Supervisory Board and they are held on as needed basis. In case of the Audit Committee the meetings are convened at least on a quarterly basis. The Head of the given Committee may invite the Members of the Company's Supervisory Board, who are not members of the specific Committee, the members of the Management Board and the employees of the Company as well as other persons working or cooperating with the Company to take part in the meetings of the Committees. The Head of the specific Committee or a person appointed by him / her submits motions, recommendations and reports to the Supervisory Board .

The Committees of the Supervisory Board shall pass resolutions if at least half of their members are present at the meeting and all of the members have been duly invited. The resolutions of the Committees of the Supervisory Board are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given "for" than "against" and "abstain". The Committees of the Supervisory Board may pass resolutions in writing or by using the means of direct remote communication.

The Members of the Committees of the Supervisory Board may also participate in the meetings of the Committees and vote on the resolutions being passed by using the means of direct remote communication, i.e. tele- or video conferences.

The Company's Management Board shall be informed of the recommendations and assessments submitted to the Supervisory Board by the given Committee of the Supervisory Board. Every year, the Committees of the Supervisory Board shall provide public record information, via the Company, on their memberships, the number of meetings held and the participation in the meetings during the year, as well as on their main activities.

The Company's Management Board shall provide the individual Committees with the possibility of using the services of the external advisers to the extent required to perform the obligations of the Committees

9.12. TAURON Group's Diversity Policy

The Company has *TAURON Group's Diversity Policy* (Diversity Policy) in place, under which TAURON Capital Group applies the policy of equal treatment and seeks to ensure diversity in terms of gender, educational background, age and professional experience in relation to all of its employees. The Diversity Policy is also applied in the cooperation with the external partners of TAURON Capital Group, i.e. companies, universities, schools or other business entities.

The Company does not have a separate diversity policy with respect to the Members of the Management Board and of the Supervisory Board in place, due to the adoption by the Company of the solutions in accordance with the Act of December 16, 2016 on the Principles of State Assets Management, related to the appointment of the members of the Management Board following the conducting of a recruitment procedure, and due to the personally assigned powers of the minister competent to exercise the rights related to the State Treasury shares to appoint a majority of the Members of the Supervisory Board.

With respect to the Members of the Management Board and the Supervisory Board the appointment of the persons performing the functions of the Members of the Management Board of the Company shall be made by the Supervisory Board of the Company, while the members of the Supervisory Board of the Company shall be elected by the General Meeting of the Company and the minister competent to exercise the rights related to the shares of the State Treasury under the statutory powers of the State Treasury.

The Members of the Management Board of the Company shall be appointed by the Supervisory Board of the Company on the basis of a recruitment procedure conducted in accordance with the rules and requirements set out in the Articles of Association and the *Act of December 16, 2016, on the principles of state assets management* whose goal is to check and assess the qualifications of the candidates and selecting the best candidate.

The announcement (notice) of the recruitment process shall be published on the Company's web site at the address: <https://www.tauron.pl> and in the Public Information Bulletin of the Minister competent to exercise the rights related to the shares of the State Treasury. Anyone who meets the requirements set out in § 16, clauses 3 and 4 of the Company's Articles of Association may enter the recruitment process. Due to the lack of specific requirements regarding, inter alia, gender, education background, age and professional experience, the Supervisory Board of the Company, when assessing and selecting candidates for the Members of the Management Board of the Company, has an option to ensure versatility and diversity in the selection of the Members of the Management Board of the Company.

Due diligence procedures and internal regulations

The due diligence procedures in place under the Diversity Policy include the activities aimed at:

1. developing the work environment based on respect, openness, reliability and fairness (justice),
2. ensuring versatility and diversity, in particular with respect to gender, education, age and professional experience,

3. building organizational culture open to diversity, based on the corporate values: Partnership, Development and Boldness (PRO),
4. preventing discrimination by fostering appropriate atmosphere at work as well as building and strengthening positive relationships among the personnel.
5. supporting employee initiatives related to equality practices at the Group's Subsidiaries,
6. support for vulnerable groups of people
7. activities that support work-life balance,
8. equal treatment of employees in the hiring process and prohibition of discrimination,

By implementing its Diversity Policy TAURON Capital Group is seeking to provide the work environment based on respect and fairness (justice), within which each employee may fully realize his or her individual potential.

In accordance with the Diversity Policy, diversity and openness are an integral part of TAURON Capital Group's business operations. TAURON Capital Group applies the policy of equal treatment and seeks to ensure diversity in terms of gender, educational background, age and professional experience in relation to all employees, and in particular to the governing bodies and its key managers. Measures are also being taken to prevent manifestations of discrimination by developing the right atmosphere at work, creating and strengthening positive relations among the employees and building an organizational culture based on PRO corporate values.

As part of the employee related issues supporting the implementation of the directions set by TAURON Capital Group's Diversity Policy, the following regulations are put in place:

1. *Policy of compliance with the Principles of Ethics and counteracting Mobbing and Discrimination at TAURON Group,*
2. *Policy of Respect for Human Rights* defining the principles of respect for human rights and actions taken to prevent their violation and to support the atmosphere of dignity and mutual respect,
3. training and competence development programs conducive to and supporting the creation of an atmosphere for the development of each employee,
4. regulations ensuring fairness and objectivity with respect to work organization and compensation, including among others:
 - 1) *TAURON Group's Compensation Principles,*
 - 2) *Human Resources Management Policy at TAURON Group,*
 - 3) regulations with respect to benefits (entitlements),
 - 4) flexible forms of work time and ability to work remotely,
5. *TAURON Group's Employee Recruitment Principles,*
6. *TAURON Group's Competence Model*

TAURON Capital Group's diversity management is based on building a culture of openness. TAURON Capital Group, by fighting age related stereotypes, is building an intergenerational dialogue so as to facilitate the flow of knowledge. The workforce represents various age groups, including those over 50 years of age. Among the employees there are also people with various degrees of disability, which ensures the stimulation of the activities of this professional group.

TAURON Capital Group is taking steps aimed at preventing the discrimination, in particular due to age, gender, race, nationality, sexual orientation, appearance, fitness, difference in the views or political or religious beliefs by fostering the adequate atmosphere at work, which makes the employees feel respected and appreciated and gives a feeling that they can develop and fully realize their professional potential.

10. STATEMENT ON NON-FINANCIAL INFORMATION

Pursuant to art. 49b, clause 9 and art. 55, clause 2c of the *Act of September 29, 1994, on accounting* (Journal of Laws of 2023, item 120), instead of the statement on the non-financial information, the Company drew up a Non-financial Report of TAURON Capital Group for 2022, in line with the requirements defined in art. 49b, clauses 2-8 of the act on accounting, in the form of a separate document posted on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/raporty-okresowe>.

11. POLICY OF COMPENSATION OF MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

11.1. Compensation system for the Members of the Management Board and the key managers

General information on the adopted compensation system for the Members of the Management Board of TAURON Polska Energia S.A.

The principles of the compensation of the Members of the Management Board in 2022 were in line with the *Policy of Compensation of the Members of the Management Board and the Supervisory Board* (Compensation Policy) adopted by the General Meeting of the Company by way of the resolution no. 26 of July 15, 2020, as amended by the GM of the Company by way of the resolution no. 31 of May 24, 2022.

The above mentioned principles were also in line with the resolution no. 5 of the Extraordinary General Meeting of the Company of November 21, 2019, on the principles of determining the compensation of the Members of the Management Board, and the subsequent amendment passed by the GM of the Company by way of the resolution no. 30 of May 24, 2019, and the *Act of June 9, 2016, on the principles of determining the compensation of persons managing certain companies* (Journal of Laws of 2020, item 1907), as well as the Best Practice 2021.

The Company shall draw up a report on the compensation of the Members of the Management Board and the Supervisory Board of the Company for the individual financial years in accordance with art. 90g of the *Act of July 29, 2005, on a public offering and conditions of introducing financial instruments to an organized trading system and on public companies* and shall publish such reports on the Company's website at the address: <https://www.tauron.pl/tauron/relacjeinwestorskie/informacje-o-spolce/dokumenty-spolki>.

The subject of the Report on the Compensation are the principles of determining and the structure of the compensation of the Members of the Management Board and the Supervisory Board of the Company in the individual financial years, with a particular emphasis on the total compensation of the individual Members of the Management Board, broken down into the fixed and the variable compensation dependent on the accomplishment of the specific management objectives, along with the amount of the additional cash benefits and non-cash benefits granted to the Members of the Management Board and the amount of the benefits received by the Members of the Management Board in connection with the termination of the contract for the provision of the management services and the compliance with the non-compete clause.

The Compensation Policy, along with the resolution of the General Meeting of the Company on the adoption thereof is published on the Company's website at the address: <https://www.tauron.pl>.

The overarching objectives of the Compensation Policy include:

1. ensuring a consistent and motivational compensation system for the Members of the Company's Management Board,
2. linking the compensation principles with the monitoring of the implementation of the adopted strategic plans, the long term interests of the Company and the implementation of the financial plans,
3. setting the level of the compensation of the Members of the Company's Management Board in a way that links it with the accomplishment of the management objectives set
4. increasing the Company's value through the development of the most senior management staff
5. improving the compensation system that would result in the implementation of the Company's business strategy and the directions of its expansion,
6. ensuring the stable growth of the Company.

The model of compensation covered by the Compensation Policy assumes a two-component system for determining the compensation of the Members of the Company's Management Board, where the total compensation of a Member of the Company's Management Board is composed of a fixed part constituting the monthly base compensation and a variable part constituting the supplementary compensation for the Company's financial year, dependent on achieving specific management KPI objectives.

The system of compensating the Members of the Company's Management Board assumes linking the variable part of the compensation with the outstanding management objectives stemming from the provisions of the *Act of June 9, 2016 on the principles for determining the compensation of the management personnel of certain companies*, (Journal of Laws of 2020, item 1907), and set, pursuant to these provisions, by the GM and the Supervisory Board of the Company. The adoption, in the compensation system, of the dependence of the compensation's variable part on achieving the management objectives set to be accomplished is aimed, in particular, at implementing the adopted Strategy, the directions of the Company's expansion and the financial plans, taking into account the Company's long term interests.

Taking into account the applicable regulations, the level of compensation of the Members of the Company's Management Board is determined by the Supervisory Board of the Company within the range determined by the GM of the Company.

The variable compensation of the Members of the Company's Management Board shall not exceed 100% of the fixed compensation for the financial year, assuming the management objectives, set by the GM and detailed by the Supervisory Board for the given financial year, have been achieved. In the year under review, the Company's Supervisory Board passed a resolution resulting in an increase of the maximum amount of the variable compensation from 60% to 100% of the annual fixed compensation of a Member of the Management Board in the previous financial year.

The variable compensation for achieving the financial management objectives shall be granted based on the data coming from the audited consolidated financial statements of the Company for the given financial year. The variable compensation for achieving the non-financial management objectives is due in connection with the achieving of the specific goals in the given financial year based on the assessment of the accomplishment thereof made by the Supervisory Board of the Company.

The Members of the Management Board of the Company are neither covered by the bonus program based on the equity of the Company (stock awards), nor do they receive any compensation or bonuses due to the performance of their functions in the governing bodies of TAURON Capital Group's subsidiaries.

General information on the adopted System of Compensation of the Members of the Management Board of TAURON Capital Group's Subsidiaries

At all of TAURON Capital Group's subsidiaries for which TAURON is a parent company within the meaning of art. 4, clause 3 of the *Act of February 16, 2007, on the protection of competition and consumers*, (Journal of Laws of 2021, item 275), the principles of compensation of the members of the management bodies are applied in accordance with the *Act of June 9, 2016, on the principles of determining compensation of the management personnel of certain companies* (Journal of Laws of 2020, item 1907). The above was defined in the *Policy for determining the compensation of the members of the authorities of the Subsidiaries* adopted by the Management Board of TAURON, and in the *Principles of the compensation of the members of the corporate authorities of the Subsidiaries*.

The principles of compensation of the members of the management bodies of the subsidiaries are, similar as at TAURON, based on a two component system for determining the compensation, where the total compensation is composed of a fixed part and a variable part dependent on fulfilling specific, results based criteria, i.e. achieving the management objectives. Linking of the compensation's variable part to achieving the management objectives set to be accomplished is of material importance in TAURON Capital Group's management process and is aimed at prioritizing the directions of the expansion of the individual subsidiaries.

General information on the adopted System of Compensation of the Key Managers

The principles related to the compensation and bonus system for the key managers and other employees are defined in the *Regulations of the Compensation of the Employees of TAURON Polska Energia S.A.*, adopted for application by the Management Board of the Company.

TAURON Group's Principles of Compensation were in force at TAURON Capital Group in 2022, constituting the guidelines for TAURON Capital Group's subsidiaries with respect to the personnel compensation systems, particularly taking into account the bonus system for the key managers based on the management by objectives system, consistent throughout entire TAURON Capital Group, representing a combination of the planning process, efficiency (performance) measurement process and assessment process.

The compensation and bonus system for the key managers in force envisages that the level of compensation should be tied to the financial condition of TAURON Capital Group and the Company over one year's time frame, in connection with the achievement of the strategic goals.

The overarching assumption of the compensation system in force is to ensure the optimal and motivating compensation level, based on the value and type of work in the given position, as well as the quality of work and effects achieved by the employees.

The structure of the compensation is composed of the following elements:

1. fixed part - constituting the base compensation (salary) determined in accordance with the table of level (tier) categories applicable at the Company and the monthly rates of the personal level (tier). The allocated level of the basic compensation (salary) reflects the value and type of work as well as the quality of the employee's work, defined based on the assessment of the employee's competence level,
2. variable part - which is dependent on the work performance results, defined based on the level of accomplishing the targets and tasks within the Management By Objectives (MBO) bonus system,
3. benefits (entitlements) - which are defined in the internal regulations of the Company.

The MBO bonus system based on the market principles of awarding bonuses ensures focusing of the activities of the key managers on attaining the objectives aimed at implementing the Strategy, as well as the strategic objectives and expansion directions of TAURON Capital Group's individual subsidiaries. Such a system allows for cascading of the objectives defined by the Company's Management Board at TAURON Capital Group level and at the Company level, down to the concrete, parameterized tasks vested with the employees positioned at the lower levels of the organization. In addition, the MBO bonus system has been linked with the process based management system implemented at TAURON Capital Group, inter alia, by linking the objectives with the Mega-processes defined within TAURON Capital Group. Therefore, the Management by Objectives culture introduced reflects the specific features of the individual functions implemented by the Company and allows for the use of the mechanisms enabling dialogue between the superior and the subordinate during the process of setting and assessing the objectives, that translate into attaining the overall efficiency throughout the entire organization.

At the same time, this tool enables precise correlating of the KPIs defined for the Members of the Company's Management Board with the objectives set for the given year for the key managers of the Company. An initial assessment of the accomplishment of the objectives takes place after the elapse of the first 6 months, while the Members of the Company's Management Board make the final assessment of the accomplishment of the objectives by the key managers after the year has ended.

In addition, there is a bonus system for the trading area (and the units directly cooperating therewith) in place, the purpose of which is to motivate the personnel to achieving the higher revenues for TAURON Capital Group. The trading bonus covers the key managers from the trading area, where the bonus mechanism awards them an additional bonus only after exceeding their designated annual trading plans.

11.2. Principles, conditions and amount of compensation of the Members of the Management Board of TAURON Polska Energia S.A. and the entities that are a part of TAURON Capital Group

Compensation of the Members of the Management Board of TAURON Polska Energia S.A.

The compensation of the Members of the Company's Management Board is determined by the Supervisory Board of the Company. The total amount of the compensation understood as the value of the salaries, bonuses and benefits received in cash, in kind or in any other form, as well as the severance payments and the compensation for refraining from competitive activities, paid out by the Company to the Members of the Management Board of the Company in 2022 reached the gross amount of PLN 6 181 000.

The compensation of the Members of the Company's Management Board paid out in 2022, broken down into the individual components, is presented in the below table.

Table no. 67. Compensation of the Members of the Company's Management Board paid out in 2022, broken down into the individual components (excluding markups)

| First and last name and the period of holding a position on the Company's Management Board in 2022 | Total compensation ¹ (PLN '000) | Fixed compensation (PLN '000) | Variable compensation ² for achieving KPIs in 2021 (PLN '000) | Other benefits (PLN '000) | Severance pay (PLN '000) | Ban on competition (PLN '000) | Total (PLN '000) |
|--|--|-------------------------------|--|--|--------------------------|-------------------------------|------------------|
| 1. Paweł Szczeszek 11.04.2022 – 31.12.2022 | 572 | 572 | 0 | – | – | – | 572 |
| 2. Patryk Demski 01.01.2022 – 31.12.2022 | 921 | 740 | 181 | 43 incl.: 13 PPE ³ 30 DMS ⁴ | – | – | 964 |
| 3. Bogusław Rybacki 09.09.2022 – 31.12.2022 | 230 | 230 | 0 | 9 DMS ⁴ | – | – | 239 |
| 4. Krzysztof Surma 01.01.2022 – 31.12.2022 | 921 | 740 | 181 | 48 incl.: 46 PPE ³ 2 Training ⁵ | – | – | 969 |
| 5. Tomasz Szczegielniak 06.09.2022 – 31.12.2022 | 236 | 236 | 0 | 8 DMS ⁴ | – | – | 244 |
| 6. Artur Warzocha 21.01.2022 – 31.12.2022 | 701 | 701 | 0 | 34 PPE ³ | – | – | 735 |

| First and last name and the period of holding a position on the Company's Management Board in 2022 | Total compensation ¹ (PLN '000) | Fixed compensation (PLN '000) | Variable compensation ² for achieving KPIs in 2021 (PLN '000) | Other benefits (PLN '000) | Severance pay (PLN '000) | Ban on competition (PLN '000) | Total (PLN '000) |
|--|--|-------------------------------|--|---------------------------|--------------------------|-------------------------------|------------------|
| 7. Artur Michałowski 01.01.2022 – 12.08.2022 | 637 | 456 | 181 | – | 185 | 247 | 1 069 |
| 8. Jerzy Topolski 01.01.2022 – 12.08.2022 | 900 | 456 | 444 | 57 PPE ³ | 185 | 247 | 1 389 |
| Total | 5 120 | 4 131 | 988 | 198 | 370 | 493 | 6 181 |

¹total of fixed compensation and variable compensation.

²variable compensation had been paid in full due amount (100% of all of the set management objectives had been accomplished).

³PPE – Employee Pension Program.

⁴DMS – Housing allowance for the company's accommodation.

⁵Individual training sessions.

As part of the Company's obligations towards the former Members of TAURON's Management Board, the total amount of PLN 875 000 was paid out in 2022 due to the payment of the variable compensation and the other benefits.

The Members of TAURON's Management Board did not receive any compensation or bonuses for performing the functions in the corporate bodies of TAURON Capital Group's subsidiaries in 2022.

All of the Members of the Management Board of the Company received in 2021 their compensation in accordance with the applicable contract for the provision of the management services in compliance with the *Act of June 9, 2016, on the principles of determining compensation of the management personnel of certain companies* (Journal of Laws of 2020, item 1907) and the Compensation Policy.

The detailed information on the compensation model for the Members of the Company's Management Board and the Compensation Policy is presented in section 11.1. of this report.

Information on the obligations towards the former Members of the Company's Management Board due to pensions or benefits of similar nature

The Company does not have any obligations towards the former Members of the Company's Management Board due to pensions or benefits of similar nature.

Compensation of the Members of the Management Boards of TAURON Capital Group's subsidiaries

The compensation of the Members of the Management Boards of TAURON Capital Group's subsidiaries is determined taking into account the scale of the given subsidiary's operations, in particular:

1. average annual headcount,
2. annual net revenue (turnover) from the sales of goods, products and services as well as from the financial operations,
3. total assets on the balance sheet as of the end of the year.

Based on the above criteria, the categories of the subsidiaries are defined, which determine the amount of the fixed compensation of the members of the subsidiaries' management bodies.

The principles of the compensation of the Members of the Management Boards of TAURON Capital Group's subsidiaries are published on the Company's website at the address: <https://www.tauron.pl>.

11.3. Agreements concluded with the Members of the Management Board that envisage compensation in case of their dismissal from the position held

The agreements (contracts) for the provision of the management services concluded both with the Members of TAURON's Management Board, as well as with the Members of the Management Boards of TAURON Capital Group's individual subsidiaries, envisage, in case of the termination or renouncement of the agreement by the Company for reasons other than defined therein, a payout of the severance payment in the amount of three times the fixed part of the compensation, on the condition they have performed their function over a period of at least 12 months prior to the termination of the agreement.

In addition, due to the Members of TAURON's Management Board, as well as the Members of the Management Boards of TAURON Capital Group's individual subsidiaries having access to the confidential information the disclosure of which could expose the Company and TAURON Capital Group's subsidiaries to losses, the agreements for the provision of the management services include the non-compete clauses applicable after the expiry of the term of office. Under the above mentioned agreements the Members of the Management Board are

obligated to refrain from conducting competitive activities for a specified period of time in return for the compensation due thereto.

11.4. Non-financial components of the compensation due to the Members of the Management Board of TAURON Polska Energia S.A. and the key managers

Non-financial components of the compensation of the Members of the Company's Management Board

The Members of the Company's Management Board, in accordance with the agreements for the provision of the management services, shall be entitled to the reimbursement by the Company of the cost of the individual training up to the net amount of PLN 15 000 in a calendar year.

The Members of the Company's Management Board are covered by the Employee Pension Program in accordance with the rules applicable to all of the employees of TAURON.

In addition, in the event of the permanent residence at a considerable distance from the registered office of the Company, a Member of the Management Board of the Company shall be entitled to a housing allowance in the gross amount of PLN 2 500.00 per month, that constitutes an additional benefit.

Non-financial components of the compensation of the key managers

The personnel employed at the key positions by the Company shall be entitled to take advantage of the following benefits and the non-financial components of the compensation offered by the Company:

1. Employee Pension Program managed by the employer (under the condition of being employed by the Company or by one of TAURON Capital Group's subsidiaries over a period of at least 1 year),
2. medical package financed with the Company's funds,
3. company car allocated for their exclusive use,
4. housing allowance in the gross amount of PLN 2 500.00 per month in case the availability of the employee is required due to the nature of his / her work and scope of responsibilities.

11.5. Information on the changes to the compensation policy during the last financial year

During the reporting year, the Compensation Policy for the Members of the Management Board and the Supervisory Board, as adopted by the General Meeting of the Company by way of the resolution no. 26 dated July 15, 2020, had been in effect until May 23, 2022.

On May 24, 2022, the General Meeting of the Company, by way of the resolution no. 31, updated the wording of the Compensation Policy with respect to increasing the amount of the compensation for a Member of the Management Board for each month of the non-compete clause being in force after the termination of his or her position on the Management Board of the Company from 50% to 100% of the Fixed Compensation. The maximum period of the non-compete clause being in force after the termination of his or her position on the Management Board of the Company has not changed and may not exceed 6 months. The other provisions of the Compensation Policy have not changed.

11.6. System of the Compensation of the Members of the Supervisory Board of TAURON Polska Energia S.A.

The principles of the compensation of the Members of the Supervisory Board of the Management Board in 2022 were in line with the Compensation Policy and the resolution no. 6 of the Extraordinary GM of the Company of December 15, 2016, amended by the resolution no. 6 of the Extraordinary GM of the Company of November 21, 2019, on the principles of determining the compensation of the Members of the Supervisory Board.

In accordance with the resolution no. 6 of the Extraordinary GM of the Company of December 15, 2016, *on the principles of determining the compensation of the Members of the Supervisory Board*, as subsequently amended, which continues to be valid also in the light of the Compensation Policy in force, the monthly compensation of the Members of the Supervisory Board of the Company is determined as a product of multiplying the assessment base mentioned in art. 1, clause 3, item 11 of the *Act of 9 June 2016 on the principles for determining the compensation of the management personnel of certain companies*, and the multiplier:

1. for the Chairperson of the Supervisory Board – 1.7
2. for the other members of the Supervisory Board – 1.5

The Members of the Supervisory Board shall be entitled to receive the compensation irrespective of the frequency of the meetings convened.

The compensation shall not be due for a month during which a Member of the Supervisory Board of the Company was not present at any of the formally correctly convened meetings, and the absence thereof was not excused. The decision on excusing or a failure to excuse the absence of a Member of the Company's Supervisory Board at the meeting thereof shall be taken by the Company's Supervisory Board by way of a resolution.

Pursuant to the Company's Articles of Association, TAURON shall cover the costs incurred in connection with the performance the Members of the Supervisory Board of the functions entrusted therewith, in particular: the costs of the round trip between the place of residence and the venue of the Supervisory Board's meeting or a meeting of the Supervisory Board's Committee, the costs of the individual supervision and the costs of the accommodation and board.

11.7. Compensation of the Members of the Supervisory Board of TAURON Polska Energia S.A.

The total amount of the compensation understood as the value of the compensations due or paid out by the Company to the Members of the Company's Supervisory Board in 2022 reached the gross amount of PLN 712 000.

The compensation of the Members of the Supervisory Board of the Company in 2022 is presented in the below table.

Table no. 68. Compensation of the Members of the Supervisory Board of the Company in 2022

| | First and last name | Period of holding a position on the Company's Management Board in 2022 | Compensation (PLN '000) |
|-----|-----------------------|--|-------------------------|
| 1. | Piotr Tutak | 01.01.2022 – 31.12.2022 | 90 |
| 2. | Teresa Famulska | 01.01.2022 – 31.12.2022 | 79 |
| 3. | Marcin Wawrzyniak | 01.01.2022 – 31.12.2022 | 79 |
| 4. | Stanisław Borkowski | 01.01.2022 – 31.12.2022 | 79 |
| 5. | Dariusz Hryniów | 26.01.2022 – 31.12.2022 | 74 |
| 6. | Leszek Koziorowski | 01.01.2022 – 31.12.2022 | 79 |
| 7. | Ryszard Madziar | 01.01.2022 – 31.12.2022 | 79 |
| 8. | Grzegorz Peczkis | 01.01.2022 – 31.12.2022 | 79 |
| 9. | Marcin Chludziński | 25.05.2022 – 30.11.2022 | 41 |
| 10. | Katarzyna Taczanowska | 01.01.2022 – 24.05.2022 | 32 |
| | Total | | 712 |

The Members of the Supervisory Board of the Company do not hold positions in the authorities of the subordinated units.

Information on the obligations towards the former Members of the Supervisory Board of the Company due to pensions or benefits of similar nature

The Company does not have any obligations towards the former Members of the Supervisory Board of the Company due to pensions or benefits of similar nature.

12. OTHER MATERIAL INFORMATION AND EVENTS

12.1. Material proceedings pending in front of the court, competent arbitration authority or public administration authority

The below table presents the material proceedings pending in front of the court, competent arbitration authority or the public administration authority in 2022.

Table no. 69. Summary of material proceedings pending in front of the court, competent arbitration authority or public administration authority in 2022

| Parties to the proceedings | Description of the proceedings including the value of the object of litigation and the Company's position |
|--|--|
| Proceedings involving TAURON | |
| <p>1. Plaintiff: Huta Łaziska (Łaziska Steel Works)</p> <p>Defendants: TAURON (as a legal successor to GZE) and State Treasury represented by the President of the Energy Regulatory Office (ERO)</p> | <p>Object of litigation: a lawsuit for the payment of compensation for alleged damage caused by non-performance by Górnośląski Zakład Elektroenergetyczny S.A. (GZE) of the decision of the President of the Energy Regulatory Office (ERO) of October 12, 2001, related to the resumption of electricity supply to the plaintiff.</p> <p>Value of the object of litigation: PLN 182 060 000.00</p> <p>Initiation of the proceeding: the lawsuit of March 12, 2007</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On May 28, 2019, the Regional Court in Warsaw issued a ruling on the dismissal of Huta Łaziska's lawsuit in whole and ruled that Huta Łaziska shall refund each Defendant the costs of the proceedings. The ruling is not legally binding.</p> <p>Huta Łaziska filed an appeal complaint on July 25, 2019, appealing against the above mentioned ruling in whole. Based on the ruling of the Court of Appeal in Warsaw of February 9, 2022, the appeal of Huta Łaziska was dismissed, and also, among other things, the reimbursement of the costs of the appeal proceedings was adjudicated for the benefit of the Company. The ruling is final. Huta Łaziska brought a cassation appeal against the judgment to the Supreme Court.</p> |
| <p>2. Authority conducting the audit: Head of the Mazovian Customs and Tax Office, and after an appeal has been filed – the Director of the Tax Administration Chamber in Katowice and the Director of the Tax Administration Chamber in Warsaw</p> <p>Party: TAURON</p> | <p>Object of litigation: examining the accuracy of the tax base amounts declared by TAURON and the correctness of calculations and payments of the VAT tax for the period from October 2013 until September 2014. The main subject of the two investigations (audits) are TAURON's deductions of the VAT assessed due to the purchase of electricity by TAURON on the German and Austrian electricity market from Castor Energy sp. z o.o.</p> <p>Value of the object of litigation (deducted VAT amount): with respect to the transaction with Castor Energy sp. z o.o. – PLN 52 494 672.</p> <p>Date of initiating the proceeding: October 2014, August 2016</p> <p>Company's position: in the Company's opinion during the verification of the counterparty (business partner, contractor), the due diligence was actually adhered to, and the Company acted in good faith, so there are no grounds for refusing the Company the right to deduct the tax assessed on the invoices documenting the electricity purchase from Castor Energy sp. z o.o.</p> <p>On October 7, 2020, the Company received the decision of the Head of the Mazovian Customs and Tax Office, ending one of the audit proceedings, specifying the amount of its VAT tax liability for the following months: October, November, December 2013 and the first quarter of 2014, which resulted in the obligation for the Company to pay additional VAT due to the transaction with Castor Energy sp. z o.o. in the total amount of PLN 51 818 857, along with the interest on the tax arrears. The Company filed an appeal against the decision on October 20, 2020.</p> <p>On January 15, 2021, as part of the second audit proceedings, a decision was issued the Head of the Mazovian Customs and Tax Office in which the Authority stated that the Company had not been eligible to deduct the VAT assessed from the invoice issued by Castor Energia Sp. z o.o. in April 2014, and thus the Company overstated the amount of VAT assessed recognized in the tax statement filing for the second quarter of 2014 by the amount of PLN 677 815.39. On February 12, 2021, the Company filed an appeal against the decision.</p> <p>The second instance authority upheld both decisions of the first instance authority. The company filed an appeal against the decisions of the second instance authority by way of a complaint lodged to the Provincial Administrative Court.</p> |
| <p>3. Plaintiff: Enea</p> <p>Defendant: TAURON</p> | <p>Object of litigation: a lawsuit for the payment due to the Company's alleged unjust enrichment (benefit) in connection with the settlements related to the imbalance of the Balancing Market with PSE between January and December 2012</p> <p>Value of the object of litigation: PLN 17 085 846.49</p> <p>Initiation of the proceeding: the lawsuit of December 10, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On March 22, 2021, the Regional Court in Katowice dismissed Enea's lawsuit in full and ruled on Enea's obligation to reimburse the Company for the costs of the proceedings. The ruling is not final (legally binding). Enea filed an appeal against the said decision.</p> |
| <p>Lawsuits pertaining to the termination, by Polska Energia Pierwsza Kompania Handlowa sp. z o.o. (PEPKH) subsidiary, of the agreements related to the sales of electricity and property rights arising from the guarantees of origin (energy certificates)</p> | |

| Parties to the proceedings | Description of the proceedings including the value of the object of litigation and the Company's position |
|--|--|
| | <p>Object of litigation: lawsuit for payment of damages and determination of liability for the future.</p> <p>Value of the object of litigation: PLN 72 217 997.00</p> |
| <p>4. Plaintiff: Dobiesław Wind Invest sp. z o.o.</p> <p>Defendant: TAURON</p> | <p>Initiation of the proceeding: the lawsuit of June 30, 2017</p> <p>In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff, apart from the existing claims, brought new claims: for the payment of PLN 37 471 305.05 or (a potential claim) PLN 35 969 662.07.</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> |
| <p>5. Plaintiff: Gorzyca Wind Invest sp. z o.o.</p> <p>Defendant: TAURON</p> | <p>Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.</p> <p>Value of the object of litigation: PLN 97 651 840.00</p> <p>Initiation of the proceeding: the lawsuit of June 29, 2017</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff, apart from the existing claims, brought new claims: for the payment of PLN 57 933 516.55 or (a potential claim) PLN 62 666 188.65.</p> |
| <p>6. Plaintiff: Pękanino Wind Invest sp. z o.o.</p> <p>Defendant: TAURON</p> | <p>Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.</p> <p>Value of the object of litigation: PLN 44 817 060.00</p> <p>Initiation of the proceeding: the lawsuit of June 29, 2017</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff, apart from the existing claims, brought new claims: for the payment of PLN 16 347 985.20 or (a potential claim) PLN 11 894 096.96.</p> |
| <p>7. Plaintiff: Nowy Jarosław Wind Invest sp. z o.o.</p> <p>Defendant: TAURON</p> | <p>Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.</p> <p>Value of the object of litigation: PLN 57 763 340.00</p> <p>Initiation of the proceeding: the lawsuit of June 29, 2017</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>In February 2021, the Company's power of attorney representatives received the plaintiff's pleading (submission) extending the claim, the Plaintiff, apart from the existing claims, brought new claims: for the payment of PLN 30 755 239.47 or (a potential claim) PLN 32 175 239.15.</p> |
| <p>8. Co-participation on the plaintiff's (claimant's) side: Amon sp. z o.o. (Amon) and Talia sp. z o.o. (Talia)</p> <p>Defendant: TAURON</p> | <p>Object of litigation: lawsuit for payment of damages and determination of TAURON's liability for the losses that may arise in the future due to tort, including acts of unfair competition.</p> <p>Value of the object of litigation: Amon – PLN 78 205 000; Talia – PLN 53 128 000</p> <p>Initiation of the proceeding: the lawsuit of April 30, 2018</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> |
| <p>Proceedings involving TAURON Capital Group's subsidiaries related to the termination, by a subsidiary, of the agreements related to the sale of electricity and property rights arising from the guarantees of origin of electricity (energy certificates)</p> | |
| <p>9. Plaintiff: Gorzyca Wind Invest sp. z o.o., Pękanino Wind Invest sp. z o.o., Dobiesław Wind Invest sp. z o.o.</p> <p>Defendant: PEPKH</p> | <p>Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the guarantees of origin of electricity (energy certificates) null and void, and to award damages.</p> <p>Value of the object of litigation: Gorzyca Wind Invest sp. z o.o. – PLN 112 353 945.05; Pękanino Wind Invest sp. z o.o. PLN 64 116 908.85</p> <p>Initiation of the proceeding: Gorzyca Wind Invest sp. z o.o. – May 18, 2015, Pękanino Wind Invest sp. z o.o. – May 20, 2018, Dobiesław Wind Invest sp. z o.o. – May 18, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On April 14, 2022, PEPKH's power of attorney representatives received further lawsuits including more demands:</p> <ol style="list-style-type: none"> 1) Gorzyca Wind Invest sp. z o.o. – a claim for the amount of PLN 80 810 380.04 to be awarded or (an alternative claim) PLN 43 350 973.37, 2) Pękanino Wind Invest sp. z o.o. – a claim for the amount of PLN 11 070 380.21 to be awarded or (an alternative claim) PLN 11 454 266.58. |
| <p>10. Plaintiff: Dobiesław Wind Invest sp. z o.o.</p> <p>Defendant: PEPKH</p> | <p>Object of litigation: plea to award damages and liquidated damages.</p> <p>Value of the object of litigation: PLN 119 958 191.00</p> <p>Initiation of the proceeding: the lawsuit of June 14, 2017</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> |
| <p>11. Plaintiff: Nowy Jarosław Wind Invest sp. z o.o.</p> <p>Defendant: PEPKH</p> | <p>Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the sale of electricity and property rights arising from the guarantees of origin of electricity (energy certificates) null and void, and to award damages.</p> <p>Value of the object of litigation: PLN 105 128 834.11</p> <p>Initiation of the proceeding: the lawsuit of June 3, 2015</p> |

| Parties to the proceedings | Description of the proceedings including the value of the object of litigation and the Company's position |
|--|---|
| <p>12. Plaintiff: Amon Defendant: PEPKH</p> | <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the guarantees of origin of electricity null and void, and to award damages.</p> <p>Value of the object of litigation: PLN 40 478 983.22</p> <p>Initiation of the proceeding: the lawsuit of May 22, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On July 25, 2019, the Regional Court in Gdańsk issued a partial and preliminary ruling in the case in which the Court:</p> <ol style="list-style-type: none"> determined that PEPKH's statements on the termination of long term agreements, concluded between PKH and Amon, for the purchase of electricity and property rights arising from the guarantees of origin of electricity had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all provisions and shall be binding for the parties, determined that Amon's demand for payment of damages for a failure to perform the agreement had been justified in principle, however the Court did not determine the amount of the potential damages. <p>PEPKH disagrees with the ruling and filed an appeal complaint on October 25, 2019. On November 17, 2022, the Court of Appeals dismissed PEPKH's appeal. The ruling of the Court of Appeals and, as a consequence, the above mentioned preliminary and partial rulings shall be legally binding, however, there is a possibility of filing a cassation appeal. These rulings do not award any damages to be paid by PEPKH to the plaintiff, i.e. Amon. PEPKH disagrees with the ruling of the Court of Appeals in its entirety, as well as it disagrees with the ruling of the Court of the First Instance. PEPKH will immediately request the Court of Appeals that it be served the Court of the Second Instance's ruling along with a written statement of reasons, and it will proceed to analyze it with a view to file an appeal against it as soon as possible and take all other legal remedies to which it is entitled.</p> |
| <p>13. Plaintiff: Amon Defendant: PEPKH</p> | <p>Object of litigation: plea to determine awarding of damages due to a failure to perform, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the guarantees of origin of electricity (energy certificates).</p> <p>Value of the object of litigation: PLN 49 096 783,00 29</p> <p>Initiation of the proceeding: August 20, 2019</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On March 1, 2023 (an event that took place after the balance sheet date), PEPKH was served with an amendment to the lawsuit, in which Amon demanded the payment of PLN 20 087 593.10 in addition to the amount of PLN 29 009 190 demanded in the lawsuit.</p> |
| <p>14. Plaintiff: Talia Defendant: PEPKH</p> | <p>Object of litigation: plea to declare the termination, by PEPKH, of the agreements related to the purchase of electricity and property rights arising from the guarantees of origin of electricity (energy certificates) null and void, and to award damages.</p> <p>Value of the object of litigation: PLN 46 078 047.43</p> <p>Initiation of the proceeding: the lawsuit of May 21, 2015</p> <p>Company's position: the Company considers the claims covered by the lawsuit as being without merit.</p> <p>On March 6, 2020, the Regional Court in Gdańsk issued a partial and preliminary ruling, supplemented by the court on September 8, 2020, in the case in which the Court:</p> <ol style="list-style-type: none"> determined that PKH's statements on the termination of long term agreements, concluded between PEPKH and Talia, for the purchase of electricity and property rights arising from guarantees of origin electricity (energy certificates) had been ineffective and had not produced legal effects, such as the termination of both agreements, as a result of which these agreements, following the notice period, i.e. past April 30, 2015, shall continue to be in force with respect to all provisions and shall be binding for the parties, determined that Talia's demand for payment of damages for a failure to perform the agreement had been justified in principle, however the Court did not determine the amount of the potential damages. <p>On August 3, 2020, and on March 8, 2021, PEPKH filed an appeal against the ruling (the preliminary one and the supplemented one) with the court. On December 20, 2021, the Court of Appeal in Gdańsk, announced the ruling to dismiss the appeal of PEPKH. The ruling of the Court of Appeal, and as a consequence the above mentioned preliminary and partial ruling as well as the supplementary ruling are final (legally binding), however it is possible to file a cassation appeal. The rulings do not order that PKH should pay any damages to the plaintiff, i.e. Talia sp. z o.o. PEPKH disagrees in full with the ruling of the Court of Appeal as well as with the rulings of the Court of the first instance. PEPKH has been served the statement of reason for the court judgment and filed a cassation appeal. On February 28, 2023 (an event that took place after the balance sheet date), the Supreme Court accepted the cassation appeal for review.</p> |

Other proceedings

Petitions of TAURON Sprzedaż for a change of the approved tariff

As of January 1, 2020, pursuant to the decision of the President of the Energy Regulatory Office (ERO) of December 17, 2019, the electricity tariff for the G tariff groups consumers entered into force, resulting in an increase in the payments for the household consumers by 19.9% as compared to the payments incurred in 2018/2019.

Due to the fact that the said decision prevented TAURON Sprzedaż from passing on the justified costs of the activities related to the electricity trading, on January 8, 2020, TAURON Sprzedaż submitted to the President of the Energy Regulatory Office (ERO) a petition for a change of the tariff approved for 2020, thus initiating the administrative proceedings.

Due to the particularly complex nature of the case and the COVID-19 pandemic, the deadline for resolving the case was set as July 29, 2020. By way of the decision of July 8, 2020, the President of the Energy Regulatory Office (ERO) did not approve the above mentioned tariff change.

In the opinion of TAURON Sprzedaż, the decision to approve the tariff was justified by the legitimate interest of the party and the provisions of the applicable law, stipulating that the tariff should ensure that the justified costs of the activities conducted by the Company are covered, while the decision approving the tariff, in the opinion of the Company, did not ensure this.

On July 30, 2020, TAURON Sprzedaż filed an appeal to the Court of Competition and Consumer Protection in Warsaw, against the decision of the President of the Energy Regulatory Office (ERO) of July 8, 2020, motioning for the amendment of the challenged decision in its entirety by approving the electricity tariff in accordance with the application of TAURON Sprzedaż or revoking the decision in its entirety and ruling that the decision was issued in the violation of the law. The case is pending under the reference file number XVII AmE 242/20.

The Court of Competition and Consumer Protection Company, by way of its decision of July 28, 2022, admitted the evidence from the opinion of a court expert in the field of the energy market and accounting. The Company is waiting for the expert to issue the opinion.

The disputes between EC Stalowa Wola and Abener Energia

In 2022, EC Stalowa Wola and Abener Energia, with its registered office in Campus Palmas Altas, Seville, proceeded with the implementation of the settlement agreement concluded on December 31, 2021, the purpose of which was to define the terms on which EC Stalowa Wola and Abener Energia were to make mutual settlements arising from any court and arbitration disputes pending between them and arising from the contract for the construction of a CCGT unit with a district heating section at EC Stalowa Wola. On February 28, 2022, the parties signed an addendum to the settlement agreement, which primarily postponed the deadline for the meeting of certain obligations by Abener Energia. In March 2022, the terms of the settlement agreement were fulfilled and the parties proceeded with the implementation thereof.

In connection with the settlement agreement concluded, all of the court and arbitration proceedings between EC Stalowa Wola and Abener Energia, the information of which was disclosed by the Company in 2021, had first been suspended at the joint motion filed by the parties, and subsequently, on March 9 and 10, 2022, the parties filed the motions to resume the suspended proceedings, to withdraw the lawsuits and the cassation appeal, as well as to discontinue all of the proceedings. As a consequence, the Arbitration Court at the Polish Chamber of Commerce issued, on March 14, 2022, a decision to discontinue the proceedings related to the claim brought by Abener Energia against EC Stalowa Wola, reviewed under the reference file number SA 14/19, and on March 21, 2022, the decision to discontinue the proceedings related to the claim brought by EC Stalowa Wola against Abener Energia, reviewed under the reference file number SA 167/19. The Supreme Court issued a decision on the discontinuation of the cassation proceedings on the complaint of EC Stalowa Wola with the participation of Abener Energia on June 2, 2022.

TAURON disclosed the information on the above events in current reports: no. 52/2021 of December 31, 2021. no. 4/2022 of February 28, 2022, and no. 6/2022 of March 8, 2022.

TAURON disclosed the information on the disputes between EC Stalowa Wola and Abener Energia in current reports: no. 16/2019 of May 2, 2019, no. 29/2019 of August 8, 2019, no. 59/2019 of December 20, 2019, no. 43/2020 of September 22, 2020, and no. 48/2020 of October 19, 2022.

Signing of an agreement on the conducting of a mediation process related to the 910 MW generation unit in Jaworzno

On August 5, 2022, Nowe Jaworzno Grupa TAURON (currently TAURON Wytwarzanie, Ordering Party) and the consortium composed of RAFAKO S.A., Mostostal Warszawa S.A. and E003B7 sp. z o.o. (Contractor), signed a mediation agreement pursuant to which, subsequently, on August 8, 2022, a petition for a mediation to be conducted in front of the Court of Arbitration at the General Counsel to the Republic of Poland was submitted.

The intention behind conducting the mediation process stems from the need to change the terms of the settlement agreement concluded on December 2, 2021, in particular those concerning the transition period (i.e. the period during which the optimization and tune-up works are carried out, including the tests, trials and measurements) for the 910 MW generation unit in Jaworzno, which was originally supposed to end by October 30, 2022. The contentious issue that has arisen between the parties at the current, final stage of the contract implementation is related to the identification of the reasons that had caused the delays in the implementation of the schedule of works conducted on the 910 MW unit in Jaworzno and the fallout from the situation arisen.

The Contractor had not completed the transition period by January 11, 2023, and as a consequence, the protocol of the transition period completion, referred to in current report no. 47/2021 of December 2, 2021, has not been signed. Thus, on January 11, 2023 (event after balance sheet date) in view of the failure to obtain or confirm the technical parameters specified in the contract, an occurrence of objective delay in the performance of the contract for the construction of 910 MW unit in Jaworzno (Contract) on the part of the Contractor, an occurrence of damages for the Ordering Party as a result of a failure to meet the required availability parameter (rate), and the physical defects of the subject of the Contract that have been identified and not remedied, the Ordering Party took the decision – in line with the provisions of the Contract – to issue a demand for the payment of contractual penalties and liquidated damages.

A note for the total amount of PLN 1 312 440 218.91, was attached to the demand, which was a total amount of the liquidated damages and the compensation, in particular due for the below listed claims: statutory warranty for the physical defects and thus a claim to remedy damages incurred by the Ordering Party as a consequence of the physical defects, a claim to remedy the damages borne by the Ordering Party as a result of a failure to fix the non-limiting defects described in the unit's acceptance (hand-over) protocol (certificate), a claim to cover the costs of the substitute contractor with respect to the fixing of the defect in the boiler slag hopper and the mills, a claim to cover the recourse claim in view of the need to satisfy the claim of the Contractor's subcontractor by the Ordering Party, the liquidated damages for a delay in meeting the deadline for proceeding to start the fixing of the defects or for a delay in meeting the deadline for the fixing of the defects during a warranty period, the liquidated damages for a delay in the signing of the transition period completion protocol due to a failure to meet the guaranteed technical (performance) parameters, the liquidated damages for each hour of a non-planned shutdown in excess of the number of hours specified in the Contract, damages involving the occurrence of the flaws in the design and implementation of the subject of the Contract, the liquidated damages for a delay in the signing of the protocol for the completion of the stage of the Contract covering the performance of the selected acceptance tests with Polskie Sieci Elektroenergetyczne S.A. (Transmission System Operator).

The Contractor was given a deadline of 30 days from the date of the receipt of the summons to pay the amount covered by the note.

TAURON disclosed the information on the above event in current report no. 2/2023 of January 11, 2023.

On January 13, 2023 (event after balance sheet date), TAURON and TAURON Wytwarzanie received the summons to pay from RAFAKO.

The subject of the summons addressed to TAURON Wytwarzanie are the claims for the payment of:

1. PLN 1 500 000 to the public benefit organizations indicated by RAFAKO S.A. for an unlawful violation of the personal interests (rights, goodwill) of RAFAKO by TAURON Wytwarzanie,
2. PLN 249 605 000 to RAFAKO for the remedying by TAURON Wytwarzanie of the damage suffered by RAFAKO S.A. due to the violation of the personal interests (rights, goodwill) of RAFAKO and the loss of RAFAKO's ability to acquire the new contracts, resulting from the lack of the decrease in the amount of the financial guarantees that serve as the Contract collaterals (bonds),
3. PLN 319 447 991 to RAFAKO due to a reimbursement of the costs incurred by RAFAKO as a consequence of an extension of the implementation of the Contract due to TAURON Wytwarzanie's fault, with a proviso that the amount of the costs has been calculated assuming that the Contract's implementation will be completed by the end of 2023,
4. PLN 1 450 000 to RAFAKO due to a reimbursement of the costs of the fixing of malfunctions, faults of the devices and the remedying of effects of the failures with respect to the Unit arisen due to TAURON Wytwarzanie's fault and caused by the use of the coal that had not met the terms of the Contract. The amount had been calculated as of the date of drafting the summons,
5. PLN 34 471 000 to RAFAKO due to the indexing of RAFAKO's compensation.

At the same time RAFAKO indicated that in the case of a failure of the process related to the acquiring of an investor for RAFAKO for the reasons attributable, in the opinion of RAFAKO, to TAURON Wytwarzanie, RAFAKO will be filing a claim for the damages in the amount of not less than PLN 300 000 000.

In addition, RAFAKO made a proviso that in the event its contractors (counterparties) and business partners – as a result of acts or omissions by TAURON Wytwarzanie – file claims against RAFAKO for the liquidated damages or compensation, RAFAKO will file claims for compensation (damages) / recourse against TAURON Wytwarzanie in the amount of not less than PLN 483 305 502.71.

In addition, RAFAKO demanded that TAURON Wytwarzanie should submit a statement containing the wording presented in the above mentioned summons, that would constitute an apology for the violation of the personal interests (rights, goodwill) of RAFAKO.

The subject of the summons addressed to the TAURON are the claims for the payment of:

1. PLN 1 500 000 to the public benefit organizations indicated by RAFAKO S.A. for an unlawful violation of the personal interests (rights, goodwill) of RAFAKO by TAURON Wytwarzanie,

2. PLN 249 605 000 to RAFAKO for the remedying by TAURON Wytwarzanie of the damage suffered by RAFAKO S.A. due to the violation of the personal interests (rights, goodwill) of RAFAKO and the loss of RAFAKO's ability to acquire the new contracts, resulting from the lack of the decrease in the amount of the financial guarantees that serve as the Contract collaterals (bonds).

At the same time RAFAKO indicated that:

1. RAFAKO will file claims for compensation (damages) / recourse against TAURON in the amount of not less than PLN 483 305 502.71 due to the potential penalties and compensations being the subject of the claims filed by the entities for the benefit of which agreements (contracts) are performed or which are RAFAKO's business partners. This amount may go up due to further claims by the parties to the contracts, related to a breach of contracts and delays in the implementation thereof.,
2. in the case of a failure of the process related to the acquiring of an investor for RAFAKO for the reasons attributable - in the opinion of RAFAKO - to TAURON Wytwarzanie, RAFAKO will be filing a claim for the damages in the amount of not less than PLN 300 000 000.

In addition, RAFAKO demanded that TAURON Wytwarzanie should submit a statement containing the wording presented in the above mentioned summons, that would constitute an apology for the violation of the personal interests (rights, goodwill) of RAFAKO.

TAURON disclosed the information on the above event in current report no. 3/2023 of January 13, 2023.

On February 7, 2023 (event after balance sheet date), the Ordering Party and the Contractor entered into an agreement (Agreement).

The Agreement defined the terms of the cooperation in the period until March 8, 2023, and had been concluded to ensure a constructive course of the mediation in front of the Court of Arbitration at the General Counsel to the Republic of Poland, the purpose of which is to work out a solution to the contentious issues related to the implementation of the Contract. In accordance with the concluded Agreement, the Parties declared their intention to continue with the further mediation process in good faith, with an intention to find an amicable settlement of the claims covered by the summons to pay and the notes of each of the Parties, i.e.:

1. summons to pay, along with a debit note due to the liquidated damages and compensation in the amount of PLN 1 312 440 218.91 issued by the Ordering party to the Contractor, referred to in current report no. 2/2023 of January 11, 2023. In line with the Agreement, the initial payment due date for the amount of PLN 549 820 561.76 (the total amount of the performance bond with respect to the performance of the Contract) shall be amended and the said amount shall be due on February 28, 2023. The payment due date for the remaining amount, i.e. PLN 762 619 657.15 shall be extended until March 8, 2023, however, no claims shall be waived as the payment due dates have been extended.
2. summons to pay the amount of PLN 251 105 000.00 issued by RAFAKO to TAURON and the summons to pay the amount of PLN 606 473 991.00 issued to the Ordering party, referred to in current report no. 3/2023 of January 13, 2023. In line with the Agreement the payment due dates of the above mentioned amounts shall be extended until March 8, 2023. No claims shall be waived as the payment due dates have been extended.

In accordance with the concluded Agreement, the Parties recognize and confirm the possibility of minimizing the mutual claims. The Parties intend to reach a settlement, which will determine the manner of completing the Contract and finalizing the mutual settlements related thereto ("Settlement"). The Parties undertook to conduct the negotiations and mediation in good faith in order to agree on the final terms and conditions of the Settlement by February 28, 2023, and finish the mediation process, as well as sign the Settlement by March 8, 2023.

The Parties agree that the Contract will be completed within up to 5 days from the date of the verification and joint evaluation of the guaranteed technical performance parameters A and B on the terms and conditions defined in the Settlement, however not later than by December 31, 2023 and that Contractor's liability related to the implementation of the Contract will be limited to the amount agreed upon in the Settlement.

The Parties had undertaken not to file any claims, either monetary or non-monetary, including summons to pay/demands for payment, with each other or with the financing institutions, until February 28, 2023.

TAURON disclosed the information on the above event in current report no. 7/2023 of February 7, 2023.

As of February 28, 2023 the Parties have not agreed on the final terms of the Settlement.

TAURON informed about the abovementioned event in current report no. 12/2023 of February 28, 2023.

On March 7, 2023 (event after balance sheet date), TAURON Wytwarzanie and the Contractor signed an annex (Annex) to the Agreement. In line with the Annex, the Parties decided to amend the Agreement by extending the payment due dates of the claims referred to in current report no. 7/2023 of February 7, 2023, until March 22, 2023, otherwise the claims would have become due as of February 28, 2023, or March 8, 2023. No claims shall be waived as the payment due dates have been extended.

In addition, the Ordering Party has undertaken to refrain from filing any claims against the Contractor arising out of or in relation to the implementation of the Contract until March 22, 2023, with respect to the amount of PLN 549 820

561.76 (the total amount of the performance bond with respect to the performance of the Contract) and until March 24, 2023, with respect to the remaining amount of Ordering Party's claims against the Contractor, i.e. PLN 762 619 657.15.

The amendments to the Agreement had been introduced subject to a suspensive condition that by March 8, 2023, the Contractor should deliver to the Ordering Party the annexes, signed by the underwriters, to all of the performance guarantees (bonds) issued under the Contract and constituting the instruments securing good performance of the Contract that would extend the validity of such guarantees (bonds) until March 24, 2023 (inclusive of March 24, 2023).

At the same time Parties declared that they had intended to continue with the further mediation in front of the Court of Arbitration at the General Counsel to the Republic of Poland with an intention to amicably settle claims covered by the summons to pay and the notes, the information of which was disclosed by TAURON in current reports no. 2/2023 of January 11, 2023 and No. 3/2023 of January 13, 2023. Parties informed about their intention to conclude the Settlement that will determine the manner of completing the Contract and finalizing the mutual settlements related thereto by March 22, 2023.

TAURON disclosed the information on the above event in current report no. 14/2023 of March 7, 2023.

On March 20, 2023 (event after balance sheet date) the Parties signed assumptions of the Settlement. It has been agreed that:

1. Subject to prior agreement between RAFAKO and bond underwriters, TAURON Wytwarzanie will limit its claims against RAFAKO, Mostostal Warszawa and E003B7 to the amount of PLN 240,000,000 which should be satisfied by drawing from performance bond for the Contract granted at the request of E003B7 and which will be paid by the bond underwriters. The Parties assume that the bond underwriters will voluntarily pay the abovementioned amount by April 30, 2023. However, this arrangement does not mean that RAFAKO, Mostostal Warszawa and E003B7 recognize TAURON Wytwarzanie's claims,
2. As part of satisfying RAFAKO's claims against TAURON Wytwarzanie, TAURON Wytwarzanie will pay to RAFAKO and E003B7 the following amounts:
 - 1) on the day of signing the Settlement, PLN 32,574,744.16 for inventoried works,
 - 2) after coming into force of the Settlement (after signing settlement with UNIQUA S.A.), PLN 8,500,000 from compensation that it will obtain from UNIQUA S.A.,
 - 3) on the day of coming into force of the Settlement, PLN 14,012,700 for, among other things, workshop documentation for desulphurization installation and electro filter, calculation documentation for the boiler, ending the transition period (for passing KM 91c5), additional non-contractual items,
 - 4) on the day of coming into force of the Settlement, PLN 10,000,000 for being released by RAFAKO from liability for claims of all subcontractors of RAFAKO and E003B7, including further subcontractors, subject to reservation that the amount is to be returned if TAURON Wytwarzanie becomes liable and subject to reservation that RAFAKO demonstrates to TAURON Wytwarzanie that the claims of subcontractors and further subcontractors have been closed,
3. On the day of signing the Settlement RAFAKO and E003B7 will release, as of the day of signing the Settlement, all subcontractors and further subcontractors from all obligations that hinder or prevent them from cooperation with TAURON Wytwarzanie in any scope, including the scope related to the 910 MW unit in Jaworzno (its refurbishments, upgrades, optimization, tests, removal of defects and faults, repairs, and so on),
4. On the day of coming into force of the Settlement:
 - 1) TAURON Wytwarzanie will release RAFAKO, Mostostal Warszawa and E003B7 from obligations under technical guarantees. The release will be effective also in the circumstances that will occur in the period between signing and coming into force of the Settlement,
 - 2) The Parties will terminate the Contract by expiring contractual obligations,
 - 3) The Parties will waive all claims against each other exceeding those covered by the Settlement, TAURON Wytwarzanie will waive its claims against Mostostal Warszawa, and RAFAKO and E003B7 will waive their claims against TAURON in a separate agreement signed with TAURON,
5. On the day of signing these assumptions of the Settlement, RAFAKO and Mostostal Warszawa will issue and submit to TAURON Wytwarzanie statement extending until April 28, 2023 the deadline for issuing and submitting payment guarantee, which was required by RAFAKO from TAURON Wytwarzanie,
6. On March 21, 2023 the Parties will sign another annex to agreement of February 7, 2023 under which the deadlines for standstill arrangements will be extended until April 28, 2023,
7. The Parties will unanimously apply for acceptance of the Settlement by a relevant court,
8. Coming into force of the Settlement is subject to the following suspensive conditions:
 - 1) by TAURON Wytwarzanie – obtaining all required corporate approvals until April 20, 2023,
 - 2) by RAFAKO – obtaining all required Corporate approvals by April 20, 2023; signing agreement with bond underwriters to pay without undue delay the amount of PLN 240,000,000 to TAURON Wytwarzanie by April 24, 2023; adopting by the general meeting of RAFAKO of a resolution concerning increase of RAFAKO's share capital by the amount presented in the announcement convening the general meeting of RAFAKO; presenting by MS Galleon GmbH of a statement confirming further interest in participation in the investment

- process in RAFAKO by April 24, 2023; and signing settlement by RAFAKO and Ignitis Grupe AB or its subsidiary/ subsidiaries in relation to Vilnius project by April 24, 2023,
- 3) by Mostostal Warszawa – obtaining all required Corporate approvals by April 20, 2023,
9. By March 23, 2023 RAFAKO will submit to TAURON Wytwarzanie statements of bond underwriters (annexes to performance bonds) extending bond validity at least until April 28, 2023.

TAURON disclosed the information on the above event in current report no. 16/2023 of March 20, 2023.

On March 21, 2023 (event after balance sheet date) the Parties signed Annex no. 2 to the Agreement in which they decided to amend the Agreement by extending:

1. due date of RAFAKO's claims against TAURON and RAFAKO's claims against the Ordering Party, referred to in current report No. 3/2023 of January 13, 2023, until April 28, 2023.
2. due date of the Ordering Party's claim against the Contractor in relation to the amount of PLN 549,820,561.76 (total amount of performance bonds for the contract for construction of the Contract), until April 24, 2023,
3. Ordering Party's commitment to refrain from filing any claims against the Contractor arising out of or in relation to execution of the Contract, in relation to the amount of PLN 549,820,561.76, until April 24, 2023,
4. Ordering Party's commitment to refrain from filing any claims against the Contractor arising out of or in relation to execution of the Contract, in relation to the amount of PLN 762,619,657.15, until April 28, 2023,
5. Parties' commitment to refrain from filing any claims, monetary or non-monetary, against each other and against financing institutions, including demands/ requests for payment and non-monetary demands/ requests as well as to refrain from filing applications, notifications and claims with legal and administrative authorities, until April 28, 2023.

Entry into force of Annex no. 2 was subject to a suspensive condition of the Contractor delivering to the Ordering Party by March 23, 2023 annexes to bonds extending the validity of those bonds until at least April 28, 2023. The Contractor delivered the annexes to all bonds issued under the Contract and constituting performance guarantee securing good performance of the Contract signed by underwriters, extending the validity of the bonds until April 30, 2023 thus the provisions of Annex no. 2 came into force.

As of March 23, 2023 the Parties have not concluded Settlement.

TAURON informed about the abovementioned event in current reports no. 17/2023 of March 21, 2023 and no. 18/2023 of March 23, 2023.

As of the date of drawing up this report the Parties continue works the purpose of which is to conclude Settlement as part of mediation before the Court of Arbitration at the General Counsel to the Republic of Poland.

12.2. Agreements that are material for TAURON Capital Group's operations

Agreements that had been material for the operations of TAURON Capital Group in 2022 and by the date of drawing up this report are listed below.

Information on the planned public aid for TAURON Wydobycie and the conclusion of the agreements in connection with the inclusion of TAURON Wydobycie in the support system with respect to the subsidies for the reduction of capacity

On April 8, 2022, TAURON received the information on the approval by the Minister of the State Assets of the Republic of Poland of the application for granting of the public aid in the form of awarding the company the subsidies for the reduction of the production capacity for 2022.

Pursuant to the *Act of September 7, 2007, on the functioning of the hard coal mining* and the *Regulation of the Minister of the State Assets of February 3, 2022, on the subsidies to reduce the production capacity of the coal mining enterprises*, TAURON Wydobycie has been covered by the support system to gradually phase out its hard coal mining operations. In accordance with the assumptions of the support system, the subsidies will be provided until the last hard coal mine of TAURON Wydobycie has been shut down.

The estimated amount of the subsidies for TAURON Wydobycie for 2022 was set at the level of approx. PLN 1.15 billion, however, taking into account the situation on the hard coal market (a limited supply resulting in an increase in the hard coal prices), this amount is subject to a reduction. In addition, the support system constitutes state aid and is subject to the notification to the European Commission.

On December 20, 2022, TAURON Wydobycie signed the agreement for the increase of the share capital with the Minister of State Assets and the agreement for taking up of the shares in the increased share capital with the State Treasury represented by the Minister of State Assets.

In accordance with the agreements signed, pursuant to the resolution of the Management Board of TAURON Wydobycie passed on December 20, 2022, TAURON Wydobycie's share capital was, after the balance sheet date, increased by way of a private subscription with the pre-emptive right of the existing shareholders being fully waived. The State Treasury paid the capital up through an in-kind contribution of the State Treasury securities, i.e. 203,603 State Treasury bonds.

The funds acquired from the sale of the bonds will be used to finance the ongoing operations of TAURON Wydobycie in accordance with the terms and conditions of the subsidies for the reduction of the production capacity referred to in Article 5f of the *Act of September 7, 2007, on the functioning of the hard coal mining*.

TAURON disclosed the information on the above events in current reports: no. 11/2022 of April 8, 2022, no. 30/2022 of July 15, 2022, and no. 47/2022 of December 20, 2022.

Signing of the letter of intent with respect to the cooperation in the field of the Small Modular Reactor (SMR) power generation technology

On April 20, 2022, TAURON signed the letter of intent with KGHM Polska Miedź in which the parties considered launching the strategic cooperation related to the research and development works and the future investment projects with respect to the construction of the small and micro nuclear reactors (Small Modular Reactor - SMR) i.e. power nuclear reactors with the capacity of 5 to 300 MWe.

The purpose of the cooperation between the parties to the letter of intent is to define the possibilities, nature and details of the potential joint involvement in the implementation of the SMR investment projects. The subject of the cooperation will be, inter alia, the analysis of the available technologies and possibilities of siting the generation units in the vicinity of the electricity transmission infrastructure as well as the possibilities of using the existing infrastructure of the power generation units and identifying the possibilities of procuring the optimum technology, investing in a different way or engaging in other forms of the cooperation with third parties already implementing or planning to implement the SMR investment projects.

The letter of intent is an expression of the intention of the parties to establish the cooperation, while the terms and conditions thereof shall not be binding. The letter of intent shall be in force until the date either party declares the will to step back from the further cooperation.

TAURON sees a significant potential and the possibility of achieving synergy in undertaking joint efforts with KGHM Polska Miedź with the purpose of investing in the field of the SMR technology. These actions constitute an implementation of the climate related target and are in line with the assumptions of the European Green Deal and are also aimed at increasing the share of the low and zero emission energy sources in the energy mix of TAURON Capital Group, and as such contribute to the implementation of TAURON Group's Strategy.

TAURON disclosed the information on the above event, in reference to current report no. 23/2019 of May 27, 2019, in current report no. 13/2022 of April 20, 2022.

As part of the works carried out by the working team, the regulatory issues requiring a potential adjustment in order to implement the SMR technology in Poland are being analyzed, with a particular emphasis placed on the aspects related to the analysis of siting conditions for the future SMR investment projects. The analyses of available or planned financial support for the development of the modular nuclear reactor technologies in the context of Poland's energy transition are also being conducted.

Signing of a syndicated loan agreement

On July 15, 2022, TAURON signed a PLN 4 billion syndicated loan agreement with a consortium of the banks: Powszechna Kasa Oszczędności Bank Polski S.A., Bank Polska Kasa Opieki S.A., CaixaBank S.A. (Spółka Akcyjna) Oddział w Polsce, Bank Handlowy w Warszawie S.A., Erste Group Bank AG, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, Santander Bank Polska S.A. and China Construction Bank (Europe) S.A. Oddział w Polsce. The funds from the syndicated loan may be used to refinance the existing financing, as of June 19, 2019, up to the amount of PLN 6.07 billion, to finance the capital expenditures of TAURON Group (excluding the financing of any hard coal assets related projects) and to finance the general corporate expenses of TAURON Group (excluding the financing of the expenses associated with the hard coal related assets).

Under the loan agreement, TAURON will be able to draw down multiple tranches of the loan during the five year loan availability period. The period of financing, with the approval of the parties, can be extended up to 7 years at the most.

The interest rate on the funds drawn down under the loan agreement shall be calculated based on the floating interest rate relevant for the given interest rate period, increased by a margin dependent on the fulfillment of the sustainable development metrics, i.e. the emission reduction factor and a rate of increase of the renewable energy sources' (RES) share in TAURON Group's generation portfolio. The correct calculation of the sustainable development metrics will be verified by an independent auditor.

TAURON disclosed the information on the above event in current report no. 30/2022 of July 15, 2022.

Divestment of the shares in TAURON Wydobycie S.A. to the State Treasury - receipt of a share purchase offer, resolution of the TAURON Management Board on the divestment of the shares, signing of a contingent sale agreement, fulfillment of the conditions precedent of the conditional sale agreement

On September 13, 2022, TAURON received an offer from the State Treasury, represented by the Minister of the State Assets, for the acquisition of the shares in TAURON Wydobycie by the State Treasury, constituting 100

percent of the share capital of TAURON Wydobycie, for a total price of PLN 1. At the same time, the Minister of the State Assets disclosed the information that he was in possession of a letter from the Chairman of the Office of Competition and Consumer Protection (UOKiK), which stated that there was no obligation to notify and obtain a clearance from the Chairman of the Office of Competition and Consumer Protection (UOKiK) for the transaction in question to be completed.

On October 12, 2022, the Management Board of TAURON made a decision on the conditional sale to the State Treasury of all of TAURON Wydobycie shares held by TAURON, constituting 100 percent of TAURON Wydobycie's share capital for a total price of PLN 1.

On October 21, 2022, a conditional agreement was concluded between TAURON and the State Treasury for the sale of TAURON Wydobycie shares, constituting 100 percent of TAURON Wydobycie's share capital, for a total price of PLN 1.

The purchase price of all of TAURON Wydobycie shares held by TAURON, constituting 100 percent of TAURON Wydobycie's share capital, i.e. PLN 1, was set by the parties to the transaction following a valuation of TAURON Wydobycie shares carried out using the DCF (discounted cash flow) method by an external, independent advisory firm. The valuation is based on the long term financial projections spanning the years 2022-2049.

The net carrying value of the shares in TAURON Wydobycie held by TAURON and the net carrying value of the loans extended to TAURON Wydobycie by TAURON stand at PLN 0.

By December 31, 2022, the conditions precedent set forth in the agreement for the sale of the shares had been met, i.e.:

1. In accordance with the statement received on December 14, 2022, the National Center for the Support of Agriculture (Krajowy Ośrodek Wsparcia Rolnictwa) did not exercise its pre-emptive right to purchase TAURON Wydobycie shares vested thereupon under Article 3a, Section 1 of the *Act of April 11, 2003, on the shaping of the agricultural system* by the deadline specified in Article 3a, Section 4 of that Act,
2. The Katowice-Wschód District Court in Katowice, the 8th Commercial Division of the National Court Register registered an increase in TAURON Wydobycie's share capital on November 4, 2022 (made by TAURON in order to repay TAURON Wydobycie's debt towards TAURON).

In view of the above mentioned conditions having been met, the ownership right (title) to the TAURON Wydobycie shares was transferred to the State Treasury as of December 31, 2022.

TAURON disclosed the information on the above events, in reference to current report no. 39/2021 of September 15, 2021, in current reports no. 39/2022 of September 13, 2022, no. 40/2022 of October 12, 2022, no. 42/2022 of October 21, 2022, no. 46/2022 of December 14, 2022, and no. 48/2022 of December 31, 2022.

Signing of the hard coal purchase agreements with Polska Grupa Górnicza S.A.

On January 5, 2023 (an event that took place after the balance sheet date), TAURON and Polska Grupa Górnicza S.A. (PGG) signed agreements for the purchase of hard coal from PGG to meet the electricity production needs of the generation units owned by TAURON Wytwarzanie and TAURON Ciepło. The agreements came into effect as of January 1, 2023, and they were signed for an indefinite period. The estimated value of the hard coal supplies for the year 2023, specified in the above mentioned agreements, will come in at approx. PLN 960 million. 77 percent of the value of the hard coal contracted for 2023 will be allocated to TAURON Wytwarzanie, while the remaining 23 percent will be allocated to TAURON Ciepło. The prices of the hard coal to be delivered in the subsequent years covered by the agreements will be agreed upon by way of the negotiations between the parties based on the current market conditions.

On February 9, 2023 (an event that took place after the balance sheet date), TAURON and PGG signed agreements for the purchase of additional volumes of hard coal from PGG to meet the electricity production needs of the generation units owned by TAURON Wytwarzanie and TAURON Ciepło. The agreements are in effect from December 22, 2023, to January 31, 2024. The estimated value of the hard coal supplies, specified in the above mentioned agreements, will come in at approx. PLN 520 million. 75 percent of the value of the hard coal contracted will be allocated to TAURON Wytwarzanie, while the remaining 25 percent will be allocated to TAURON Ciepło.

The parties to the above mentioned agreements may apply the liquidated damages for a failure to deliver or collect the agreed upon volumes of the hard coal in the amount of 10 percent of the value of the undelivered or uncollected hard coal.

TAURON disclosed the information on the above events in current reports no. 1/2023 of January 5, 2023, and no. 8/2023 of February 9, 2023.

Signing of an annex determining the prices for the hard coal supplies from TAURON Wydobycie S.A. in 2023

On February 1, 2023 (an event that took place after the balance sheet date), TAURON signed an annex determining the prices for the hard coal supplies in 2023 under the multi year contract for the purchase of the thermal coal from

TAURON Wydobycie. The hard coal will be used to meet the electricity production needs of the generation units owned by TAURON Ciepło.

The estimated net value of the coal fuel supplies from TAURON Wydobycie to TAURON Ciepło in 2023 stands at approx. PLN 360 million.

The parties may apply the liquidated damages for a failure to deliver or collect the agreed upon volumes of the hard coal if the deviation is in excess of 5 percent with respect to the annual settlement. The parties agreed that the amount of the liquidated damages should stand at 5 percent of the value of the undelivered or uncollected hard coal. Each of the parties may claim compensation exceeding the liquidated damages due in accordance with generally applicable principles.

TAURON disclosed the information on the above event in current report no. 6/2023 of February 1, 2023.

Signing by TAURON Wytwarzanie of an annex determining the prices for the hard coal supplies from TAURON Wydobycie S.A. in 2023

On February 14, 2023 (an event that took place after the balance sheet date), TAURON Wytwarzanie signed an annex determining the prices for the hard coal supplies in 2023 under the multi year contract for the purchase of the thermal coal from TAURON Wydobycie. The hard coal will be used to meet the electricity production needs of the generation units owned by TAURON Wytwarzanie. The estimated net value of the coal fuel supplies from TAURON Wydobycie to TAURON Wytwarzanie in 2023 stands at approx. PLN 2.3 billion.

The parties may apply the liquidated damages for a failure to deliver or collect the agreed upon volumes of the hard coal if the deviation is in excess of 5 percent for TAURON Wytwarzanie and 3 percent for TAURON Wytwarzanie – the Nowe Jaworzno Power Plant Division – the 910 MW unit. With respect to the annual settlement, the parties agreed that the amount of the liquidated damages should stand at, respectively, 5 percent and 20 percent of the value of the undelivered or uncollected hard coal. Each of the parties may claim compensation exceeding the liquidated damages due in accordance with generally applicable principles.

TAURON disclosed the information on the above event in current report no. 10/2023 of February 14, 2023.

Signing of the loan agreement with Bank Gospodarstwa Krajowego

On February 16, 2023 (an event that took place after the balance sheet date), TAURON and BGK signed a loan agreement for the amount of PLN 750 million, the funds from which can be used to finance the ongoing operations with respect to the purchasing of the fuel for TAURON Group's subsidiaries.

A repayment of the whole or a part of the loan used will result in its renewal by the repayment amount and the possibility of the multiple use during the loan availability period up to the loan limit (available balance) amount. The loan shall be repaid in full by September 30, 2023.

The conclusion of the loan agreement will contribute to the strengthening of TAURON's financial stability by obtaining a new source of the working capital revolving financing, the purpose of which is to finance the ongoing operations.

TAURON disclosed the information on the above event in current report no. 11/2023 of February 16, 2023.

12.3. Transactions with related entities on terms other than at arm's length

All of the transactions with the related entities are concluded at arm's length.

The detailed information on the transactions with the related entities is provided in note 60 to the Consolidated Financial Statements of TAURON Capital Group.

12.4. Concluded and terminated credit and loan agreements

TAURON entered into a syndicated a syndicated loan agreement for the amount of PLN 4 billion in 2022. After the balance sheet date, TAURON entered into a working capital loan agreement for the amount of PLN 750 million.

The detailed information related to the above mentioned agreements is provided in section 12.2. of this report.

In 2022, as part of the financing of its ongoing operations, the Company used an overdraft bank facility for the amount of up to PLN 250 million. The loan is intended to be used to finance the Company's ongoing operations and its interest rate is based on a variable WIBOR 3 M base rate, increased by a fixed margin. After the balance sheet date, the Company entered into an addendum to the overdraft agreement, as a result of which the loan amount was lifted to PLN 500 million and the effective term of the agreement was extended to September 30, 2023.

On November 10, 2022, two loan agreements were entered into between TAURON Nowe Technologie and the National Fund for Environmental Protection and Water Management (Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej) for the total amount of PLN 19 million, intended to be used for the co-financing of the modernization of the lighting infrastructure. The interest rate of the loans is at the level of WIBOR 3M + fixed margin

(not less than 1.5% per annum), while the loans repayment deadline (maturity) falls on September 30, 2037. The loans will be disbursed in accordance with the eligible project expenses incurred.

The intra-group loan agreements were entered into within TAURON Capital Group in 2022. *The information is presented in section 12.5. of this report.*

TAURON Capital Group's other subsidiaries did not enter into any other credit or loan agreements in 2022.

The detailed information on the credit and loan agreements is provided in note 41.2 of the Consolidated Financial Statements of TAURON Capital Group.

TAURON Capital Group's subsidiaries did not terminate any credit and loan agreements in 2022.

12.5. Loans and sureties granted as well as sureties and guarantees received

Loans granted

TAURON provided the financing to the related companies in the form of the intra-group loans in the total amount of PLN 6 515 million in 2022. In addition, as part of the intra-group financing, TAURON extended the maturity deadlines of the existing loans in the total amount of PLN 197 million. As of December 31, 2022, the total nominal amount of the intra-group loans granted stood at PLN 12 666 million.

In 2022, TAURON continued the financing, in the form of loans, of the co-subsiary EC Stalowa Wola, with the total nominal value of such loans clocking in at PLN 532 million as of December 31, 2022.

Apart from the loans mentioned above, the Company did not extend any other loans in 2022.

In 2022, TAURON Zielona Energia granted the loans in the total amount of PLN 260 million to the special purpose vehicles conducting the investment projects in the field of the renewable energy sources. As of December 31, 2022, the amount of the loans came in at PLN 118 million.

In 2022, TAURON Ekoenergia continued the financing of the special purpose vehicle conducting the investment projects in the field of the renewable energy sources in the amount of PLN 0.7 million.

The detailed information on the loans is provided in note 30 of the Consolidated Financial Statements of TAURON Capital Group.

Sureties and guarantees granted

In 2022 TAURON granted:

1. a surety in favor of Bank Gospodarstwa Krajowego to provide a security for the agreement on the loan granted to EC Stalowa Wola in the amount of PLN 424 million. The surety provides a collateral for the claims of Bank Gospodarstwa Krajowego up to PLN 187 million and it shall be in effect from October 12, 2022, to March 11, 2023.
2. a surety on a blank promissory note (bill of exchange) issued by TAURON Inwestycje to secure the commercial agreement. The security shall be in effect until November 23, 2025.
3. a corporate guarantee in favor of TAURON Czech Energy worth up to the amount of EUR 3 million as a security for the performance of the commercial contracts for the benefit of a third party. The corporate guarantee shall be in effect until January 31, 2024.
4. a surety in favor of BGK to secure a guarantee agreement for EC Stalowa Wola's liabilities up to PLN 7 million. The beneficiaries of the bank guarantee issued by BGK up to the amount of PLN 14 million are third parties that entered into an agreement with EC Stalowa Wola for the purchase, transmission, supply of electricity or a comprehensive agreement after February 15, 2021. The surety shall be in effect until December 30, 2023.

In 2022, TAURON Zielona Energia granted securities (collateral) for the trade liabilities of the companies carrying out investment projects in the field of the renewable energy sources, to third parties, i.e.:

1. a surety for WINDPOWER Gamów in the amount of PLN 107 million with an effective term until August 9, 2024.
2. a corporate guarantee for WINDPOWER Gamów up to the amount of EUR 41 million with an effective term until August 9, 2024.
3. a surety for "MEGAWATT S.C." in the amount of PLN 108 million with an effective term until October 23, 2024,
4. a corporate guarantee for "MEGAWATT S.C." up to the amount of EUR 64 million with an effective term until October 23, 2024.
5. a surety for WIND T30MW in the amount of PLN 95 million with an effective term until October 31, 2024.
6. a corporate guarantee for WIND T30MW up to the amount of EUR 41 million with an effective term until October 31, 2024.
7. a surety for WIND T4 in the amount of PLN 69 million with an effective term until March 27, 2025.
8. a corporate guarantee for WIND T4 up to the amount of EUR 28 million with an effective term until March 27, 2025.

In addition, in 2022 TAURON raised the surety granted to TAURON Sprzedaż for the trade liabilities to the amount of PLN 36 million and extended its effective term until April 30, 2023.

As of December 31, 2022, the total nominal amount of the sureties and the corporate guaranties granted by TAURON stood at PLN 1 128 million.

The amount of the guaranties (bonds) and sureties granted by TAURON Zielona Energia granted securities for the liabilities of the companies carrying out investment projects in the field of the renewable energy sources, as of December 31, 2022, stood at PLN 1 175 million.

In 2022, as part of the framework (master) agreements in force, the bank guarantees (bonds) were issued at the instruction of TAURON for the liabilities of TAURON Capital Group's subsidiaries and the related companies. As of December 31, 2022, the amount of the bank guarantees (bonds) in effect, issued at the instruction of TAURON, stood at PLN 648 million.

After the balance sheet date, TAURON has granted a surety for Energetyka Cieszyńska up to the amount of PLN 6 million to secure a commercial agreement in favor of a third party. The surety shall be in effect until December 31, 2023

In February 2023, TAURON Zielona Energia granted a surety for the trade liabilities of "MEGWATT S.C." (MEGWATT S.C.) up to the amount of PLN 1.5 million, with an effective term until June 30, 2025.

The material information related to the sureties and guarantees (bonds) granted is provided in note 59 to the *Consolidated Financial Statements of TAURON Capital Group* and in notes 40 and 41 to the *Financial Statements of TAURON*.

Sureties and guarantees received

As of December 31, 2022, the Company and its subsidiaries held the transaction collaterals (securities, sureties) received from the counterparties (contractors) in the form of the guarantees (bonds) granted to TAURON Capital Group's subsidiaries, bills of exchange (promissory notes) issued by the counterparties (contractors), pledges on mortgage. The most important guarantees (bonds) granted to TAURON Capital Group's subsidiaries were related to TAURON Wytwarzanie and were issued with respect to the construction of the 910 MW unit in Jaworzno.

12.6. Other information that could be material for the evaluation of TAURON Capital Group's personnel, assets, financial position, financial result and the changes thereof, as well as the information that could be material for the evaluation of the ability of TAURON Capital Group to meet its obligations

Apart from the events indicated in this information, no other events had occurred 2022 that were material for the evaluation of the personnel, assets, financial position and the financial result of TAURON Capital Group and the changes thereof, as well as for the evaluation of the ability of TAURON Capital Group to meet its obligations.

Katowice, March 28, 2023

Paweł Szczeszek – President of the Management Board (CEO)

Patryk Demski – Vice President of the Management Board

Bogusław Rybacki – Vice President of the Management Board

Krzysztof Surma – Vice President of the Management Board (CFO)

Tomasz Szczegieliński – Vice President of the Management Board

Artur Warzocha – Vice President of the Management Board

Appendix A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

The glossary of the trade terms and the list of abbreviations and acronyms most commonly used in this report is presented below

Table no. 70. Explanation of abbreviations and acronyms as well as trade terms

| Abbreviation and trade term | Full name / explanation |
|-----------------------------|--|
| 1. Abener Energia | Abener Energia S.A. (Joint Stock Company) with its registered office in Campus Palmas Altas (Sevilla). |
| 2. Amon | Amon sp. z o.o. (Ltd.) with its registered office in Łebcz. |
| 3. ARA | Dollar based carbon price index in the EU. Loco Amsterdam - Rotterdam - Antwerp ports |
| 4. ARE | Agencja Rynku Energii S.A. (Energy Market Agency) with its registered office in Warsaw. |
| 5. AVAL-1 | AVAL-1 sp. z o. o. (Ltd.) with its registered office in Szczecin. |
| 6. BASE (BASE Contract) | A baseload contract for the supply of electricity at all hours of the period, for example the BASE contract for March 2021 is related to the supply of the same amount of electricity during all hours of the month of March 2021. |
| 7. BGK | Bank Gospodarstwa Krajowego with its registered office in Warsaw. |
| 8. Bioeko Grupa TAURON | Bioeko Grupa TAURON Sp. z o.o. (Ltd.) with its registered office in Stalowa Wola. |
| 9. B+R (R&D) | Research and Development (R&D). |
| 10. B+R+I (R&D&I). | Research, Development and Innovations (R&D&I). |
| 11. CAPEX | Capital Expenditures. |
| 12. Cash pool | True real time (online) <i>cash pool</i> structure, implemented under the cash management agreement, is based on the daily limits. As a result of the implementation of the <i>cash pool</i> mechanism, cash transfers are made between the accounts of the service participants and the Pool Leader's account. |
| 13. CDS | Clean Dark Spread - margin ratio used to calculate the profitability of electricity production, taking into account the revenues from the sale of electricity and the cost of fuel and CO ₂ emission allowances. |
| 14. CES | Customer Effort Score – ration used to measure the degree of effort that must be taken by client to obtain answer to his/her question or a solution to his/her problem. |
| 15. Color certificates | Property rights based on the certificates of origin of electricity generated in the way that is subject to support, the so-called color certificates: green - certificates of origin of electricity from RES, blue - certificates of origin of electricity generated from agricultural biogas. white - energy efficiency certificates (mechanism stimulating and forcing pro-savings behaviors) yellow - certificates of origin of electricity generated in co-generation from gas-fired sources or with the total installed capacity below 1 MW, red - certificates of origin of electricity from co-generation (CHP certificates - Combined Heat and Power), violet - certificates of origin of electricity generated in co-generation fired using methane released and captured during underground mining works in active, in liquidation or liquidated hard coal mines, or using gas obtained from biomass processing, |
| 16. COVID-19 | Coronavirus Disease 2019 - acute respiratory system contagious disease caused by the SARS-CoV-2 virus infection. The disease was first diagnosed and described in November 2019 in central China in the city of Wuhan, Hubei Province. |
| 17. CSI | Customer Satisfaction Index - an index used in marketing to determine the level of customer satisfaction with products or services offered by the company. |
| 18. CSR | Corporate Social Responsibility. |
| 19. CUW | Shared Services Center (Centrum Usług Wspólnych - CUW) - separate organizational units responsible for providing a specific range of support services (CUW R – accounting services, CUW HR – human resources services, CUW IT – IT services, CUW Insurance, CUW Protection). |
| 20. CVC | Corporate Venture Capital - Venture Capital (VC) investments carried out by VC funds with the intention of achieving not only financial goals, but also strategic (industry) goals set by a large company (corporation) which is the capital donor for this fund. VC are capital investments made on the OTC market in business ventures that are in the early stages of development. CVC is a development of VC as a way of investing capital and is to have a positive impact on the industry objectives of TAURON Capital Group. |
| 21. DMS | Distribution Management System – distribution grid management system. |
| 22. Best Practices 2021 | Document entitled <i>Best Practices of WSE Listed Companies 2021</i> , adopted by the Supervisory Board of the Warsaw Stock Exchange S.A. on March 29, 2021, effective as of July 1, 2021. The document replaced the <i>Best Practices of WSE Listed Companies 2016</i> in force before, adopted by the Supervisory Board of the Warsaw Stock Exchange S.A. on October 13, 2015. |
| 23. EBI | European Investment Bank with its registered office in Luxembourg. |

| Abbreviation and trade term | Full name / explanation |
|--|---|
| 24. EBIT | Earnings Before Interest and Taxes. |
| 25. EBITDA | Earnings Before Interest, Taxes, Depreciation and Amortization. |
| 26. EC Stalowa Wola | Elektrociepłownia Stalowa Wola S.A. (Joint Stock Company) with its registered office in Stalowa Wola (Stalowa Wola Combined Heat and Power Plant (CHP)). |
| 27. EEC Magenta ASI | EEC Magenta limited liability company ASI limited joint stock partnership with its registered office in Warsaw. |
| 28. EEC Magenta 2 ASI | EEC Magenta limited liability company 2 ASI limited joint stock partnership with its registered office in Warsaw |
| 29. EEC Ventures 2 | EEC Ventures limited liability company 2 limited joint stock partnership with its registered office in Warsaw |
| 30. EEX (EEX exchange) | European Energy Exchange – the European energy exchange in Leipzig, where the contracts and derivatives for electricity for various European countries are traded, as well as the primary auctions of the CO ₂ emission allowances are conducted. |
| 31. Enea | Enea S.A. (Joint Stock Company) with its registered office in Poznań. |
| 32. Energa | Energa S.A. (Joint Stock Company) with its registered office in Gdańsk. |
| 33. Energetyka Cieszyńska | Energetyka Cieszyńska sp. z o.o. with its registered office in Cieszyn |
| 34. ERM | Enterprise Risk Management. |
| 35. ESG | Environmental, Social and Governance - environmental, social and corporate governance factors used in the investment decision making process. |
| 36. ESS | Energy Store System. |
| 37. EU ETS | European Union Emission Trading System. |
| 38. EUA | European Union Allowance - an allowance to introduce the carbon dioxide (CO ₂) equivalent to the air, within the meaning of Article 2 section 4 of the <i>act of July 17, 2009, on the management system of emissions of greenhouse gases and other substances</i> , which is used for settlements of emission level within the system and which can be managed under the rules provided in the <i>Act of April 28, 2011, on the system of greenhouse gases emission allowances trading</i> |
| 39. EUR | Euro - a common European currency introduced in some EU member states |
| 40. FF PARK PV1 | FF PARK PV1 sp. z o.o. with its registered office in Katowice |
| 41. FIZAN | Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Closed-end Private Equity Investment Fund) |
| 42. WSE (GPW) | Warsaw Stock Exchange (WSE) (Giełda Papierów Wartościowych w Warszawie S.A. (Joint Stock Company)) with its registered office in Warsaw. |
| 43. TAURON Capital Group | TAURON Capital Group Polska Energia S.A. (Joint Stock Company) |
| 44. GZE | Górnośląski Zakład Elektroenergetyczny S.A. (Joint Stock Company) with its registered office in Gliwice. |
| 45. HEMS | Home Energy Management System. |
| 46. ICE (ICE exchange) | InterContinental Exchange – the commodity and financial exchange, where, among others, the contracts for oil, coal, natural gas and the CO ₂ emission allowances are traded. |
| 47. IRGiT | Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Exchange Clearing House) with its registered office in Warsaw. |
| 48. IRS | Interest Rate Swap - interest payment swap contract, one of the main derivatives that is traded on the interbank market |
| 49. KGHM Polska Miedź | KGHM Polska Miedź S.A. (Polish Copper Mining Joint Stock Company) with its registered office in Lubin. |
| 50. Audit Committee | Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.. |
| 51. Nominations and Compensation Committee | Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A. |
| 52. Strategy Committee | Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. |
| 53. KPI | Key Performance Indicators – key financial and non-financial indicators used as ways to measure progress of achieving goals of an organization. |
| 54. Ksh | <i>Act of September 15, 2000, Code of Commercial Companies</i> |
| 55. Kopalnia Wapienia Czatkowice | Kopalnia Wapienia (Limestone Mine) "Czatkowice" sp. z o.o. (Ltd.) with its registered office in Krzeszowice. |
| 56. Marselwind | Marselwind sp. z o.o. (Ltd.) with its registered office in Katowice. |

| Abbreviation and trade term | Full name / explanation |
|---|--|
| 57. Mg | Megagram - million gram (1 000 000 g), i.e. ton. |
| 58. Business Model | Document entitled <i>TAURON Group's Business and Operational Model</i> |
| 59. IFRS (MSSF) | International Financial Reporting Standards. |
| 60. NBP | National Bank of Poland (Narodowy Bank Polski) with its registered office in Warsaw. |
| 61. NCBR | National Research and Development Center (Narodowe Centrum Badań i Rozwoju) with its registered office in Warsaw. |
| 62. Nowe Jaworzno Grupa TAURON | Nowe Jaworzno Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Jaworzno. |
| 63. NSP | Net Promoter Score – tool used to assess loyalty of a company's clients |
| 64. Line of Business (Segment) | Six areas (segments) of TAURON Capital Group's core operations set up by the Company: Trading, Generation, RES, Heat, Distribution and Supply |
| 65. OPEC | Organization of the Petroleum Exporting Countries with its registered office in Vienna. |
| 66. DSO (OSD) | Distribution System Operator (Operator Systemu Dystrybucyjnego - OSD) |
| 67. TSO (OSP) | Transmission System Operator (Operator Systemu Przesyłowego - OSP) |
| 68. OTC (OTC market) | Over The Counter Market – European OTC market. |
| 69. RES (OZE) | Renewable Energy Sources (Odnawialne Źródła Energii - OZE) |
| 70. PEAK (PEAK contract) | Peak contract for the supply of electricity during business hours (8-22) on business days, for example the PEAK contract for March 2020 is related to the supply of the same amount of electricity on all business days in March 2020 between 8 and 22. |
| 71. PEPKH | Polska Energia - Pierwsza Kompania Handlowa sp. z o.o. (Ltd.) with its registered office in Warsaw. |
| 72. PFR | Polski Fundusz Rozwoju S.A. (Polish Development Fund Joint Stock Company) with its registered office in Warsaw. |
| 73. PGE Baltica 4 | PGE Baltica 4 sp. z o.o. (Ltd.) with its registered office in Warsaw |
| 74. PGG | Polska Grupa Górnicza S.A. (Polish Mining Group) with its registered office in Katowice |
| 75. PGE | PGE Polska Grupa Energetyczna S.A. (Joint Stock Company) with its registered office in Warsaw. |
| 76. PGE EJ 1 | PGE EJ 1 sp. z o.o. (Ltd.) with its registered office in Warsaw. |
| 77. PGK | Tax Capital Group (Podatkowa Grupa Kapitałowa – PGK). |
| 78. PGNiG | Polskie Górnictwo Naftowe i Gazownictwo S.A. (Polish Oil and Gas Joint Stock Company) with its registered office in Warsaw. |
| 79. PKB (GDP) | Gross Domestic Product (Produkt Krajowy Brutto). |
| 80. PLN | Polish zloty currency symbol – zł (PLN) |
| 81. PMEf | Property rights related to the energy efficiency certificates |
| 82. PMOZE | Property rights related to the certificates of origin confirming generation of electricity in RES before March 1, 2009. |
| 83. PMOZE_A | Property rights related to the certificates of origin confirming generation of electricity in RES after March 1, 2009. |
| 84. PMOZE-BIO | Property rights related to the certificates of origin confirming generation of electricity from agricultural biogas from July 1, 2016 |
| 85. Polski Holding Obronny | Polski Holding Obronny with its registered office in Warsaw |
| 86. POPC | Digital Poland Operational Program. (Program Operacyjny Polska Cyfrowa – POPC). |
| 87. PRO | Partnership, Development, Boldness (Partnerstwo Rozwój Odwaga – PRO) - key corporate values reflecting the way TAURON Capital Group wants to achieve its business goals. |
| 88. PSE | Polskie Sieci Elektroenergetyczne S.A. (Joint Stock Company) with its registered office in Konstancin-Jeziorna. |
| 89. Balancing Market (Rynek Bilansujący – RB) | Balancing Market (Rynek Bilansujący) - technical market on which the demand for and supply of electricity in the National Power System (KSE) is balanced. |
| 90. RDB (Intraday Market) | Intraday Market - a market operating on the POLPX TGE), where trading is carried out in a continuous trading formula, 24 hours a day. Instruments with delivery on the next day are traded, with their trading starting at 14:00 the day before the delivery and gradually exiting the market one hour before the start of the delivery. |

| Abbreviation and trade term | Full name / explanation |
|---|---|
| 91. RDN (Day Ahead Market) | Day Ahead Market - a market operating on the POLPX (TGE), where trading is carried out one and two days ahead of the delivery. |
| 92. RDNg | Day Ahead Gas Market - a market operating on the POLPX (TGE), where trading is carried out every day and is conducted in the continuous trading system. |
| 93. RTT | Futures Commodity Market (Rynek Terminowy Towarowy – RTT) - market operating on the POLPX (TGE), where trading in contracts is carried out in the continuous trading system and in the auction system. |
| 94. SARS-CoV-2 | Severe Acute Respiratory Syndrome - virus that causes the COVID-19 disease. |
| 95. Segment, Segments of Operations (Operating Segments) | TAURON Capital Group's segments of operations used in the statutory reporting process. TAURON Capital Group's results from operations are allocated to the following 5 main Segments: Mining, Generation, RES, Distribution and Supply, as well as, additionally, Other Operations. |
| 96. SLA | Service Level Agreement. |
| 97. Consolidated Financial Statements of TAURON Capital Group | Document under the title <i>Consolidated financial statements of TAURON Polska Energia S.A. Capital Group in accordance with the International Financial Reporting Standards approved by the European Union for the year ended on December 31, 2022.</i> |
| 98. Financial Statements of TAURON | Document under the title <i>Financial statements of TAURON Polska Energia S.A. in accordance with the International Financial Reporting Standards approved by the European Union for the year ended on December 31, 2022.</i> |
| 99. SPOT (SPOT market) | With respect to electricity, it is the place where trade transactions for electricity are concluded with delivery not later than 3 days after the date of the transaction's conclusion (most often it is one day before the date of delivery). The operation of the SPOT market for electricity is strongly tied to the operation of the Balancing Market run by the TSO. |
| 100. Company | TAURON Polska Energia S.A. (Joint Stock Company) with its registered office in Katowice. |
| 101. Company's Articles of Association | Document entitled <i>Articles of Association of TAURON Polska Energia S.A. (Joint Stock Company)</i> |
| 102. Strategy | Document entitled TAURON Group's Strategy for 2022-2030 with outlook until 2050 adopted on June 22, 2022. |
| 103. TAMEH HOLDING | TAMEH HOLDING sp. z o.o. (Ltd.) with its registered office in Dąbrowa Górnicza. |
| 104. TAMEH POLSKA | TAMEH POLSKA sp. z o.o. (Ltd.) with its registered office in Dąbrowa Górnicza. |
| 105. TAURON | TAURON Polska Energia S.A. (Joint Stock Company) with its registered office in Katowice. |
| 106. TAURON Ciepło | TAURON Ciepło sp. z o.o. (Ltd.) with its registered office in Katowice. |
| 107. TAURON Czech Energy | TAURON Czech Energy s.r.o. with its registered office in Ostrava (Czech Republic). |
| 108. TAURON Dystrybucja | TAURON Dystrybucja S.A. (Joint Stock Company) with its registered office in Cracow. |
| 109. TAURON Ekoenergia | TAURON Ekoenergia sp. z o.o. (Ltd.) with its registered office in Jelenia Góra. |
| 110. TAURON Nowe Technologie | TAURON Nowe Technologie S.A. (Joint Stock Company) (formerly: TAURON Dystrybucja Serwis S.A. (Joint Stock Company)) with its registered office in Wrocław. |
| 111. TAURON Obsługa Klienta | TAURON Obsługa Klienta sp. z o.o. (Ltd.) with its registered office in Wrocław. |
| 112. TAURON Serwis | TAURON Serwis sp. z o.o. (Ltd.) with its registered office in Katowice. |
| 113. TAURON Sprzedaż | TAURON Sprzedaż sp. z o.o. (Ltd.) with its registered office in Cracow. |
| 114. TAURON Sprzedaż GZE | TAURON Sprzedaż GZE sp. z o.o. (Ltd.) with its registered office in Gliwice. |
| 115. TAURON Wydobycie | TAURON Wydobycie S.A. (Joint Stock Company) with its registered office in Jaworzno. |
| 116. TAURON Wytwarzanie | TAURON Wytwarzanie S.A. (Joint Stock Company) with its registered office in Jaworzno. |
| 117. TAURON Zielona Energia | TAURON Zielona Energia sp. z o.o. (Ltd.) with its registered office in Katowice |
| 118. TEC1 | TEC1 sp. z o.o. (Ltd.) with its registered office in Katowice. |
| 119. TEC2 | TEC2 sp. z o.o. (Ltd.) with its registered office in Katowice. |
| 120. TEC3 | TEC3 sp. z o.o. (Ltd.) with its registered office in Katowice. |
| 121. TGE | Towarowa Giełda Energii S.A. (Polish Power Exchange – POLPX) with its registered office in Warsaw. |
| 122. TGEozebio | Property rights that confirm the production of electricity from renewable energy sources using agricultural biogas. |
| 123. EU (UE) | European Union (Unia Europejska - UE) |
| 124. UOKiK | Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów – UOKiK) |

| Abbreviation and trade term | Full name / explanation |
|-----------------------------|--|
| 125. Unbundling | Separation of the operations with respect to transmission or distribution of electricity from the operations that involve the production and delivery (supply) of this electricity to the final consumers. |
| 126. ERO (URE) | Energy Regulatory Office (Urząd Regulacji Energetyki - URE) |
| 127. USA | United States of America. |
| 128. USD | United States Dollar - US dollar's international acronym |
| 129. Usługi Grupa TAURON | Usługi Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Tarnów. |
| 130. WACC | Weighted Average Cost of Capital - the weighted average cost of capital of the company, weighted respectively by the share of debt and equity in the company's capital structure. |
| 131. Wind T1 | Wind T1 sp. z o.o. . z o.o. with its registered office in Jelenia Góra. |
| 132. WIND T30MW | WIND T30MW sp. z o.o. (Ltd.) with its registered office in Pieńków. |
| 133. WIND T4 | WIND T4 sp. z o.o. (Ltd.) with its registered office in Katowice. |
| 134. WINDPOWER Gamów | WINDPOWER Gamów sp. z o.o. (Ltd.) with its registered office in Katowice. |
| 135. Wsparcie Grupa TAURON | Wsparcie Grupa TAURON sp. z o.o. (Ltd.) with its registered office in Tarnów. |
| 136. GM (WZ/ZW) | General Meeting (GM) / Shareholders' (Partners') Meeting (Walne Zgromadzenie – WZ / Zgromadzenie Wspólników - ZW) |
| 137. ZG | Coal Mine (Zakład Górniczy - ZG) (Janina Coal Mine in Libiąż, Sobieski Coal Mine in Jaworzno, Brzeszcze Coal Mine in Brzeszcze). |

Appendix B: INDEX OF TABLES AND FIGURES

The list of tables and figures presented in this report is provided below.

Index of tables

| | | |
|---------------|---|-----|
| Table no. 1. | List of material joint subsidiaries (co-subsidiaries) as of December 31, 2022 | 12 |
| Table no. 2. | Summary of the equity increases in TAURON Capital Group's subsidiaries in 2022 and by the date of drawing up this report | 12 |
| Table no. 3. | Summary of the equity increases in the other companies, in which TAURON holds an equity stake, implemented in 2022 and by the date of drawing up this report | 13 |
| Table no. 4. | Strategic goals and growth prospects in the individual operating Segments | 17 |
| Table no. 5. | Key strategic investment (CAPEX) projects' work progress in 2022 and by the date of drawing up this report | 21 |
| Table no. 6. | The highest by value, capital expenditures incurred by TAURON Capital Group's Lines of Business in 2022 | 24 |
| Table no. 7. | Selected R&D projects carried out in 2022 by TAURON Capital Group's subsidiaries, co-financed from the external sources | 26 |
| Table no. 8. | Projects with the startups carried out in 2022 | 28 |
| Table no. 9. | 2021-2022 production and sales volumes | 35 |
| Table no. 10. | Categories of TAURON Capital Group's final customers | 38 |
| Table no. 11. | Volume of retail electricity supplied and the number of customers in 2022 | 39 |
| Table no. 12. | Internal factors impacting the operations and the earnings of the Company and TAURON Capital Group in 2022 | 40 |
| Table no. 13. | Volumes of the electricity consumption, production and imports in Poland, as well as the average electricity prices on the SPOT market in Poland and in the neighboring countries in 2022 and in 2021 | 42 |
| Table no. 14. | Most important changes in the regulatory environment of TAURON Capital Group in 2022 with respect to the adopted and published legislative acts | 48 |
| Table no. 15. | The most important changes and initiatives in the regulatory environment of TAURON Capital Group with respect to the EU legislation in 2022 | 52 |
| Table no. 16. | Most important changes in the regulatory environment of TAURON Capital Group on which work is in progress or which have been adopted after the balance sheet date | 54 |
| Table no. 17. | Installed capacity, generation, distribution and supply of electricity by energy groups in the first three quarters of 2022 | 58 |
| Table no. 18. | Sources of competitiveness of TAURON Capital Group in the selected Lines of Business (Segments of Operations) in 2022 | 59 |
| Table no. 19. | Factors that will have the most material impact upon the results of TAURON Capital Group's operations over at least the next quarter | 59 |
| Table no. 20. | 2022 highlights | 60 |
| Table no. 21. | Key data on the headcount at TAURON and TAURON Capital Group as of December 31, 2021 and December 31, 2022 | 67 |
| Table no. 22. | TAURON Capital Group's expenditures on the support for culture, sports, charity institutions, media and social organizations in 2022 | 69 |
| Table no. 23. | Risks in the individual operating Segments | 73 |
| Table no. 24. | Most material risk categories identified for TAURON Capital Group | 75 |
| Table no. 25. | Annual standalone statement of comprehensive income in 2021-2022 drawn up in accordance with the IFRS | 85 |
| Table no. 26. | Company's revenue in 2021-2022 | 86 |
| Table no. 27. | Level and structure of the costs incurred by the Company in 2021-2022 | 87 |
| Table no. 28. | Company's annual standalone statement of financial position, drawn up in accordance with the IFRS (material items) | 87 |
| Table no. 29. | Statement of cash flows drawn up in accordance with the IFRS (material items) | 88 |
| Table no. 30. | Key financial ratios of TAURON | 89 |
| Table no. 31. | TAURON Capital Group's 2020-2022 EBITDA broken down into individual lines of business (segments) | 91 |
| Table no. 32. | Generation Segment's 2021-2022 results | 92 |
| Table no. 33. | RES Segment's results in the years 2021-2022 | 94 |
| Table no. 34. | Distribution Segment's results in the years 2021-2022 | 96 |
| Table no. 35. | Supply Segment's results in the years 2021-2022 | 97 |
| Table no. 36. | Other Operations Segment's results in the years 2021-2022 | 98 |
| Table no. 37. | Mining Segment's results in the years 2021-2022 | 99 |
| Table no. 38. | Structure of the annual consolidated statement of financial position | 101 |
| Table no. 39. | Annual consolidated statement of financial position - assets (material items) ¹ | 102 |
| Table no. 40. | Annual consolidated statement of financial position – equity and liabilities (material items) ¹ | 103 |
| Table no. 41. | Annual consolidated statement of comprehensive income for 2021-2022 ¹ | 106 |
| Table no. 42. | Statement of cash flows (material items) in the years 2021 - 2022 ¹ | 109 |
| Table no. 43. | Key financial ratios of TAURON Capital Group for the continuing and discontinued operations ¹ | 112 |
| Table no. 44. | Net financial debt reconciliation | 112 |

| | | |
|---------------|---|-----|
| Table no. 45. | Reconciliation of the result on the EBITDA level | 113 |
| Table no. 46. | Financial data and operating data for the years 2018 – 2022 ¹ | 113 |
| Table no. 47. | TAURON Capital Group's EBITDA, broken down into Segments of Operations ¹ | 114 |
| Table no. 48. | Compensation of the audit firms for the services provided for TAURON Capital Group's subsidiaries | 120 |
| Table no. 49. | Company's shares held by the Members of the Company's Management Board as of December 31, 2022, and as of the date of drawing up this report | 125 |
| Table no. 50. | Key data on the Company's shares in 2011-2022 | 127 |
| Table no. 51. | Recommendations issued in 2022 | 129 |
| Table no. 52. | Timeline of the investor relations highlights (events) and activities that took place in 2022 | 130 |
| Table no. 53. | Shareholders holding, directly or indirectly, substantial blocks of shares as of December 31, 2022, and as of the date of drawing up this report | 140 |
| Table no. 54. | Competence of the General Meeting of the Company as of December 31, 2022, and as of the date of drawing up this report | 144 |
| Table no. 55. | Description of the Company's shareholders' rights related to the General Meeting of the Company | 145 |
| Table no. 56. | Competence of the Company's Management Board as of December 31, 2022, and as of the date of drawing up this report | 150 |
| Table no. 57. | Compliance of the Members of the Company's Supervisory Board with the independence requirements and the actual ties to a shareholder holding at least 5% of the total number of votes in the Company, as of December 31, 2022, and as of the date of drawing up this report | 152 |
| Table no. 58. | Competence of the Company's Supervisory Board as of December 31, 2022, and as of the date of drawing up this report | 157 |
| Table no. 59. | Main issues that the Company's Supervisory Board was dealing with during its meetings in 2022. | 159 |
| Table no. 60. | Compliance, in 2022, of the Members of the Audit Committee with the independence requirements and the requirements with respect to the knowledge and skills held | 161 |
| Table no. 61. | Competences of the Audit Committee as of December 31, 2022, and as of the date of drawing up this report | 162 |
| Table no. 62. | Main issues that the Audit Committee was dealing with during its meetings in 2022 | 162 |
| Table no. 63. | Competences of the Nominations and Compensation Committee, as of December 31, 2022, and as of the date of drawing up this report | 166 |
| Table no. 64. | Main issues that the Nominations and Compensation Committee was dealing with during its meetings in 2022 | 166 |
| Table no. 65. | Competences of the Strategy Committee as of December 31, 2022, and as of the date of drawing up this report | 167 |
| Table no. 66. | Main issues that the Strategy Committee was dealing with during its meetings in 2022 | 167 |
| Table no. 67. | Compensation of the Members of the Company's Management Board paid out in 2022, broken down into the individual components (excluding markups) | 173 |
| Table no. 68. | Compensation of the Members of the Supervisory Board of the Company in 2022 | 176 |
| Table no. 69. | Summary of material proceedings pending in front of the court, competent arbitration authority or public administration authority in 2022 | 177 |
| Table no. 70. | Explanation of abbreviations and acronyms as well as trade terms | 190 |

Index of figures

| | | |
|----------------|--|----|
| Figure no. 1. | TAURON Capital Group | 6 |
| Figure no. 2. | Location of TAURON Capital Group's key assets | 7 |
| Figure no. 3. | TAURON Capital Group's structure, including the subsidiaries subject to consolidation, as of December 31, 2022 | 8 |
| Figure no. 4. | Priorities of TAURON Group's Strategy for the years 2022-2030 with an outlook until 2050 | 14 |
| Figure no. 5. | TAURON Group's renewable energy installed capacity growth ambitions outlined | 16 |
| Figure no. 6. | Assumed change in TAURON Group's energy mix | 16 |
| Figure no. 7. | Forecast of the emissions reduction at TAURON Group | 16 |
| Figure no. 8. | Estimated capital expenditures of TAURON Group in the years 2022-2030 | 17 |
| Figure no. 9. | Status of the key strategic goals in 2022 | 20 |
| Figure no. 10. | Structure of TAURON Capital Group's Lines of Business | 29 |
| Figure no. 11. | Organizational diagram of TAURON as of December 31, 2022, and as of the date of drawing up this report | 31 |
| Figure no. 12. | Structure of TAURON Capital Group's processes in 2022 (mega processes) | 32 |
| Figure no. 13. | Structure of the installed capacity of TAURON Group's generating units as of December 31, 2022 | 36 |
| Figure no. 14. | Structure of the electricity distribution by the tariff groups in 2022 | 37 |
| Figure no. 15. | Coal and coal sludge purchased in 2021 (in %) | 40 |
| Figure no. 16. | Average monthly electricity prices on the SPOT and RB markets in 2022 | 43 |
| Figure no. 17. | BASE Y-23 contract trading volume in 2022 | 43 |
| Figure no. 18. | Average monthly SPOT market and BASE_Y-23 contract gas prices on TGE (PPX) | 45 |
| Figure no. 19. | Impact of the political actions and the environment (stakeholders) on the EUA SPOT product price performance in 2022 | 46 |
| Figure no. 20. | Property rights indices | 47 |

| | | |
|----------------|---|-----|
| Figure no. 21. | TAURON Capital Group's competitive environment based on the available data for the first three quarters of 2022 | 56 |
| Figure no. 22. | EBITDA – estimated structure based on the main operating segments in 2021 ¹ | 56 |
| Figure no. 23. | Gross electricity production - estimated market shares in the first three quarters of 2022 | 57 |
| Figure no. 24. | Installed capacity - estimated market shares in the first three quarters of 2022 | 57 |
| Figure no. 25. | Electricity distribution - estimated market shares in the first three quarters of 2022 | 58 |
| Figure no. 26. | Electricity supply to the final consumers - estimated market shares in the first three quarters of 2022 | 58 |
| Figure no. 27. | TAURON's average headcount in FTEs in 2021 - 2022 | 67 |
| Figure no. 28. | TAURON Capital Group's average headcount in FTEs per operating Segment in 2021-2022 ¹ ... | 67 |
| Figure no. 29. | Basic classification of the enterprise risk | 71 |
| Figure no. 30. | The links between the various roles in the context of the ERM Strategy and the documents regulating the ERM System | 72 |
| Figure no. 31. | TAURON Capital Group's EBITDA in 2012-2022 | 91 |
| Figure no. 32. | TAURON Capital Group's 2021-2022 EBITDA structure | 92 |
| Figure no. 33. | Change in TAURON Capital Group's EBITDA in 2021-2022 | 92 |
| Figure no. 34. | Generation Segment's financial data for the years 2021-2022 | 94 |
| Figure no. 35. | Generation Segment's EBITDA | 94 |
| Figure no. 36. | RES Segment's financial data for the years 2021-2022 | 95 |
| Figure no. 37. | RES Segment's EBITDA | 95 |
| Figure no. 38. | Distribution Segment's financial data for the years 2021-2022 | 96 |
| Figure no. 39. | Distribution Segment's EBITDA | 97 |
| Figure no. 40. | Supply Segment's financial data for the years 2021 - 2022 | 98 |
| Figure no. 41. | Supply Segment's EBITDA | 98 |
| Figure no. 42. | Other Operations Segment's financial data for the years 2021-2022 | 99 |
| Figure no. 43. | Mining Segment's financial data for the years 2021 - 2022 | 100 |
| Figure no. 44. | Mining Segment's EBITDA | 100 |
| Figure no. 45. | Structure of assets | 101 |
| Figure no. 46. | Structure of equity and liabilities | 101 |
| Figure no. 47. | Current liquidity ratio and the net financial debt to EBITDA ratio in the years 2021-2022 | 102 |
| Figure no. 48. | Change in assets | 102 |
| Figure no. 49. | Change in current assets | 102 |
| Figure no. 50. | Change in equity and liabilities | 104 |
| Figure no. 51. | Change in equity attributable to majority shareholders | 104 |
| Figure no. 52. | Change in long term liabilities | 104 |
| Figure no. 53. | Change in short term liabilities | 105 |
| Figure no. 54. | TAURON Capital Group's financial results for the years 2021 - 2022 | 107 |
| Figure no. 55. | TAURON Capital Group's sales revenue (except for the compensation payments) from the continuing operations in the years 2021 - 2022 ¹ | 108 |
| Figure no. 56. | TAURON Capital Group's financial results and the level of the margins realized from the continuing operations in the years 2021 - 2022 ¹ | 109 |
| Figure no. 57. | Cash flows in the years 2021 - 2022 | 110 |
| Figure no. 58. | TAURON Capital Group's cash flows in 2022 | 111 |
| Figure no. 59. | Structure of TAURON Capital Group's EBITDA in the years 2018 – 2022 | 115 |
| Figure no. 60. | Mining Segment's data for the years 2018 - 2022 | 115 |
| Figure no. 61. | Generation and RES Segment's data for the years 2018 - 2022 | 116 |
| Figure no. 62. | Distribution Segment's data for the years 2018 - 2022 | 116 |
| Figure no. 63. | Supply Segment's data for the years 2018 - 2022 | 116 |
| Figure no. 64. | Other Operations Segment's data for the years 2018 - 2022 | 116 |
| Figure no. 65. | Shareholding structure as of December 31, 2022, and as of the date of drawing up this report | 125 |
| Figure no. 66. | TAURON share price performance and trading volumes in 2022 | 128 |
| Figure no. 67. | TAURON share price and trading volumes since the market debut until December 31, 2022 ... | 128 |
| Figure no. 68. | TAURON share price (in PLN) versus WIG20 and WIG-Energia indices since the market debut until December 31, 2022 | 129 |
| Figure no. 69. | TAURON share price versus WIG20, mWIG40 and WIG-Energia indices in 2022 | 129 |
| Figure no. 70. | Diagram (flowchart) showing the division of the responsibilities of the Members of the Company's Management Board, as of the date of drawing up this report | 150 |



NON-FINANCIAL REPORT

of TAURON Capital
Group for 2022

Table of Contents

| | |
|--|-----------|
| LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD | 5 |
| 1. Information on TAURON Capital Group's Report and the legal basis | 6 |
| 1.1. Information on the Report, legal basis..... | 6 |
| 1.2. Reporting methodology | 7 |
| 1.3. Reporting standard..... | 7 |
| 1.4. Stakeholder mapping | 7 |
| 1.5. Material aspects of the reporting..... | 10 |
| 2. TAURON Capital Group's Strategy for the years 2022-2030 with an outlook until 2050 | 14 |
| 2.1. Conditions of the environment determining the choice of TAURON Group's strategy | 14 |
| 2.2. TAURON Group against the backdrop of the world's greatest challenges – climate changes and insufficient resources | 14 |
| 2.3. TAURON Group against the European power market backdrop..... | 14 |
| 2.4. TAURON Group against the Polish energy market backdrop | 17 |
| 2.5. TAURON Capital Group's strategic determinants related to the external environment | 19 |
| 2.6. TAURON Capital Group's Strategy and its assumptions | 23 |
| 2.7. TAURON Capital Group's key non-financial efficiency ratios (metrics, performance indicators)..... | 27 |
| 2.8. TAURON Capital Group's key financial data..... | 28 |
| 3. TAURON Capital Group amid the war in Ukraine | 30 |
| G – GOVERNANCE (Corporate Governance) | 34 |
| G 1. TAURON Capital Group's values | 35 |
| G 1.1. Mission, vision | 35 |
| G 1.2. Corporate values | 35 |
| G 1.3. Corporate Social Responsibility Code of Conduct..... | 35 |
| G 2. Documents supporting the ESG management process | 36 |
| G 3. TAURON Group's Business Model | 39 |
| G 3.1. TAURON Polska Energia S.A. Company Management Principles | 39 |
| G 3.1.1. Management Board of TAURON Polska Energia S.A. | 39 |
| G 3.1.2. Supervisory Board of TAURON Polska Energia S.A. | 41 |
| G 3.1.3. General Meeting of TAURON Polska Energia S.A. | 44 |
| G 3.1.4. Description of the principles applied to amend the Articles of Association of TAURON Polska Energia S.A. | 45 |
| G 3.2. Principles of TAURON Group's management | 45 |
| G 3.2.1. Code of TAURON Group | 45 |
| G 3.2.2. TAURON Group's Business and Operational Model | 45 |
| G 3.3. TAURON Capital Group's organization | 51 |
| G 3.3.1. Process based organization | 51 |
| G 3.3.2. Organization by Lines of Business | 52 |
| G 3.3.3. Formal and legal organizational structure..... | 53 |
| G 3.4. Changes to the principles of TAURON Polska Energia S.A. and TAURON Capital Group Management..... | 54 |
| G 4. TAURON Capital Group's main risks and the management thereof | 56 |
| G 4.1. What TAURON Group expects as a result of the regulatory and market changes | 56 |
| G 4.2. Three Line Defense Model | 57 |
| G 4.3. TAURON Capital Group's risk management objective and principles | 57 |
| G 4.4. TAURON Group's risk management strategy | 58 |

| | |
|--|-----|
| G 4.4.1. Roles and responsibilities of the risk management system's participants..... | 59 |
| G 4.4.2. Risk management tools | 60 |
| G 4.4.3. Risk model..... | 60 |
| G 5. TAURON Group's due diligence procedures | 61 |
| G 5.1. Internal control and audit procedure..... | 61 |
| G 5.2. Most important aspects relate to the internal controls and risk management with respect to the process of drawing up financial statements and consolidated financial statements | 61 |
| G 5.3. TAURON Capital Group's Key Policies, Codes and Principles in force as part of the Corporate Governance | 63 |
| G 5.3.1. TAURON Group's Anti-corruption Policy | 63 |
| G 5.3.2. TAURON Group's Corporate Purchasing Policy..... | 64 |
| G 5.3.3. Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries | 65 |
| G 5.3.4. TAURON Group's Compliance Policy..... | 66 |
| G 5.3.5. TAURON Group's Principles of counteracting a conflict of interest | 68 |
| G 5.3.6. Personal data protection policy for TAURON Group's entities..... | 68 |
| G 5.3.7. TAURON Group's Security Management System Policy..... | 71 |
| G 5.3.8. TAURON Group's Business Continuity Policy | 73 |
| G 5.3.9. The Procedure for Assessing (Vetting) the Credibility of TAURON Group's Contractors (Counterparties) | 74 |
| G 5.3.10. TAURON Group's Procedure for Counteracting Money Laundering (Anti-Money Laundering) and Financing of Terrorism | 75 |
| G 5.4. Risks related to TAURON Capital Group's sustainable development | 75 |
| G 5.4.1. Legal and regulatory risk | 75 |
| G 5.4.2. Compliance Risk..... | 76 |
| G 5.4.3. Purchasing Process Risk..... | 78 |
| G 5.5. Whistleblowing System | 79 |
| E – Environment (Environment and Climate) | 81 |
| E 1. TAURON Capital Group's strategy and business model in the context of climate and environment protection requirements..... | 82 |
| E 1.1. Policies supporting the management of the following areas: environment, climate, sustainable development in the value chain | 83 |
| E 1.1.1. TAURON Group's Environmental Policy..... | 83 |
| E 1.1.2. TAURON Group in the area of environment - activities, impact, protection, results..... | 83 |
| E 1.1.3. TAURON Group's Climate Policy..... | 109 |
| E 1.1.4. TAURON Group and climate and sustainable business development - operations, impact, trends, results..... | 109 |
| E 1.2. TAURON Capital Group's climate and environmental risks and opportunities | 141 |
| E 1.2.1. Threats and opportunities related to climate change | 141 |
| E 1.2.1.1. Physical Risk | 141 |
| E 1.2.1.2. Climate Risk related to the transition | 142 |
| E 1.2.2. Environmental Risk | 144 |
| E 2. Revenue from sustainable activities | 145 |
| E 2.1. Climate neutrality 2050 | 151 |
| S – SOCIAL (Social Responsibility) | 154 |
| S 1. TAURON Capital Group's Human Capital Management Strategy..... | 155 |
| S 1.1. Policies and Principles supporting Human Capital Management..... | 157 |

| | |
|--|-----|
| S 1.1.1. TAURON Group's Human Capital Management Policy | 157 |
| S 1.1.2. TAURON Group's Diversity Policy | 171 |
| S 1.1.3. TAURON Group's Recruitment Principles..... | 175 |
| S 1.1.4. TAURON Group's Policy of compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination..... | 178 |
| S 1.1.5. TAURON Group's Respect for Human Rights Policy..... | 180 |
| S 1.1.6. TAURON Group's WHS Policy | 181 |
| S 1.2. Human Capital Related Risks..... | 184 |
| S 1.2.1. Human Capital Management Risk | 184 |
| S 1.2.2. Internal Communication Risk | 185 |
| S 1.2.3. WHS Risk..... | 185 |
| S 2. TAURON Group's social and intellectual capital management..... | 186 |
| S 2.1. Policies, Codes, Principles supporting Line of Business (area) management | 188 |
| S 2.1.1. TAURON Group's PRO Client Social Policy | 188 |
| S 2.1.2. Intellectual Property Protection Management System..... | 198 |
| S 2.1.3. TAURON Group's Principles of Conducting Corporate Social Responsibility (CSR) projects..... | 203 |
| S 2.1.5. Cooperation with the local government authorities | 204 |
| S 2.1.6. Cooperation with the industry (trade) organizations..... | 204 |
| S 2.2. Risks related to social capital management..... | 206 |
| S 2.2.1. Social Risk | 206 |
| GRI content index, ESG indicators (acc. to WSE) and Global Compact Principles | 208 |

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

GRI 2-22

Ladies and Gentlemen,

We have a difficult year of hard work behind us, fraught with many challenges, including those related to the energy crisis caused by the Russia's invasion of Ukraine. The entire economy, both in Poland and globally, experienced a huge turmoil in the raw materials market, while the energy market required a number of regulations. Despite these problems, also thanks to the exceptional commitment of our workforce, TAURON Group was functioning smoothly, providing our customers with uninterrupted access to electricity and heat at acceptable prices. During this period, we were steadfastly pursuing our expansion objectives at TAURON Group's subsidiaries, while continuing to maintain our leadership of Poland's transformation.

In June 2022, we announced a new strategy: "Green Turn of TAURON. Energy Around the Clock". The document outlines in detail the directions of our expansion, making our company's efforts in line with the rapid changes of the European and global energy industry. In the strategy, we have adopted a sustainable development path, in line with the global trends, including taking into account the sustainable goals of the United Nations.

We have not remained passive in view of the challenges faced by the Ukrainian people and energy professionals in the war ravaged Ukraine, we describe our efforts in this regard further on in the Report.

In every activity we take into account the interests of our customers, employees as well as those of the environment and climate. TAURON's priorities continue to include sustainable development and the pursuit of ensuring universal access to reliable and modern energy services at affordable prices. We make our contribution to increasing the share of renewable energy sources in the global energy mix, we want to expand international cooperation aimed at facilitating access to research on clean energy and technologies in the field of renewable energy, energy efficiency, as well as to promote investing in energy infrastructure and clean energy technologies.

Our strategy, based on the assumption of achieving climate neutrality in 2050, places a strong emphasis on developing renewable energy sources. Reducing CO₂ emissions and ensuring the supply of electricity to more than 5.8 million customers, through further investments in the distribution grids and digitization, will allow us to remain a vital link in Poland's national energy system.

This is why we were focused on TAURON Group's transformation in 2022. The change is already visible, as the State Treasury has acquired 100 percent of the shares of TAURON Wydobycie, which includes the Sobieski, Janina and Brzeszcze coal mines. Thus, as of 2023, the Group is no longer conducting hard coal mining operations. We also continue our efforts aimed at spinning-off the coal-based generation assets to the National Energy Security Agency. The Group will have renewable electricity sources with a total capacity of 1.6 GW by 2025, and 3.7 GW by 2030. This will allow for reducing the carbon intensity of the production by 80%, down to 160 kgCO₂/MWh.

TAURON Group is continuously taking steps aimed at minimizing the potential negative social implications associated with the transition of the energy sector. The processes of spinning-off the mining and coal-fired generation assets, which were implemented in 2022, took place with transparent dialogue with the workforce. In order to ensure job preservation, TAURON Group Employment Stabilization Agreement, providing protection of the workforce, was signed. The measures taken by TAURON Group are conducive to implementing the strategy and maintaining the highest level of knowledge, competence and skills of our employees, ensuring continuity of the business processes. We educate our employees both with respect to professional qualifications as well as with respect to new technologies, including those related to renewable energy sources. The Group's values: Partnership, Development and Boldness, as well as ethical standards and respect for human rights, are at the core of our organizational culture.

The report I am presenting to you is a comprehensive and transparent document, therefore both the layout as well as content of the publication are based on the structure and guidelines of the international reporting standard GRI (Global Reporting Index). Once again, I would like to emphasize that the sustainable development issues are extremely important for our organization, and since last year, the ESG-related goals have been an integral part of our Strategy. The implementation of the adopted directions will contribute to the prevention of the negative effects of our activities and will have a positive impact on the economy, environment and society. Our priority is development carried out in a complementary manner with respect for human rights and international efforts aimed at accomplishing the Sustainable Development Goals.

I sincerely thank all shareholders, customers, as well as employees of TAURON Capital Group for their trust and commitment.

Yours respectfully



A handwritten signature in blue ink, appearing to read 'Paweł Świątek'.

President of the Management Board
of TAURON Polska Energia S.A.

1. Information on TAURON Capital Group's Report and the legal basis

1.1. Information on the Report, legal basis

GRI 2-1, GRI 2-2, GRI 2-3, GRI 2-4

The 2021 Non-financial Report presented contains data and indicators regarding TAURON Capital Group (hereinafter alternatively referred to as the Group, TAURON Group and TAURON) as well as TAURON Polska Energia S.A., which is the parent company in TAURON Capital Group. (hereinafter referred to as TAURON Polska Energia, Company). The Company, with its registered office in Katowice at ul. Ks. P. Ściegiennego 3, was registered in the National Court Register on January 8, 2007, under the name: Energetyka Południe S.A. The change of the Company's name to its current name, i.e. TAURON Polska Energia S.A., was registered on November 16, 2007. TAURON Polska Energia's shares have been listed on the Warsaw Stock Exchange (WSE) since 2010. TAURON is operating as a joint stock company (publicly listed corporation), its share capital stands at PLN 8 762 746 970.00 and is split into 1 752 549 394 shares. The main shareholders include State Treasury 30.06%, KGHM Polska Miedź S.A. 10.39%, Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open Pension Fund) 5.06%. The other shareholders hold 54.49% of the shares. TAURON is conducting its operations in Poland and on a small scale in the Czech Republic.

The Report has been prepared in accordance with:

- Article 49b, clause 1-8 and art. 55, clause 2b-e of the Accounting Act of September 29, 1994, as subsequently amended, which implements the guidelines of the Directive of the European Parliament and of the Council 2014/95 / EU of October 22, 2014, as regards disclosure of non-financial information.
- Article 8 of Regulation (EU) 2020/852 of the European Parliament and of the Council of June 18, 2020, on establishing a framework to facilitate sustainable investment, amending Regulation (EU) 2019/2088 and its delegated acts, i.e.:
 - Commission Delegated Regulation (EU) 2021/2139 of June 4, 2021, supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing technical qualification criteria for determining the conditions under which the given economic activity qualifies as making a significant contribution to climate change mitigation or adaptation, as well as for determining whether such an economic activity does not cause serious damage to any other environmental objective.
 - Commission Delegated Regulation (EU) 2021/2178 of July 6, 2021, supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by clarifying the content and presentation of the information on environmentally sustainable business activities to be disclosed by companies subject to 29a of Directive 2013/34/EU, and specifying the method for fulfilling this disclosure obligation.
- Communication from the European Commission dated 20.06.2019. "Guidelines for reporting non-financial information: Supplement on reporting climate-related information" (2019/C 209/01).
- GRI Standards.
- WSE guidelines for ESG reporting.

Non-financial data was compiled on the basis of a dialogue with the stakeholders carried out according to the AA1000SES standard.

The business model, key non-financial performance indicators, policies and the due diligence procedures applied, as well as the potential risks and the risk management system, are presented in this Report from the point of view of the entire TAURON Group and are provided on a consolidated basis.

The subject matter scope of the Report has not changed significantly as compared to 2021. The Report covers the following subsidiaries: TAURON Polska Energia, TAURON Wydobycie, TAURON Wytwarzanie, Nowe Jaworzno Grupa TAURON, TAURON Ciepło, TAURON Ekoenergia, TAURON Dystrybucja, TAURON Nowe Technologie, TAURON Dystrybucja Pomiary, Bioeko Grupa TAURON, TAURON Sprzedaż, TAURON Sprzedaż GZE, TAURON Obsługa Klienta, Kopalnia Wapienia "Czatkowice", Spółka Usług Górniczych, TAURON Serwis, Energetyka "Cieszyńska", TAURON Inwestycje, Usługi Grupa TAURON, the special purpose vehicles set up to manage the wind assets, TAURON Ubezpieczenia and Wsparcie Grupa TAURON. This set of companies, also included in the Financial Statements, is representative for all of the Group's lines of business. This approach enables

understanding the way they are operated, but also their impact on the environment. The Report does not include entities over which TAURON Group does not have control.

TAURON Capital Group's non-financial reporting process takes place on an annual basis, and the publication date coincides with the publication of the financial statements. The Non-financial Report of TAURON Capital Group for 2022 was published on March 29, 2023. Contact details for the stakeholders is available on the website at the address: <https://www.tauron.pl/tauron/o-auronie/kontakt>.

Due to the growing importance of the non-financial data, the Non-Financial Report has been prepared for the fourth time in the history of TAURON Group, constituting an independent, autonomous document. The Report for 2022 does not introduce any material adjustments or additions to the data for previous reporting periods.

As part of the process of drawing up the Report, documents, policies, due diligence procedures, risk management principles and other information materials related to the operations of TAURON Group were analyzed.

1.2. Reporting methodology

The preparation of the content of this Report was performed in the following stages:

- conducting the strategic process of stakeholders mapping and defining the material aspects of the reporting,
- conducting a materiality analysis of the topics to be covered in the Report,
- collecting the data illustrating the implementation of the policies with respect to the business model, Strategy and the corporate social responsibility goals, as well as the due diligence and risk management principles and the way they are managed at TAURON Capital Group,
- Drawing up this Report based on the collected data in accordance with the applicable legal regulations and the guidelines with respect to non-financial information reporting (GRI Standards, WSE guidelines for ESG reporting).

1.3. Reporting standard

GRI 2-5, GRI 2-14

Seeing growing interest in non-financial data that allows for understanding the organization in a broader context, this Report presents the content that can be used by the stakeholders interested in the value creation process by TAURON Capital Group, including, in particular, investors, analysts and bondholders, employees, customers, suppliers, business partners, local communities, legislators, regulatory bodies (regulators) and decision makers. This Report has been drawn up in accordance with the Global Reporting Initiative – GRI 2021 standard. In addition, the Report includes proprietary indicators, references to the 10 Principles of the Global Compact, as well as the ESG indicators (based on the WSE guidelines). The scope of information provided in the Report also refers to the expectations of the international ESG ratings. GRI indices and other indices are listed in the final section of the document.

When selecting the materials, we were guided by the principle of materiality and care that the message addressed to our stakeholders should be credible and comprehensive. When drafting the texts we applied the principle of brevity and the principle of linking the information presented.

The content of this Report have been reviewed and approved by the Management Board and the Supervisory Board. The Report has not been verified by any external entities.

1.4. Stakeholder mapping

GRI 3-1, GRI 3-2, GRI 2-29

Developing good relations with the stakeholders is of key importance for TAURON Group. The cooperation with the stakeholders constitutes the foundation for the Group to achieve success in both business operations, as well as social activities. Partnership relations with the stakeholders have a significant impact on the long term strategy and the sustainable (balanced) approach to the business operations. TAURON Group maintains a social license to operate ("license to operate") by developing good relationships with local communities.

For this reason, the Group has been conducting a process of mapping and involving its stakeholders for a number of years. This activity is carried out systematically and in accordance with methodological principles, thus forming the basis for the performance of the Group's business activities in terms of the idea of sustainable development.

This process is carried out by TAURON Group with respect to both the strategic mapping (for the entire TAURON Capital Group) as well as the operational mapping (for the individual investment projects implemented by the Group).

Accordingly, another strategic mapping exercise took place in the fall of 2022, conducted in cooperation with experts from the University of Science and Technology (AGH) and the Institute of Accounting and Taxation.

TAURON Group's stakeholder mapping process was conducted in terms of full compliance with the AA1000 Stakeholder Engagement Standard - 2015 Edition (the so-called AA1000 SES standard), and also using the ICMM (International Council on Mining & Metals) guides, titled "Stakeholder Research Toolkit. Stakeholder Research Toolkit, based substantively on the Johnson&Scholes methodology.

TAURON Group's stakeholder mapping began with the identification of the stakeholder groups. First, a quantitative survey was used, which, based on the data from the Ministry of Climate and Environment and the Energy Regulatory Office, allowed for a generic analysis of the stakeholders present in the energy market in Poland. Secondly, a detailed generic analysis of the stakeholder responses to the communications and reports authored by TAURON Group in the July 2021 - August 2022 time frame was conducted.

The above activities allowed for identifying the following groups of TAURON Capital Group's stakeholders in 2022:

- local communities,
- public administration,
- investors, shareholders, analysts,
- suppliers,
- industry organizations,
- local government,
- media,
- customers,
- employees
- media,
- customers,
- employees,
- banks, capital providers,
- regulators,
- innovators, start-ups,
- non-government organizations,
- natural environment and climate,
- research and science community,
- business partners,
- competition.

The next two-part stage of the stakeholder mapping process was the stakeholder diagnostics and classification. First, the level of the stakeholder interest in the organization was analyzed, followed by the level of impact of each stakeholder on the organization. Both parts of the analysis used the Johnson&Scholes methodology indicated above, based on an assessment of the level of interest and impact on a scale from -5 (very low level) to +5 (very high level). At the same time, the type of this level was indicated, defined as positive, neutral and negative.

Stakeholder interest levels were analyzed through the use of a quantitative survey, involving an in-depth analysis of the stakeholder reactions to the communications and reports authored by TAURON Group during the July 2021 - August 2022 time frame. A total of 22 957 stakeholder responses were identified, which allowed for obtaining fully methodologically correct analytical material for assessing interest in each identified group.

Stakeholder impact levels were, in turn, studied using a quantitative survey, based on a survey tool, conducted in October 2022 among top managers, and supported by a methodological workshop lasting several hours, led by an external specialist from AGH.

The results of the above mentioned surveys in both areas allowed for defining four categories of stakeholders, identified within the Johnson&Scholes matrix for TAURON Group. One of them became the Key Stakeholders (with interest levels from 0 to +5 and impact levels from 0 to +5), representing the most impactful and important stakeholders of the Group.

Completing of the above activities allowed for drawing up the final TAURON Group stakeholder map. This resulted in the Johnson&Scholes stakeholder matrix, which is presented in Figure no. 1.



Figure no. 1. Johnson & Scholes matrix illustrating the map of TAURON Capital Group's stakeholders in 2022

In accordance with the mapping process, the following groups have been identified as the key stakeholders of TAURON Capital Group in 2022:

- local communities,
- public administration,
- investors, shareholders, analysts,
- industry organizations,
- local government,
- media,
- customers,
- employees,
- banks, capital providers,
- innovators, start-ups,
- non-government organizations,
- natural environment,
- research and scientific community,
- business partners,
- competition.

The stakeholder map constitutes a fundamental value in terms of the ongoing sustainability process across the TAURON Group's entire value chain. Identifying and developing desirable relationships with various stakeholder groups, is an important part of the activities performed as part of the Group's business strategy. The above result also represents the starting point for determining the materiality of the reporting aspects for 2022, as these are issues in the implementation of which the key stakeholders have a significant role.

The cooperation with the individual stakeholders is described in the specific sections of this Report and additionally in the Report of the Management Board on the Operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022, in section 8.8. Investor Relations.

1.5. Material aspects of the reporting

GRI 3-1, GRI 3-2

The starting points for the process of selecting material aspects of reporting in this Report are:

- Johnson & Scholes matrix (section 1.4) developed as a result of stakeholder mapping, prepared in the fall of 2022,
- AA1000 Stakeholder Engagement Standard – 2015 Edition (the co-called AA1000 SES standard) and the European Commission's Communication on reporting non-financial information (non-financial reporting methodology) (2017/C 215/01)

In cooperation with the experts from the AGH University of Science and Technology and the Institute of Accounting and Taxes, the process of selecting material aspects of reporting was carried out by TAURON Group, with the involvement of the key (external and internal) stakeholders, identified in the Johnson & Scholes matrix.

In accordance with the market analysis principles and the AA1000 SES standard, the process of defining the material aspects of reporting was composed of:

- quantitative research - surveys,
- qualitative research – workshops and interviews.

They were implemented in two groups of stakeholders representing the key stakeholder categories:

- internal stakeholders – developing the perspective of TAURON Group,
- external stakeholders – developing the perspective of TAURON Group's environment.

The quantitative research was used for the initial, statistical determination of the importance (weight) of the topics (issues) to be reported. The goal of the qualitative research, on the other hand, was to obtain the confirmation by stakeholder representatives from key groups of the importance (weight) of the topics (issues) identified as a result of the quantitative research.

In order to reach the largest possible number of people, both types of research were conducted on-line. The quantitative research was based on online surveys, while the qualitative research was based on individual interviews with experts conducted using electronic applications, as well as on-line workshops carried out with the use of Internet platforms. Their preparation and implementation was undertaken by an AGH's independent research and development unit.

In case of the internal stakeholders, the quantitative and qualitative research covered the managerial staff and employees of TAURON Group. The perspective developed this way takes into account the opinions of the entire

Group. Therefore, separate points of view of the individual subsidiaries are not specified, as the Group is treated as a whole. Within its framework, however, it is possible to identify individual lines of business (Generation, Heat, RES, Distribution, Customer Service and Supply) for which the indicators (metrics) that are most important from the point of view of their operations have been selected and reported.

539 responses from the internal stakeholders were collected based on the on-line questionnaire, including the feedback of the employees (including managers). As part of the qualitative research, workshops with the Group's management were held on 10.01.23. The meeting was attended by managers, mainly the ones dealing with strategy.

With respect to the external stakeholders, the research process covered the following groups of key stakeholders: public administration, banks and capital providers, investors, shareholders and analysts, customers, media, industry organizations (including the ones related to corporate social responsibility and environmental organizations), regulators, local communities, as well as the local government. The qualitative research was conducted between 18.01.2023 and 1.02.2023. As a result, more than 30 888 stakeholder responses were obtained. The above was the basis for the stakeholder panel lasting several hours, conducted on February 3, 2023, with the representatives of all of the above mentioned key stakeholder groups, and additionally also the representatives of the universities (AGH) participating therein.

The results of the identification by the external and internal stakeholders of the materiality level of non-financial topics (issues) to be reported by TAURON Capital Group are provided in the materiality matrix, presented in Figure no. 2



Figure no. 2. The level of materiality of the individual non-financial topics (issues) for TAURON Group and its environment (stakeholders)

Based on the results of stakeholder indications, 21 material non-financial topics (issues) (with a weight of 4 (important) and higher (very important)), identified out of the 52 reported, in four areas covering the non-financial

aspects: Market, Environment, Workplace, Society (Public), to be reported by TAURON Capital Group for 2022 were compiled. They are presented in Table no. 1.

Table no. 1. Non-financial topics (issues) selected by stakeholders during the materiality analysis to be reported by TAURON Capital Group

| The number in the group of topics (issues) considered | Topics (issues) selected during the materiality analysis | Area |
|---|--|-------------|
| 1 | Ensuring energy security - efficient provision of access to electricity and heat | market |
| 2 | Investment projects aimed at increasing customer access to electricity supply (capital expenditures on new generation capacity, the refurbishment of the existing assets and the expansion of the RES-based generation capacity portfolio) | market |
| 3 | Transparency of the offering and a responsible sales process (access to the information on the products and services, comprehensible sales language, clear bill / invoice, security of customer data) | market |
| 5 | Ethics in marketing, adherence to high ethical standards in communications | market |
| 6 | Adaptation of offerings to differentiated customer needs and solutions for vulnerable groups (need-based access for specific groups, special solutions for less affluent consumers, seniors, single parents, etc.). | market |
| 7 | Customer service standards, implementation of new customer service channels and significant technological solutions, complaint handling system, consumer service | market |
| 8 | Security of customer data | market |
| 11 | The company's policy towards prosumers | market |
| 12 | Existence of prosumers | market |
| 15 | Rise of fuel and energy prices | market |
| 16 | Increase of the inflation rate in Poland | market |
| 18 | Investments aimed at increasing the share of energy produced from renewable sources and energy storage technologies, as well as supporting sustainable development | environment |
| 19 | Minimizing the negative impact of the company on the natural environment (through the investment projects undertaken, energy and water saving (efficiency) solutions, reduction of the emissions; waste management, etc.) | environment |
| 22 | Investing in environmental protection projects, financing research projects, with respect to the possibilities of reducing the negative impact on the environment, investments to increase the share of energy from renewable sources | environment |
| 24 | Efficient management of the consumption of the raw materials used in the electricity production process | environment |

| | | |
|----|---|-------------|
| 25 | Efficient management of energy consumption (metering, targets, reduction/optimization of consumption) | environment |
| 26 | Emissions to the atmosphere (types and quantity of substances emitted - measurements, targets) | environment |
| 32 | The use of innovative technologies, products and services that are environmentally friendly | environment |
| 33 | Terms of employment and compensation (Transparent compensation and benefits system, working time control, flexible forms of employment) | work place |
| 36 | Promotion of occupational health and safety (OHS) rules | work place |
| 52 | Educational activities with respect to the functioning of the electricity market, energy efficiency and the safe use of electricity and its infrastructure. | society |

2. TAURON Capital Group's Strategy for the years 2022-2030 with an outlook until 2050

GRI 3-3

2.1. Conditions of the environment determining the choice of TAURON Group's strategy

The operations of energy companies are affected by a number of factors that have an impact on the choice of the adequate strategy. In addition to the fundamental aspects, such as regulatory, economic, social and technological factors, the environmental and climate issues as well as the political situation are playing a key role now.

There has been a significant acceleration of legislative work at the European level, aimed at developing specific actions to enable the economy of the European Union to be based on low- and zero-emission sources. Russia's aggression has further strengthened the EU's actions for climate and Europe's energy independence. These activities have a significant impact on the domestic electricity market, accelerating the sector's transition. The above has a direct impact on TAURON Group and its strategic decisions.

In June 2022, TAURON announced a new TAURON Group Strategy for the years 2022-2030 with an outlook until 2050, which addresses the challenges posed by the transition of the electric power industry. In the process of developing the Strategy, a thorough analysis of the macroeconomic, market and regulatory environment, as well as the sector's forecasts and development directions, was carried out, translating them into opportunities and risks for TAURON Group in the time frame up to 2030. The Group's new Strategy assumes energy transition, increasing the capacity of renewable sources in the generation portfolio and, in the long term, striving for climate neutrality. The strategy sets strategic goals, in the short, medium and long term, that constitute a response to the climate and environmental challenges, market changes and customer expectations.

2.2. TAURON Group against the backdrop of the world's greatest challenges – climate changes and insufficient resources

The consequences of rapid climate change include an increase in average air and ocean temperatures, widespread melting of snow and ice as well as rising sea levels. The effects of climate change in the form of extreme weather conditions are expected to become even more intense and visible over time.

In December 2019, the European Green Deal strategy was announced and the EU's 2050 climate neutrality target was approved. The proposed EU strategy aims to transform Europe into a climate neutral, fair and prosperous society with a sustainable, resource-efficient and competitive economy. In 2022, in response to the difficulties and disruptions in the global energy market caused by Russia's invasion of Ukraine, the European Commission unveiled the REPowerEU plan - accelerating the transition to green energy: making Europe independent of Russian fossil fuels long before 2030 in the wake of the Russian invasion of Ukraine and the growing energy crisis.

Achieving climate neutrality by 2050 and the regulations stemming from the European Green Deal have a material impact on the operations of TAURON Group. More information on the Group's climate impact and adaptation to climate change is provided in section E 1.1.3. TAURON Group's Climate Policy.

Economic growth is inextricably associated with the use of water resources and mineral resources, including fossil energy resources. The industrial sector that uses fossil fuels must take into account the supply limits, worsening of the availability conditions thereof, and ultimately their exhaustion. For these reasons, where possible, technical solutions allowing for the so-called closing of circuits, i.e. reuse of the resources, are applied. More information on the Group's use of the environment and the circular economy is provided in section E 1.1.1. TAURON Group's Environmental Policy. More information on the Group's climate impact and adaptation to climate change is provided in section E 1.1.1. TAURON Group's Environmental Policy.

2.3. TAURON Group against the European power market backdrop

Currently the main trend with respect to the changes taking place in the environment of the energy groups in Europe is the development of renewable energy sources. This is accompanied by decarbonization, electrification of the transportation, energy efficiency or decentralization of electricity generation as well as the improvement of the quality and security of electricity supply. This is reflected in the European energy groups' generation mix and installed capacity.

Figure no 3. presents a comparison of the generation mix and installed capacity among selected largest energy groups in Europe.

Electricity generation mix of selected Energy Groups in Europe in 2021

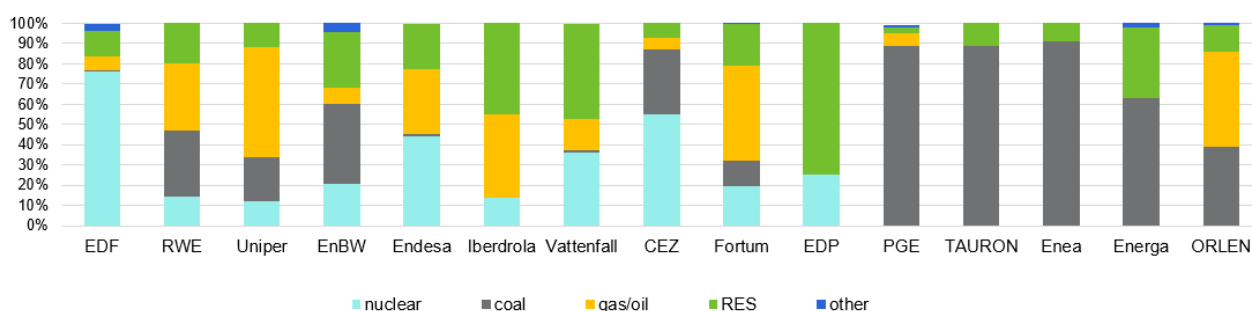


Figure no. 3. Comparison of the generation mix and among selected energy groups in Europe in 2021

Source: Proprietary compilation based on the annual reports of the European energy groups presented

Table no. 2. Comparison of the installed capacity among selected energy groups in Europe in 2020 and 2021

| Total installed capacity as of the end of 2020 and 2021 | | | | | | | | | | | | | | | | |
|---|-------|------|--------|------|--------|-----------|------------|------|--------|------|------|--------|------|--------|-------|--|
| 2020 | | | | | | | | | | | | | | | | |
| GW | EDF | RWE | Uniper | EnBW | Endesa | Iberdrola | Vattenfall | CEZ | Fortum | EDP | PGE | TAURON | Enea | Energa | ORLEN | |
| Total | 144.5 | 40.7 | 33.5 | 12.5 | 21.6 | 55.1 | 29.3 | 13.9 | 50.3 | 23.7 | 18.0 | 6.1 | 6.3 | 1.4 | 3.2 | |
| RES | 33.3 | 10.1 | 3.7 | 4.9 | 7.8 | 34.9 | 12.4 | 3.1 | 8.8 | 18.6 | 0.9 | 0.7 | 0.4 | 0.5 | 0.6 | |
| 2021 | | | | | | | | | | | | | | | | |
| GW | EDF | RWE | Uniper | EnBW | Endesa | Iberdrola | Vattenfall | CEZ | Fortum | EDP | PGE | TAURON | Enea | Energa | ORLEN | |
| Total | 117.3 | 36.1 | 31.6 | 12.7 | 21.1 | 58.3 | 29.2 | 11.8 | 47.1 | 24.7 | 17.8 | 5.0 | 6.3 | 1.4 | 3.3 | |
| RES | 34.8 | 11.2 | 3.7 | 5.1 | 8.4 | 38.1 | 13.2 | 3.1 | 8.5 | 19.6 | 0.9 | 0.6 | 0.4 | 0.5 | 0.7 | |
| Solar | n.a. | 0.5 | - | 0.0 | 1.1 | 3.3 | 0.1 | 0.1 | 0.0 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Wind | n.a. | n.a. | n.a. | 2.0 | 2.5 | 20.7 | 4.0 | 0.7 | n.a. | 11.8 | 0.7 | 0.4 | 0.1 | 0.2 | 0.3 | |
| Hydro | n.a. | 0.5 | 3.7 | 1.0 | 4.7 | 14.1 | 8.9 | 2.3 | 8.4 | 7.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.3 | |

Source: Proprietary compilation based on the annual reports of the European energy groups presented

Against the background of the European market, Polish energy groups are characterized by a large share of coal technologies in their generation capacity. Electricity production among the European energy groups presented is much more diversified. Generating units based on coal do not have a majority share in their fuel mix.

In 2021, the largest increases in installed RES capacity were reported by Iberdrola (+3.2 GW), EDF (+1.5 GW), RWE (+1.1 GW) and EDP (+1.0 GW). The other noticeable trend is the shift away from fossil-fuel-based generation sources. This is exemplified by the operations of CEZ Group, whose total installed capacity declined by 2.1 GW in 2021, with renewables' capacity unchanged. These trends are also noticeable among domestic companies.

Investments in renewable generation, decarbonization of the sector and sustainable operations are currently the key directions of the power sector companies' operations. Figure no. 4 shows the strategic plans and directions of selected power companies.

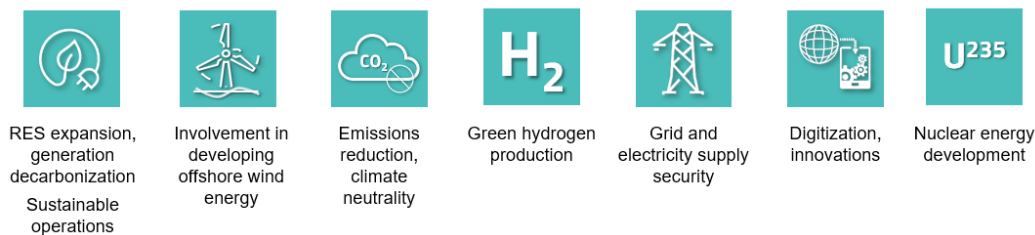


Figure no. 4. Summary of the strategic directions most often set by the selected energy groups in Europe

Source: Proprietary compilation based on the annual reports of the European energy groups

European energy groups increasingly emphasize social issues and sustainable development aspects in their strategies, referring to the adopted UN Sustainable Development goals and the EU regulations. In their core business operations, they take into account the broadly understood concept of climate care, i.e. the development of renewable sources, reduction of emissions, abandonment of electricity generation based on coal fuel and reduction of the carbon footprint. Striving for climate neutrality, the energy groups expand their offering by adding the so-called ecological services and products. Another direction is ensuring the security of energy supply and the quality of distributed electricity, with an increase in unstable (intermittent) renewable energy sources (RES) and the number of prosumers. In addition to the development of renewable energy sources, the activities related to security of electricity supply, infrastructure upgrades and process digitalization or electromobility are important. Investments in new hydrogen-burning gas capacity and the development of nuclear operations (including ERP and SMR units) are gaining importance.

Expansion of Renewable Energy Sources - declarations of energy companies

As the environment is changing, energy companies are updating their plans and strategic goals. Figure no. 5 presents the declarations of the European energy companies regarding capital expenditures and expansion of the RES assets.

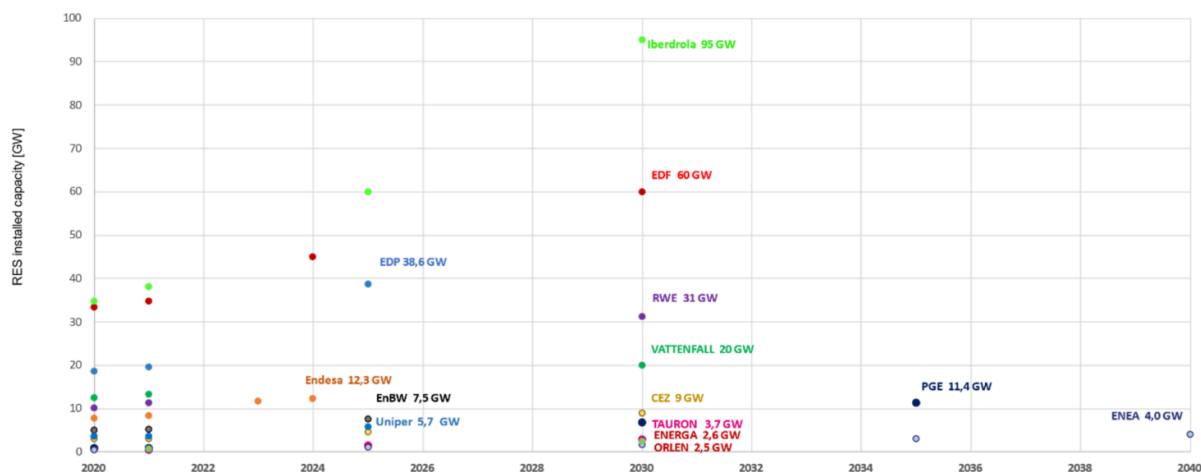


Figure no. 5. Declarations of the European energy companies regarding capital expenditures and expansion, in the coming years, with respect to new generation capacity based on the RES assets

Source: Proprietary compilation based on the annual reports of the European energy groups presented

In 2021, Iberdrola had the highest installed RES capacity among the energy companies presented, with 38.1 GW. In its strategic plans, it assumes increasing RES capacity to 95 GW by 2030. French EDF, the second ranked group, whose installed RES capacity stood at 34.8 GW in 2021, is planning to achieve installed capacity of renewable energy sources of approximately 60 GW by 2030. EDP Group is assuming achieving the RES capacity of 38.6 GW in 2025, up from almost 20 GW in 2021. RWE Group is planning to increase capacity by approx. 20 GW by 2030 (from 11.2 GW of RES in 2021, up to 31 GW in 2030).

On the domestic market, PGE Group had the largest installed RES capacity in 2021, i.e. 0.9 GW. PGE's ambition is to achieve approx. 7 GW of installed RES capacity, including 2.5 GW of offshore wind capacity by 2030. The group is assuming to have approx. 11 GW of renewable energy capacity in 2035, and to achieve climate neutrality by 2050. In its Expansion Strategy by 2030 with an outlook until 2040, Enea Group is intending to increase its RES

installed capacity to 1.7 GW in 2030, to 3.0 GW in 2035 and to 4.0 GW by 2040. Enea Group has declared that it will achieve climate neutrality by 2050. The Strategic Plan of Energa Group, operating within the structure of the PKN ORLEN fuel and energy group, assumes achieving approx. 1.1 GW of installed capacity in onshore renewable sources and participating in projects to build offshore wind farms with a capacity of approx. 1.3 GW. Ultimately, Energa's RES capacity will reach 2.6 GW in 2030.

In June 2022, TAURON announced a new TAURON Group Strategy for the years 2022-2030 with an outlook until 2050. With respect to the expansion of renewable energy sources the new strategy assumes increasing the installed capacity to 1.6 GW by 2025, and to 3.7 GW by 2030, as well as achieving climate neutrality by 2050.

CO₂ emission reductions – declarations of energy groups

Apart from the development of renewable energy sources power sector companies are declaring emission reductions and the transition to zero-emission electricity generation in their strategic plans. Figure no. 6 presents the declarations of the power companies related to the CO₂ emission reduction targets by 2040.

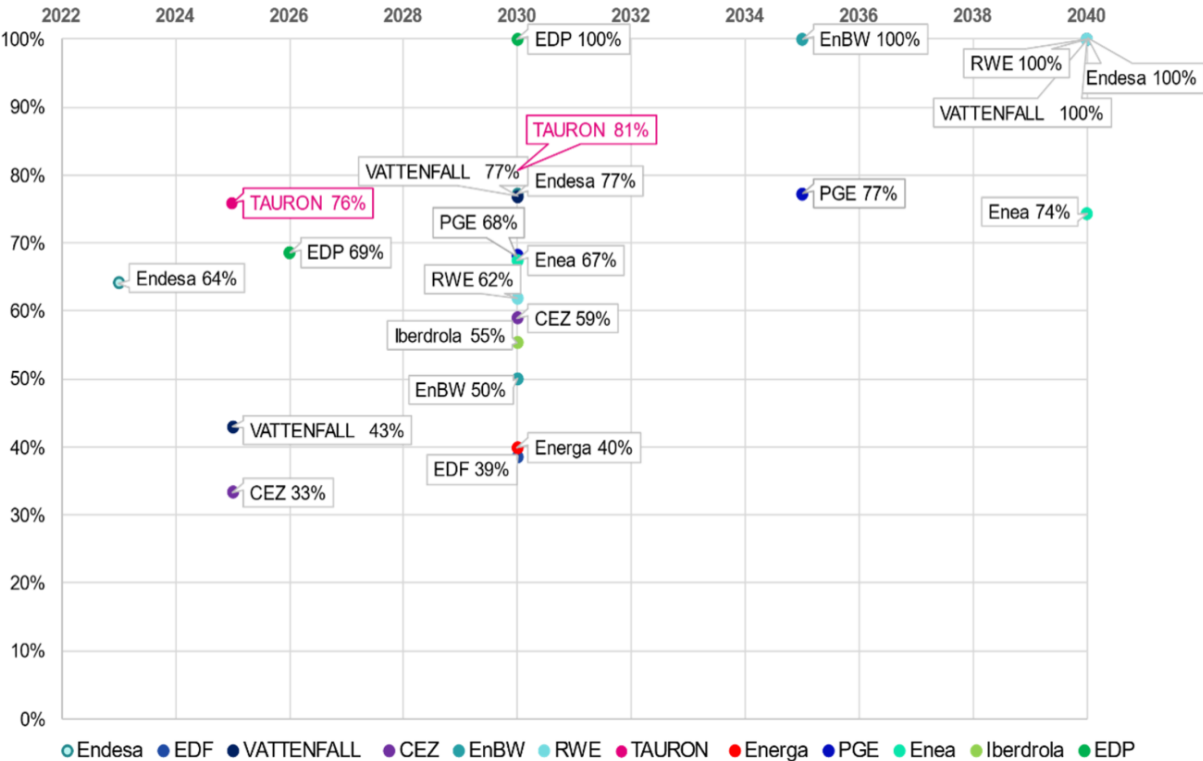


Figure no. 6. CO₂ emission reduction targets of the European energy companies

Source: Proprietary compilation based on the annual reports and presentations of the energy groups

EDP Group has the most ambitious target with respect to emissions reduction among the European energy groups, having declared achieving climate neutrality by 2030. Further groups declaring 100% emissions reduction include EnBW group that intends to achieve the target by 2035, while RWE group, Endesa and VATTENFALL plan to achieve this target by 2040.

The declarations on achieving climate neutrality by 2050 were announced by: EDF, FORTUM, CEZ, Uniper, Iberdrola and the Polish energy groups: TAURON, PGE, Enea and Energa.

In its new strategy TAURON Group is planning to reduce emissions down to 200 kg CO₂/MWh in 2025 r. (i.e. by 76% compared to the level of 2018), and to the level of 160 kg CO₂/MWh by 2030 r. (by 81%).

2.4. TAURON Group against the Polish energy market backdrop

In addition to TAURON Capital Group, 3 large, vertically integrated energy groups: PGE, ENEA and ENERGA as part of Orlen Group, are currently operating on the power market in Poland, The consolidated energy groups (PGE, TAURON, ENEA, ENERGA) had a 70% market share in the electricity generation sub-sector.

Generation

TAURON Group is one of the main producers of electricity in Poland. The Group's share in the domestic electricity generation market, measured by gross electricity production, came in at approx. 8% in the first 9 months of 2022. The Group is the third largest electricity generator on the Polish market. The Group's gross electricity production stood at 15.6 TWh in 2022.

Figures no. 7 and 8 present information on electricity generated in Poland during the first 9 months of 2022 and installed capacity as of September 30, 2022.

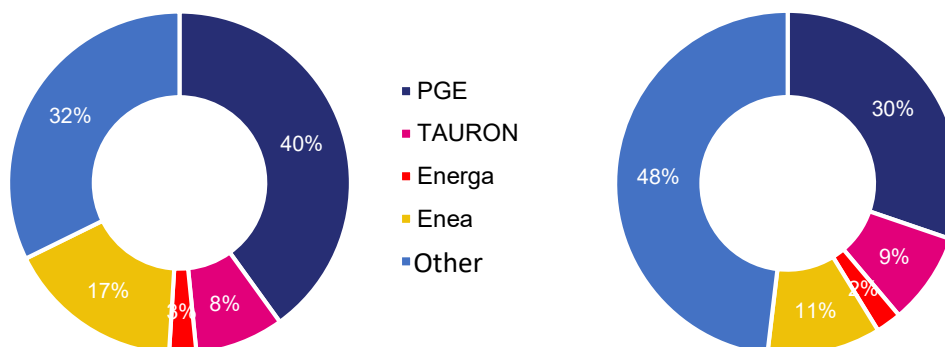


Figure no. 7. Gross electricity production - estimated market shares in the first 9 months of 2022

Figure no. 8. Installed capacity - estimated market shares after the first 9 months of 2022

Source: ARE, information from the energy companies published on their websites

Distribution

TAURON Group is a leader on the Polish market in terms of the number of distribution customers and the volume of electricity distributed. The Group's share in the distribution of electricity to the final consumers stood at approx. 37% in the first three quarters of 2022. TAURON Capital Group's distribution grids cover more than 18% of the country's territory. Figure no. 9 presents the estimated Polish market shares of the individual energy groups in the distribution of electricity according to the data for the first three quarters of 2022. TAURON Group's electricity distribution volume came in at 53.68 TWh in 2022.

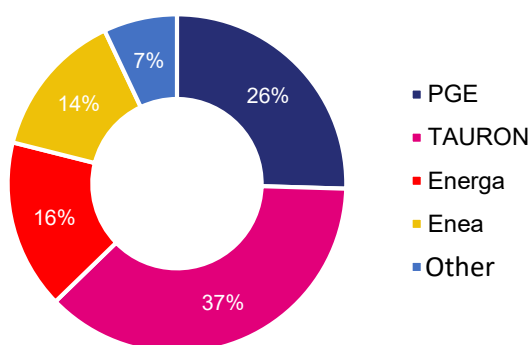


Figure no. 9. Electricity distribution in Poland - estimated market shares in the first 9 months of 2022

Source: ARE, information from the energy companies published on their websites

Supply

When comparing the data after the first three quarters of 2022, TAURON Group was the second, after PGE, largest supplier of electricity in Poland. TAURON Group's retail electricity supply reached 31.1 TWh for the full year 2022. The number of the Supply Segment's customers stood at approx. 5.7 million in 2021.

Figure no. 10 presents the estimated Polish market shares of the individual energy groups in the supply of electricity to the final consumers, according to the data for the first three quarters of 2022.

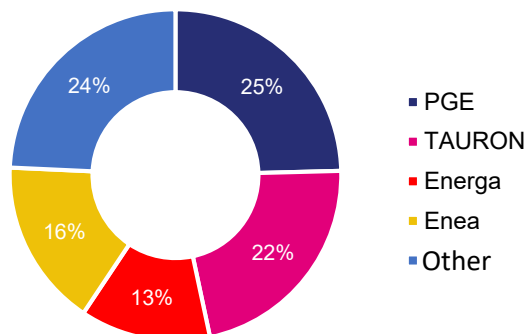


Figure no. 10. Electricity supply to the final consumers in Poland - estimated market shares in the first 9 months of 2022

Source: ARE, information from the energy companies published on their websites

2.5. TAURON Capital Group's strategic determinants related to the external environment

The most significant changes in the external environment of TAURON Group are the regulatory changes, in particular the ones related to the climate and environment protection. The global warming, increase of the pollution and a serious smog problem in Poland that have been observed for years, are forcing specific actions to minimize the negative impact of business operations on the environment. The consequences of the armed conflict in Ukraine and macroeconomic changes also have a strong impact on the operation of the electricity market.

Short term outlook

The European Union's decarbonization as well as energy and climate policy sets the course for energy development. In accordance with the main objective of the European Green Deal, the EU is to achieve climate neutrality by 2050. Russia's aggression against Ukraine, resulting in higher prices for fossil fuels, CO₂ emission allowances, and consequently high electricity prices, is accelerating legislative work aimed at achieving energy independence of the EU economy based on low- and zero-carbon sources.

Current European Union regulations, the lack of financial support options for fossil fuel-based units, record gas and CO₂ prices are severely limiting investment and development decisions in conventional power generation. As a result, the national energy business model is changing. Efforts are made towards spinning off of coal-based conventional power generation from energy groups into separate entities and focus operations on RES, electricity distribution and supply, as well as new products. At the government level, work is underway to establish the National Energy Security Agency (NABE), where coal-fired generation assets will be grouped.

Until 2025 the power sector will focus its efforts on the development of renewable sources. A rapid expansion of RES sources is being observed, especially with respect to photovoltaic installations, which is primarily related to the possibility of achieving at least partial independence of the fast rising electricity prices is also important chance to become independent from rapidly rising electricity prices, the cost competitiveness of the technology and available support programs that reduce investment costs. Poland's Energy Policy (PEP 2040) assumed more than 5 GW of PV technology capacity by 2025. As of the end of 2022, the nationwide installed PV capacity stood at 12.2 GW, demonstrating the rapid growth of this market.

The prosumer market will be growing steadily in the near term. In the residential subsector, the growth rate will depend on the electricity prices on the market in the coming years, while analysts unanimously expect further growth in the self-producer market, business prosumers and a faster growth of the CPPA and PPA contracts. The biggest challenge for the development of the photovoltaic market will be administrative restrictions and constraints arising from the quality of the distribution grids, mainly the low and medium voltage grids.

In the short term, the installed capacity in onshore wind technology will also increase - according to the PEP 2040 assumptions, the estimated installed capacity of onshore wind power in Poland will stand at approx. 9.6 GW in 2025. As of November 2022, the total installed capacity of onshore wind technology stood at approx. 7.8 GW. The liberalization of the distance act may be a trigger spurring a further expansion of wind energy.

Offshore wind farms are a promising investment direction. According to the investors' declarations, the production of electricity from the first wind farm in the Polish zone of the Baltic Sea will start as early as 2025. The most advanced works are carried out by PGE, PKN Orlen and Polenergia. According to PEP 2040, offshore capacity will stand at approx. 0.7 GW by 2025.

It should be emphasized that despite the growing number of renewable energy installations, coal will continue to be the primary fuel in the national power industry, ensuring the security of the power system, until 2025.

In the district heating segment, an important issue will be to provide fuel at acceptable prices and to begin the process of decarbonizing district heating assets.

The end of the restrictions related to Covid-19 and the ongoing hostilities in Ukraine are fostering an increase in industrial production and thus leading to an increase in demand for electricity.

In the coming years, the development of new energy storage technologies to a level that would enable their cost efficient implementation on a system-wide scale should not be expected. Electricity price volatility due to the large share of uncontrollable (intermittent) sources can be an impulse for the wider spreading and use of energy storage facilities for system purposes.

The nature of transmission systems and distribution grids is changing from the traditional direction of electricity flow from the power plant to the transmission system, and further to the distribution grid and customers, to increasing flows in the opposite direction, i.e. from the low voltage grids to the higher voltage grids. This forces undertaking investment activities aimed at grid metering, including data transmission and IT systems supporting network management in order to maintain stability through flow control (load capacity of grid elements), voltage and short-circuit power control. The low and medium voltage grids require large expenditures on modernization, so that they can absorb the avalanche of distributed generation installations.

In the short term, the digitization of sales processes, in terms of acquiring, quickly processing and utilizing data, will become very important. Accelerating transformation, changing work styles, automating and simplifying payments and product purchase paths are just some of the factors that further accelerate changes in the sales area. Customers' environmental awareness and the rise of organic products are now playing a major role.

From TAURON Group's point of view, the most important issues that will affect the energy sector until 2025 include:

- implementation of the government solutions for coal energy,
- European and national regulations accelerating the power sector's decarbonization,
- options and costs of financing investments in gas assets,
- changes in the existing operation of the market related to the abolition of the power exchange trading obligation,
- integration of the European energy market and the reduction of the importance of the local markets in favor of the regional markets related thereto, rising capabilities for physical cross-border flows,
- further growth of the photovoltaic installations,
- amendment of the distance law for wind farms

Medium term outlook

In terms of electricity generation technology, the continuation of the fast development of renewable energy sources and the probable development of electricity storage technology are forecast in the 2026-2030 time frame. Technological changes for wind farms, with favorable regulations, will translate into the repowering of installations, thus increasing the capacity and improving the efficiency of their utilization. The development of energy storage will have a positive effect on the stability of electricity supply. The EU level regulations will continue to support the development of renewable energy sources and at the same time impose the ever higher costs and restrictions on conventional energy, making it permanently unprofitable. The share of coal in the domestic energy mix will decrease significantly - according to the forecasts provided in PEP 2040, it is estimated that approx. 4 GW of generation capacity will be retired in the 2026-2030 time frame. As a result of shutting down coal units a peak power deficit may arise in the NPS (National Power System), which may create potential for the development of sources based on natural gas, provided that such investment projects could be financed.

The most important factors affecting the level of electricity demand include a further improvement in energy efficiency and, at the same time, still large potential for electricity consumption growth. Greater importance will be given to customers' environmental awareness, a change in their approach to the way they consume electricity, and the use of smart grid solutions. The role of the demand side management services (DSR/DSM) will also increase, which will largely result from the development of smart technologies and market mechanisms. Due to the growth of prosumer installations, there will be a need to further develop transmission systems and distribution grids in order to adapt them to greater load variability, as well as to support bi-directional flows.

The possibility of developing hydrogen technologies (accelerating research and pilot work related to hydrogen production and use) should be taken into account.

Long term outlook

The role of the renewable sources will be steadfastly growing in the long term and they will push out the coal-based electricity over the next two decades. In the longer term, there will also be a significant transition of the domestic energy mix and an increase of the share of renewable energy sources to more than 60% by 2040. In the time frame up to 2050, the greatest challenge for Poland will be to ensure stable electricity supply. After 2030, the development of nuclear technology is possible as part of the transition of district heating. Assuming that PEP 2040 will be updated in the near future, this likely scenario will strengthen the role of nuclear technology in this area.

In the long term, the possibility of the emergence of breakthrough technologies on the market that will have a significant impact on the energy business may be assumed. It is forecast that hydrogen technologies will be spreading widely in energy, manufacturing industry and transportation, and energy storage technologies will be developed.

Sustainable development

In September 2015, all UN member states (a total of 193 countries, including Poland) adopted measures based on the concept of sustainable development in the form of the 2030 Sustainable Development Goals (presented in Figure 11). The Agenda included 17 Sustainable Development Goals (SDGs), and 169 specific tasks related thereto, to be achieved by 2030. The UN goals provide a framework for defining sustainable development policies for economies around the world:

1. No Poverty
2. Zero Hunger
3. Good Health and Well-being
4. Quality Education
5. Gender Equality
6. Clean Water and Sanitation
7. Clean and Affordable Energy
8. Economic Growth and Decent Work
9. Innovation, Industry, Infrastructure
10. Reducing Inequality
11. Sustainable Cities and Communities
12. Responsible Consumption and Production
13. Climate Action
14. Life Below Water
15. Life on Land
16. Peace, Justice and Strong Institution
17. Partnership for the Goals



Figure no. 11. UN Sustainable Development Goals 2030 (the so-called Agenda 2030)

Source: website

Table no. 3. Main external factors that impact the selection and implementation of TAURON Capital Group's strategic directions

| Main external factors | Characteristics of the selected external factor |
|--------------------------------|---|
| 1. Political and regulatory | <ul style="list-style-type: none"> • European Green Deal – EU climate neutrality by 2050 strategy, • Fit for 55 legislative package - reduction of greenhouse gas emissions - 55% by 2030, • RePower EU - a strategy aimed at making Europe independent of Russian fossil fuels, • EU Taxonomy (Directive 2020/852) and its impact on the options for financing investment projects in the energy sector, • Need to adapt generating units to the BAT conclusions, • Winter package and curtailment of support systems for conventional energy (EPS 550), • RES and energy efficiency directives, EU ETS emissions trading system, • Hydrogen strategy – a priority role of hydrogen in achieving climate neutrality, • Funds to be used for the energy transition, • Operation of the capacity market, support for individual RES technologies, • Abolition of the power exchange trading obligation • Regulations in the financial sector that preclude financing for the conventional generation assets, • Poland's Energy Policy until 2040, National Plan for Energy and Climate for the years 2021-2030, • Work on government programs for the mining industry and conventional energy. |
| 2. Environmental | <ul style="list-style-type: none"> • Increase in average global temperature as a result of greenhouse gas emissions, • High level of dust air pollution in Poland (smog), • High level of greenhouse gas emissions, • Increasingly frequent occurrence of extreme weather conditions - droughts, hurricanes, severe heat waves, heavy rains and floods, • Further rising of sea levels; irreversible changes in river ecosystems and the Baltic Sea (eutrophication, loss of water biodiversity), • Depletion of natural resources • Increased importance of the circular economy and minimizing of waste generation. |
| 3. Economic and market related | <ul style="list-style-type: none"> • The energy crisis, Russia's aggression against Ukraine and pressure to become independent from energy raw materials (commodities) from Russia, • High conventional electricity generation costs (high prices of the CO₂ emission allowances) compared to the RES generated electricity, • Lack of financing for conventional energy, preferential financing for RES, • Rapid growth in the level of generation from RES, further supported by the need to ensure energy security and independence from gas, • Very high inflation rate and increase in costs of materials, services and labor, • Limited possibilities of thermal coal mining, • Thermal modernization activities, increase of energy efficiency, • Generational and competence gap problem, • Risk of power shortage in the system. |
| 4. Social | <ul style="list-style-type: none"> • Deterioration of public sentiment caused by high inflation and the energy crisis (increased spending due to rising prices of goods and services as well as high electricity and gas tariffs), • Increase in anti-carbon sentiment among the public, • Increase in the society's ecological awareness, • Improvement of the image of companies consuming energy from RES, • Increased customer awareness and customer requirements in terms of the quality of services provided and customer service, changing customer needs, • Negative perception of waste storage. |

| Main external factors | Characteristics of the selected external factor |
|-----------------------|--|
| 5. Technological | <ul style="list-style-type: none"> • Falling prices for renewable and distributed technologies • Fast development of prosumer energy, • Need to adapt the grid to the two-way electricity flow, • Development of electromobility, • Development of energy storage facilities, • Digitization of the energy sector, development of smart metering, • Technology development with respect to the circular economy, • Emergence of energy self-sufficient buildings - Near Zero Emission Buildings. |

2.6. TAURON Capital Group's Strategy and its assumptions

GRI 2-12, GRI 2-13

TAURON Group Strategy for the years 2022-2030 with an outlook until 2050 was adopted as of June 22, 2022. The document is a response to the challenges arising from the situation on the market and in the electricity sector, particularly related to the transition of the industry.

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

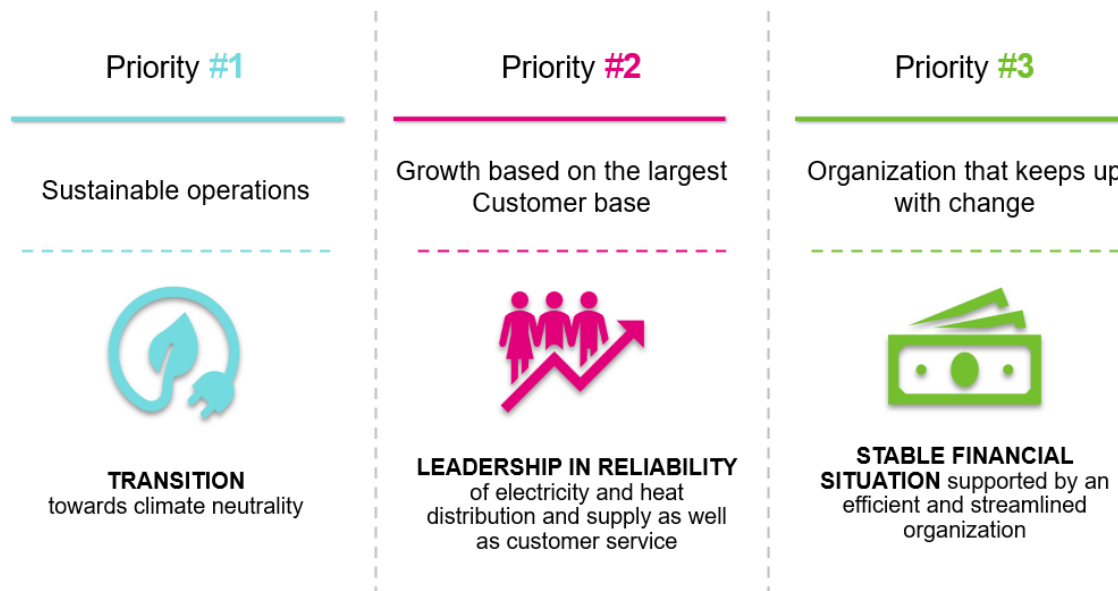


Figure no. 12. TAURON Group's strategic priorities.

Source: proprietary compilation

The Group has clearly defined goals and action plans to achieve them. The key metrics for the implementation of TAURON Group's Strategy are as follows:

- EBITDA of PLN 4.5 billion in 2025 and more than PLN 6.5 billion in 2030
- Maintain the net debt to EBITDA ratio at a safe level
- Increase in installed RES capacity to 1.6 GW in 2025 and to 3.7 GW in 2030
- Reduce emissions to 200 kg CO₂/MWh in 2025 and below 160 kg CO₂/MWh in 2030
- Implementation of smart metering - 100% smart meters by 2030
- New connections of customers to the district heating network – approx. 450 MWt by 2030
- Maintain high customer service standards - First Time Resolution (FTR) rate > 90% in 2030.

As part of its transition to climate neutrality, TAURON will be developing capacity in renewable energy and is ultimately planning to achieve:

- 0.7 GW of installed wind capacity by 2025 and 1.1 GW by 2030
- 0.7 GW of installed solar capacity by 2025 and 1.4 GW by 2030

- participation in offshore wind development with strategic partners and in-house development of up to 1 GW of installed capacity by 2030; further 1.1 GW of capacity after 2030

TAURON Group's renewable energy installed capacity growth ambitions by 2030 are shown in Figure no. 13.

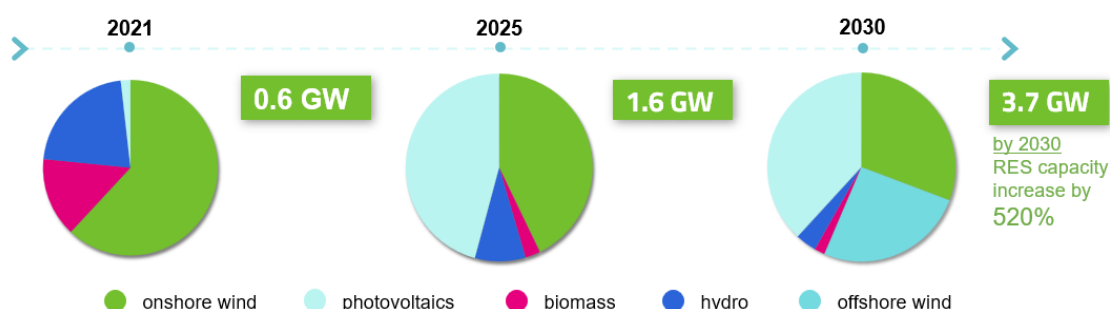


Figure no. 13: Growth of TAURON Group's installed capacity in renewable energy by 2030

Source: proprietary compilation

The strategy presents an optimal path of sustainable development that will ensure TAURON Group's financial stability and growth prospects while taking into account the high volatility of the macro environment and ensuring an integrated approach to environment challenges.

The key areas of the new Strategy are: Distribution, Renewable Energy Sources (RES), District Heating and Customer. The Distribution Line of Business, through continued development and modernization of the grid, will be striving to maintain its position as a segment generating stable, regulated revenue for the Group. The main roles of the RES Line of Business include investing in renewable energy sources and implementing of energy storage technologies. Profitable development of the Heat Line of Business based on a program to transition to low-carbon sources is planned. The role of the Supply Line of Business is to increase customer satisfaction through high quality customer service and improvements of offerings and processes, as well as digitalization and automation. In addition, investments in a circular economy and efficient use of resources are assumed. With respect to the Mining and Generation Lines of Business - government solutions for coal mining and coal-fired power generation are being implemented.

The Group's new investment projects will be carried out with reference to technical qualification criteria for determining the conditions under which the given economic activity qualifies as making a material contribution to climate change mitigation or adaptation, as well as for determining whether such economic activity does not cause serious damage to any of the other environmental objectives, defined as:

- mitigation of the effects of climate change,
- adaptation to climate change,
- sustainable use and protection of water and marine resources,
- transition to a circular economy,
- pollution prevention and control,
- protection and restoration of biodiversity and ecosystems.

Implementation of Priority #1 Sustainable Operations

The Group's priority is to increase installed capacity in renewable energy while reducing the CO₂ emissions.

In 2022, a total of 44 MW of renewable capacity was commissioned (a 30 MW Piotrków wind farm and a 6 MW Majewo wind farm, as well as an 8 MW Choszczno II PV farm). In addition, the decisions on going ahead with the implementation of RES projects with a total capacity of 224 MW were taken last year. The total installed RES capacity stands at 659 MW in 2022, which corresponds to 42% of the implementation of the RES target for 2025.

TAURON is also preparing to participate in the offshore wind farm projects. In September 2022, TAURON acquired a stake in PGE Baltica 4 sp. z o.o. (Ltd.) from PGE. At the beginning of this year, PGE Baltica was granted a permit to erect and use artificial islands. In April 2022, TAURON applied for permits for the erection or use of artificial islands in the Lawica Odrzana area.

Works were also underway to prepare a comprehensive program to modernize and improve the efficiency of TAURON's hydroelectric power plants. In addition, the following investment projects were launched in 2022: the construction of a small 2 MW hydroelectric power plant in Rożnów and the installation of a turbine at the Lubachów hydroelectric power plant.

A priority initiative undertaken in 2022 was also the implementation of the timetable for the government's program leading to the spin-off of coal-fired generation assets from the energy groups and their integration into the National Energy Security Agency (NABE). TAURON conducted activities related to the spin-off of TAURON Wytwarzanie subsidiary from TAURON Group and their transfer to the State Treasury. As part of the implementation of the letter of intent signed with the State Treasury in 2021 regarding the acquisition of 100% of the shares in TAURON Mining subsidiary by the State Treasury, 100% of the Company's shares were transferred to the State Treasury on December 31, 2022.

With respect to the transition of the district heating towards low- and zero-emission sources, the following projects are being prepared (in the pipeline): the energy transition of ZW Katowice and the construction of a PV farm together with an energy storage facility for the needs of ZW Bielsko-Biała EC1. While the projects at the implementation stage include: the construction of a 140 MWt gas-fired boiler at ZW Katowice for the needs of the district heating market and the construction of a peaking and back-up boiler plant at ZW Bielsko-Biała EC-2.

TAURON is also committed to the development of the Circular Economy through the implementation of TAURON Group's Environmental Policy and the actions taken with respect to the utilization of the Combustion By-products and the Mining By-products. Among other things, in 2022, the by-product status was obtained for the ash and slag mixtures at TAURON Ciepło's Kamienna Góra Generating Plant and the Central District Heating Plants in Olkusz and Zawiercie, while also new products were developed through certification and industry feedback. For more on TAURON Group's environmental policy, see Section E 1.1.1. TAURON Group's Environmental Policy.

The Strategy identifies conducting works on innovative solutions to support the Group's transition as one of the directions of its further growth. TAURON is working on the development and implementation of energy storage technologies through, among others, the implementation of projects including energy storage integrated with RES, storage aimed at improving the quality parameters of electricity and stabilizing grid operation, as well as the development of a portfolio of products in the field of energy storage and other projects carried out as part of its R&D activities. In line with the Strategy, preparations have been commenced for the construction of the Rożnów II pumped storage power plant.

Projects related to the production and use of green hydrogen and the production of ammonia from green hydrogen are also underway.

In preparation for the construction of a state-of-the-art nuclear source, a small modular reactor (SMR) R&D project was launched in 2022, and a Letter of Intent was signed for the cooperation between TAURON and KGHM regarding this technology.

Implementation of Priority #2 Growth based on the largest customer base

Ensuring the security of energy supply and the quality of electricity and heat, as basic services, is the key strategic direction pursued by the Distribution and Heat Lines of Business. The most important actions taken in the Distribution Line of Business affecting the improvement of quality parameters include: increasing the degree of grid automation (in 2022, the number of remotely controlled switches per 100 km of MV overhead line had increased to 13), upgrading the existing networks to insulated overhead lines and cable lines (at the end of 2022, more than 40% of MV lines had been cabled), adapting the distribution grid to increased power flows in both directions (in 2022, micro-installations with the capacity of 908 MW had been connected to the grid), improving the diagnostics of the operating status of the MV and LV networks through the use of smart substation metering technology and digitalization of the metering databases (nearly 17% of Customers are equipped with remote readout meters; more than 87% of the transformer substations have remote readout meters installed).

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

As part of efforts aimed at maintaining high customer satisfaction indices and implementing modern IT tools, in 2022 the customer service quality indices (CSI, NSP, CES) were improved, customer service standards were raised and the digitalization of customer service channels was carried out, while not forgetting the vulnerable customers.

Implementation of Priority #3 An organization that keeps up with change

TAURON entered into a new syndicated loan agreement worth PLN 4 billion in 2022, the proceeds from which can be used, among other things, to finance the Group's capital expenditures, including RES. In addition, the Group took advantage of the aid funds available. The total amount of financing obtained for the investment projects carried out in 2022 stands at more than PLN 446 million.

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

ESG engagement and activity management

The progressing climate change and its projected effects require fundamental changes to the role and directions of development of the companies operating in the power sector. In view of the most important goal, which is the transition to a low-carbon economy, in its new Strategy TAURON Group took into account the UN Sustainable Development Goals. TAURON Group supports the implementation of all of the UN goals in its operations, and in particular it focuses on 5 goals related to the Group's characteristics presented in Figure no. 14.



Figure no. 14. 2030 UN Sustainable Development Goals at TAURON Group

Source: Proprietary compilation

TAURON Group pursues the following ESG related directions and goals:

- As part of the natural environment protection efforts such directions as: combating climate change and environmental degradation, strengthening the implementation of GOZ and sustainable infrastructure are being pursued. Goals set to be implemented: seeking to minimize hard coal consumption and achieving climate neutrality by 2050, providing support for the fight against low emissions, taking measures promoting the growth of a circular economy, adaptation to climate change.
- With respect to social responsibility, the following directions are indicated: employees as a key value of TAURON Group, customer orientation, social and business partnerships. Goals set to be implemented: a work environment that supports employee development ensuring compliance with the principles of ethics and diversity, providing support for customers in their pursuit of sustainable development and strengthening their competitiveness through the development of green product offerings, introduction of facilities and elimination of barriers for people with disabilities, increase in the level of customer satisfaction and digitalization of customer service processes, support for public welfare activities as well as effective and transparent dialogue.
- As part of the corporate governance the goals assumed include ensuring safety based on best practices and standards, applying corporate governance in accordance with best practices, managing risks and the internal control system, developing the organization's ethical culture. Goals set to be implemented: managing TAURON Group in line with corporate governance, ESG-related management objectives, developing positive relations with shareholders, ensuring the functioning of systems (including compliance management, risk management, internal control, fraud reporting), ensuring security and data protection, strengthening resilience to cyber threats.

TAURON Group is also supporting the other UN goals in its operations, through activities for the benefit of the local community, among others, in the fight against low emissions, it is conducting educational and information campaigns, engaging in natural environment protection projects, by planting trees in forest areas or caring for the life of animals. The Group also takes part in national and European discussions as well as projects with respect to climate related energy transition. TAURON Group also takes care of the highest standards in relations with customers and stakeholders, based on a two-way dialogue, and in its activities meets the needs of disadvantaged customers and vulnerable consumer groups. The Group is guided by the principle of equal treatment of employees, respect for human rights and counteracting discrimination.

In December 2021, the Management Board of the Company appointed the ESG Committee (E - Environment, S - Social Responsibility and G - Corporate Governance), involving the Group's top management therein.

The tasks of the Committee include, first of all, creating, disseminating and supervising the Group's approach to the sustainable development issues and ensuring the consistency of TAURON Group's Strategy operationalization process with these issues.

In October 2022, TAURON joined the UN Global Compact Network Poland organization. UN Global Compact is the world's largest initiative bringing together companies and institutions pledging to conduct their business operations in a sustainable manner. Members of the organization include entities from public, private and academic institutions focused on working towards the United Nations Global Goals.

2.7. TAURON Capital Group's key non-financial efficiency ratios (metrics, performance indicators)

In order to make the best possible use of the value levers (drivers) set as part of the Strategy, key non-financial efficiency ratios (metrics, performance indicators) related to TAURON Capital Group's operations are defined in the following areas of activity:

- reliability and quality of the supply of products and services for the customer,
- orientation towards the customer and his/her needs (focus on the customer, customer orientation),
- environment protection,
- labor safety, ethics culture and employee engagement,
- social and business partnership.

The below table presents the key non-financial efficiency ratios (metrics, performance indicators) related to TAURON Capital Group's operations in 2021-2022.

Table no. 4. Key non-financial efficiency ratios (metrics, performance indicators) related to TAURON Capital Group's operations in 2021-2022.

| Key non-financial efficiency ratio (performance indicator) | Name of capital / element related to capital | Ratio (indicator) nature | unit | Value of the ratio (metric, performance indicator) | |
|--|---|--------------------------|---------|--|-----------|
| | | | | 2022 | 2021 |
| Reliability and quality of the supply of products and services for the customer | | | | | |
| 1. Number of customers of TAURON Capital Group's Distribution Line of Business: individual (households) and business customers | Financial capital / Distribution Segment's Regulatory Asset Base (RAB), capital expenditures, cash flow from operating activities | Stimulant | number | 221 364 | 222 615 |
| 2. Number of cases of non-compliance and complaints related to products and services of TAURON Capital Group with respect to providing information (disclosures) | Financial capital / cash flow from operating activities, net profit, long term rating | Destimulant | number | 0 | 0 |
| 3. Frequency of planned power outages - number of outages (interruptions) / consumer / year (SAIFI) | Financial capital / cash flow from operating activities | Destimulant | minutes | 0.22 | 0.19 |
| Orientation towards the customer and his/her needs | | | | | |
| 4. Number of individual and business customers of TAURON Capital Group's Supply Line of Business | Financial capital / sales revenue, EBITDA, EBITDA margin, net profit, long term rating | Stimulant | number | 5 698 004 | 5 622 759 |
| 5. Number of TAURON Capital Group's cases of non-compliance related to marketing communications | Social capital / Implemented and applied TAURON Group's PROClient Social Policy | Destimulant | number | 0 | 0 |
| Environment protection | | | | | |
| 6. Percentage share of TAURON Capital Group's RES installed capacity in TAURON Capital Group's total installed capacity | Production capital / Installed capacity in hydro, wind, solar and biomass fired power plants and combined heat and power plants | Stimulant | % | 13 | 9 |
| | Production capital / electricity production by hydro, wind, solar and | Stimulant | % | 11 | 12 |

| Key non-financial efficiency ratio (performance indicator) | Name of capital / element related to capital | Ratio (indicator) nature | unit | Value of the ratio (metric, performance indicator) | |
|---|---|--------------------------|--------|--|---|
| | | | | 2022 | 2021 |
| 7. Percentage share of TAURON Capital Group's electricity production based on RES in Tauron Capital Group's total electricity production | biomass fired power plants and combined heat and power plants Production capital / heat production by biomass fired combined heat and power plants | Stimulant | % | 5 | 5 |
| 8. Direct greenhouse gas emissions by TAURON Capital Group - tCO ₂ e | Natural capital / direct greenhouse gas emissions | Destimulant | Mg | 13 773 702 | 13 702 825 |
| 9. Total weight of non-hazardous waste (including the combustion and mining processes' by-products) generated by TAURON Capital Group | Natural capital / total amount of non-hazardous waste | Destimulant | Mg | 1 435 616 | 1 655 250 |
| Labor safety, ethics culture and employee engagement | | | | | |
| 10. Number of meetings with trade union organizations at TAURON Capital Group's subsidiaries | Intellectual capital, Social capital, Human capital / developing relationships based on dialogue, organizational culture based on PRO values | Stimulant | number | 291 | 315 |
| 11. Number of employees at TAURON Capital Group | Human capital / number of employees Human capital / number of training courses conducted by Internal Coaches (Trainers) Intellectual capital / knowledge and competences of the Group's employees Social capital / personnel education and development | Nominant | number | 25 740 | 25 324 |
| 12. Accident rate at TAURON Capital Group | Social capital / organizational culture based on the PRO values | Destimulant | - | 6.6 | 7.9 |
| 13. Share of women among TAURON Capital Group's workforce | Human capital / share of women among the workforce Social capital / TAURON Group's Diversity Policy and TAURON Group's Respect for Human Rights Policy implemented and applied | Nominant | % | 22.2 | 21.8 |
| 14. Number of training session hours at TAURON Capital Group | Human capital / number of training session hours | Stimulant | '000 | 398 | 385 |
| Social and business partnership | | | | | |
| 15. Number of local and social initiatives that TAURON Foundation has joined | Social capital / support for local initiatives through TAURON Foundation | Stimulant | number | 181 | 93 |
| 16. Number of projects with respect to corporate social responsibility implemented by TAURON Capital Group | Social capital / implemented and applied TAURON Group's PROClient Social Policy, developing lasting relationships and active dialogue with the stakeholders, support for local initiatives, including via TAURON Foundation | Stimulant | number | 27 | 22 |
| 17. Number of TAURON Capital Group's meetings with local communities held in order to provide information on the operations conducted and its impact on the residents | | Stimulant | number | Continuously, in line with the ongoing operations | Continuously, in line with the ongoing operations |

2.8. TAURON Capital Group's key financial data

TAURON Capital Group's sources of financing include: the company's equity, funds generated from business operations conducted and liabilities. The Group is implementing a number of capital-intensive investment projects, mainly in the electricity distribution line of business. The capital expenditures came in at more than PLN 3.96 billion in 2022.

TAURON Group is gradually increasing the range of financing sources used, aimed at supporting the projects related to TAURON Group's Strategy and the Green Turn. In 2022, TAURON signed a new syndicated loan

agreement for the amount of PLN 4.0 billion, the funds from which can be used to refinance the existing financing, finance TAURON Group's capital expenditures, including those in the RES segment, and finance TAURON Group's general corporate expenses, excluding those relating to the coal assets. The concluded syndicated loan agreement is linked to the achievement of the sustainable development indicators in the form of the RES capacity expansion rate and the CO₂ emission reduction rate.

The activities aimed at implementing the transition towards a low-emission economy and the investments in the electricity sector related thereto are supported by the European Union funds in the form of earmarked special purpose funds, research programs and other instruments supporting modern, sustainable investment projects.

Due to the fact that the Group is implementing a responsible environmental and climate policy and takes into account the ESG factors, it is possible to take steps to obtain new external financing.

TAURON is generating financial results that enable its further expansion and implementation of strategic projects. In spite of changes in the business environment, the growing revenues and cost optimization allow the Company to continue generating a stable income and maintain the net debt to EBITDA ratio at an acceptable level.

The key data on TAURON Group's financial capital in 2020-2022 is presented in Table no. 5.

Table no. 5. Key data on TAURON Group's financial capital in 2020-2022

| Key capital data | 2022 | 2021 | 2020 |
|------------------------------------|--------|--------|--------|
| Equity [PLN m] | 16 614 | 16 524 | 16 727 |
| Fixed assets [PLN m] | 35 053 | 33 855 | 33 585 |
| Distribution segment's RAB [PLN m] | 20 499 | 18 988 | 18 255 |
| Net debt [multiple] | 2.9x | 2.4x | 2.5x |
| Capital expenditures [PLN m] | 3 962 | 2 932 | 4 039 |

TAURON Group's management of financial capital is carried out by way of:

- maintaining financial stability thanks to the activities aimed at optimizing expenses and the structure of assets,
- steadfast implementation of the financing optimization plan,
- cooperation with banks and financial institutions,
- searching for optimal sources of financing,
- obtaining preferential loans to finance investment projects that have a positive impact on the environment,
- financial risk hedging,
- efficient management of the Group's financial liquidity.

The results achieved by TAURON Capital Group with respect to financial capital management are presented in Table no. 6.

Table no. 6. GRI 2-6. Results achieved by TAURON Capital Group with respect to financial capital management in 2020-2022

| Results achieved: | 2022 | 2021 | 2020 |
|---|--------|--------|---------|
| Sales revenue [PLN m] | 37 341 | 25 614 | 20 850 |
| EBITDA [PLN m] | 4 016 | 4 152 | 4 226 |
| EBITDA margin [%] | 10.8% | 16.2% | 20.3% |
| Cash flow from operating activities [PLN m] | 2 775 | 4 955 | 4 042 |
| Net debt/EBITDA ratio [multiple] | 2.9x | 2.4x | 2.5x |
| Net profit (loss) [PLN m] | (134) | 385 | (2 173) |
| Long term rating* | BBB- | BBB- | BBB- |

* On October 18, 2021, Fitch ratings agency affirmed TAURON Polska Energia's long term foreign and local currency ratings of "BBB-" with a stable outlook

** from continuing and discontinued operations.

3. TAURON Capital Group amid the war in Ukraine

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

- crisis on the energy fuel market resulting from the restrictions imposed on the trade exchange with the Russian Federation causes the supply disruptions with respect to the fossil fuels and, as a consequence, leads to a step increase in the volatility and the levels of the prices of the raw materials listed on the commodity markets (including crude oil, gas and coal). This situation (occurring mainly during the second half of 2022) had an impact on an increase in the variable costs of electricity generation, while the options for passing on this cost to bring about the increase in the revenues from the supply and production of electricity were limited. In order to mitigate the above risks, TAURON Group updated its trading strategy on an ongoing basis and responded in a flexible manner to the rapidly changing market conditions,
- restriction on the supply of hard coal with respect to the contracts concluded with the external suppliers, the logistics disruptions with respect to the hard coal transportation, as well as the regulatory changes which affected the levels of the hard coal inventories required by law. In order to mitigate the above risks, measures were taken to maximize the hard coal supplies from TAURON Wydobycie and to source additional deliveries of fuel both on the domestic as well as foreign markets,
- high volatility of the prices of electricity in all of the market segments, both in Poland as well as on the European markets, which leads to the continued maintaining of the high level of the market risk. With respect to the trading, the high volatility of the costs of hedging (including the profiling and the trading balancing) the demand of the end customers in the Supply Line of Business was observed. In order to mitigate the above mentioned risks, measures aimed at minimizing the risk exposure were taken by updating the trading strategy on an ongoing basis, as well as by shaping the electricity and gas offers for the business and the retail (household) customers,
- continued high volatility of electricity prices and related products, causing an increase in trading deposits (margins) resulting from contracts entered into on the electricity exchange market. As part of its response, TAURON Group made the maximum use of non-cash forms of collateral and offsetting of deposits (margins) between the Supply and Generation Lines of Business,
- rise of the inflation rate in Poland, as a result of which the Monetary Policy Council was regularly raising the NBP reference (prime) rate. The volatility of the interest rates was having an impact on the costs of servicing the financing at TAURON Group, as well as it will be affecting the amount of the capital employed in the Distribution Line of Business in 2023. As a result of the economic disturbances, the increased volatility of the foreign exchange (FX) rates and the weakening of the Polish zloty was also observed, which mainly affected the cost of purchasing the CO₂ emission allowances and led to an increase in the cost of purchasing the hard coal from abroad as well as the valuation of the EUR denominated debt,
- observed gradual deterioration of the economic situation in Poland, and what follows, the decline of the electricity supply and distribution volume (observed, in particular, in the third and the fourth quarters of 2022), which had an impact on the level of the revenue of the Distribution Line of Business as well as of the Supply Line of Business. With respect to risk mitigation, TAURON Group was taking actions related to the commercial aspects (balancing of the sale position and the product changes aimed at curbing the impact of the changes in the demand on TAURON Group),
- escalation of the wage claims and the potential social unrest at TAURON Capital Group as a consequence of the rise of the inflation rate in Poland. With respect to the risk mitigation, among other things, the social dialogue is conducted between TAURON's Management Board and the Social Council on the basis of the concluded Agreement on the cooperation as part of the social dialogue with the workforce at TAURON Group as a result of which the applicable agreements were signed,
- implementation of significant national regulations aimed at limiting demand for electricity, introduction of mechanisms to limit electricity price increases for the final consumers, introduction of margin restrictions for electricity generators and trading companies, as well as changes in the rules of operation of the wholesale electricity market (abolition of the power exchange trading obligation, changes in the rules of price setting on the balancing market). The introduction of the above regulations affected TAURON Group's trading activities in 2022 and will also affect the results of the Supply Line of Business, Conventional Generation Line of Business, RES Line of Business, Heat Line of Business and Distribution Line of Business in 2023. In terms of mitigation activities, consultations were held on shaping the draft regulations within industry organizations, among others. Actions were also taken to adjust TAURON Group's trading strategy to the changes in the regulatory environment, as well as actions aimed at the technical and operational implementation of the solutions imposed by these regulations.

With respect to the financial risk and the illiquidity risk, as of the date of drawing up the report, TAURON Group had sufficient financial resources to enable it to meet its current obligations, as well as to carry out the investment activities that had been initiated.

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

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

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

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

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

Actions taken to help war-stricken Ukraine

Since the beginning of Russia's invasion on Ukraine, TAURON has been carrying out extensive activities aimed at supporting war refugees, implementing such actions both through its individual subsidiaries as well as TAURON Foundation. TAURON also donates in-kind assistance to rebuild the energy infrastructure in Ukraine, providing access to basic services.

With respect to financial and non-financial assistance to Ukraine, TAURON has taken the following actions:

- in cooperation with the Poland Business Run Foundation, a day-care center for Ukrainian children and their mothers, called "Haven for Children" was launched at TAURON Arena Cracow. The day care center conducted educational, sports and recreational activities. It also took care to provide adequate psychological support for temporary pupils. All those staying at the facility received free meals. Throughout the duration of the project, 3 767 children from Ukraine were provided with care,
- special service channels were prepared in Ukrainian, for example a dedicated simplified website that allowed Ukrainian citizens and NGOs that provide support for them to deal with the most common matters: tauron.pl/dla-ukrainy. In addition, basic processes such as meter installation or electricity supply contract signing were simplified and accelerated for Ukrainian citizens. Furthermore, Ukrainian citizens were able to talk to TAURON consultants in their native language via the service hotline. In the first 3 months since the war broke out, TAURON Group concluded 844 contracts with Ukrainian citizens,
- TAURON Dystrybucja subsidiary provided in-kind assistance aimed at rebuilding energy infrastructure in Ukraine. The first tranche of technical support, carried out in March 2022, included 25 transformers and six tons of power cables. In April 2022, another shipment was handed over, containing elements of the power infrastructure, including approx. 15 kilometers of power cables, 168 poles and nearly 4 000 additional items to be used for the construction of power lines. In November and December 2022, another shipment of power equipment and materials was handed over: 21 km of cables, 129 insulators, 39 current transformers and 11 overhead circuit breakers. In total, the value of the donated materials stands at nearly PLN 1.6 million. The infrastructure related assistance is carried out in cooperation with the Government Strategic Reserve Agency,
- 100 camp beds were donated to the Silesian province for the purpose of organizing accommodation for the refugees,
- fundraisings were organized among TAURON Group's employees as part of which the participants were able to make payments to the TAURON Foundation's account and donate gifts for the refugees from Ukraine.











In addition, as part of its relief efforts for refugees from Ukraine, the Management Board of TAURON Polska Energia decided to make a donation of PLN 1 million to the TAURON Foundation to support the Ukrainian population affected by the war.

TAURON Foundation had also provided support to selected associations, foundations, schools or universities. Key figures on the assistance provided by the TAURON Foundation to Ukraine in 2022 are presented in Table 7.

Table no. 7. Key data on humanitarian assistance for Ukrainian refugees provided by the TAURON Foundation in 2022

| Beneficiary | Type of support | Amount | UN goal supported by initiative* |
|--|---|-------------|----------------------------------|
| Polish Medical Mission Association | Covering part of the cost of equipment for a field hospital in Ukraine | PLN 50 000 | |
| Cross Borders Foundation of Katowice | Purchase of equipped medical backpacks and wound care supplies | PLN 150 000 | |
| St. Martin de Porres Foundation from Ukraine | Purchase and installation of a heating system at the St. Martin de Porres Center in Fastov, Kyiv region | PLN 170 000 | |
| Polish Red Cross | Purchase of food, dressing materials and securing other priority needs | PLN 100 000 | |

| Beneficiary | Type of support | Amount | UN goal supported by initiative* |
|--|---|-------------|--|
| Caritas of the Archdiocese of Katowice | Humanitarian aid for refugees from Ukraine | PLN 50 000 |    |
| SOS Children's Villages Associations | Helping foster children evacuated from Ukraine | PLN 50 000 |   |
| Opole University | Covering the cost of stay of 270 refugees from Ukraine at student dormitories | PLN 100 000 |   |
| Slow Beskid Foundation from Korczyn | Subsidized holiday stay for the children from Ukraine | PLN 110 000 |  |

* with respect to the war situation in Ukraine

G – GOVERNANCE

(Corporate Governance)

G 1. TAURON Capital Group's values

G 1.1. Mission, vision

Mission

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

Vision

TAURON – the company of first choice.

TAURON Capital Group's mission and vision stem from a strategy that responds to market changes, customer expectations as well as climate and environmental challenges. The prerequisite for the implementation of the mission and vision is to act in accordance with corporate values and principles described in TAURON Group's Corporate Social Responsibility Code of Conduct in relations with co-workers, natural environment and stakeholders.

TAURON Group's market position obligates it to boldly and steadfastly implement innovative and competitive solutions, and to keep up with changing challenges and business trends.

G 1.2. Corporate values

TAURON Group's corporate values are the symbols and determinants of the Group's organizational culture. They are the starting point for the Principles of Conduct described in detail in TAURON Group's Corporate Social Responsibility Code of Conduct. Corporate values should guide everyone in the execution of their daily tasks as signposts on the road to the implementation of the goals set out in TAURON Group's strategy.

TAURON Capital Group's values are described by the acronym PRO Partnerstwo (Partnership), Rozwój (Development), Odwaga (Boldness):

PARTNERSHIP

- We are partners for customers and each other in achieving shared goals.
- We are building lasting relationships, based on trust and mutual respect.
- We are getting involved in what is important to our customers and the Group.

DEVELOPMENT

- We are innovative - we break down barriers, set trends and create change.
- We are constantly developing competences, skills and knowledge.
- We are looking for better and better solutions: we meet the current and future needs of customers, continuously improving the quality of our services.

BOLDNESS

- We talk boldly and openly about problems and the most daring ideas.
- We are determined to implement what we believe in, to achieve shared goals.
- We face the challenges of a changing environment with commitment and passion.

G 1.3. Corporate Social Responsibility Code of Conduct

Corporate Social Responsibility Code of Conduct (hereinafter referred to as the Code) is a key document shaping the ethical culture of TAURON Group. All employees of TAURON Group, as well as suppliers and persons providing services to our organization, are required to familiarize themselves with the Code and to act in accordance with its provisions.

The Code was adopted based on the belief that responsible and transparent business conduct, predicated on respect for the law and taking into account the needs of stakeholders, is a prerequisite for sustainable development. The Code is public, available not only to employees, but also to external entities on TAURON's website.

The Code contains a clear and comprehensible combination of TAURON Group's mission, vision and corporate values. The Code also defines the most important values and principles of conduct to be followed by employees and stakeholders of TAURON Group in the areas related to:

- employee,
- natural environment,
- stakeholders

The Code also describes the Fraud Reporting System in place at TAURON Capital Group.

TAURON Group is continuously improving the culture of compliance, understood as a set of specific principles of conduct in compliance with the law, internal and intra-corporate regulations, as well as ethical standards, which, combined with the Group's values, support the achievement of business goals.

Due diligence procedures

Due diligence procedures in place as part of the Corporate Social Responsibility Code of Conduct include a compliance management reporting system, as well as rules related to counteracting corruption, conflict of interest and other irregularities (deficiencies).

After the end of every quarter the Compliance Officer prepares a written report for the Audit Committee with respect to the tasks completed, and after the end of every half-year, he/she draws up a written report for the Supervisory Board of TAURON Polska Energia S.A.

In addition, after the end of every calendar year, the Compliance Officer prepares a Compliance Report on the functioning of the Compliance Management System at TAURON Group. The report includes, among others, an assessment of the adequacy and effectiveness of the Compliance Management System adopted in the period covered by the report, the degree of the Compliance Plan's implementation, indication of measures taken or proposed in cases of detecting the risk of non-compliance or the occurrence of the reported irregularities (deficiencies).

In addition, due diligence procedures include mandatory e-learning training for all TAURON Group employees with access to a computer workstation titled "Corporate Social Responsibility Code of Conduct."

E-learning training on the Corporate Social Responsibility Code of Conduct was provided in 2022 to 72% of TAURON Group's employees with access to the training platform.

Employees, as well as persons providing services for the benefit of TAURON Group, are obliged to become familiar with the Code and act in accordance with the provisions thereof.

TAURON Group's Corporate Social Responsibility Code of Conduct is available on the Company's website in Polish and English versions at: <https://www.tauron.pl/tauron/o-tauronie/zgodnosc-compliance>.

Document update

The content and the graphic design (layout) of TAURON Group's Corporate Social Responsibility Code of Conduct was updated in 2022.

G 2. Documents supporting the ESG management process

GRI 2-24

Various Policies, Codes and Principles have been adopted for use at TAURON Group, the main purpose of which is to systematize the activities carried out, as well as to precisely define the objectives and periodically monitor the degree of the implementation thereof. TAURON Group is increasingly including the environmental, social and corporate governance issues in its internal regulations. The selected internal documents supporting the ESG management are presented in Table 8.

Table no. 8. GRI 2-23, GRI 2-24. Selected internal documents supporting the ESG management

| Public documents | Internal documents | Comments | Competency based supervision within the Management Board |
|--|--------------------|----------|--|
| TAURON Group's Corporate Social Responsibility Code of Conduct | | | President of the Management Board |

| | | | |
|---|--|---|---|
| https://www.tauron.pl/tauron/o- tauronie/kodeks-odpowiedzialnego- biznesu | | | |
| | TAURON Group's Human Capital Management Policy | Internal document, a policy summary is available: https://www.tauron.pl/tauron/o- tauronie/raportowanie-esg | President of the Management Board |
| | TAURON Group's Environmental Policy https://www.tauron.pl/tauron/o- tauronie/tauron-dla- otoczenia/polityka-srodowiskowa- grupy-tauron | | Vice President of the Management Board for Asset Management |
| | TAURON Group's Climate Policy https://www.tauron.pl/tauron/o- tauronie/tauron-dla- otoczenia/polityka-klimatyczna- grupy-tauron | | Vice President of the Management Board for Asset Management |
| | TAURON Group's Anti-corruption Policy | Internal document, a policy summary is available: https://www.tauron.pl/tauron/o- tauronie/zgodnosc-compliance | President of the Management Board |
| | TAURON Group's Compliance Policy | | President of the Management Board |
| | TAURON Group's Principles of Counteracting Conflict of Interest | Internal document, a policy summary is available: https://www.tauron.pl/tauron/o- tauronie/zgodnosc-compliance | President of the Management Board |
| | TAURON Group's Contractors (Counterparties) Credibility Assessment (Vetting) Procedure | Internal document, a policy summary is available: https://www.tauron.pl/tauron/o- tauronie/zgodnosc-compliance | President of the Management Board |
| | TAURON Group's Procedure for Counteracting Money Laundering (Anti-Money Laundering) and Financing of Terrorism | | President of the Management Board |
| | TAURON Group's Respect for Human Rights Policy https://www.tauron.pl/tauron/o- tauronie/zgodnosc-compliance | | President of the Management Board |
| | TAURON Group's Corporate Purchasing Policy | | Vice President of the Management Board for Corporate Affairs |
| | TAURON Group's Subsidiaries Contractors (Counterparties) Code of Conduct | Document available on TAURON Group's purchasing platform | Vice President of the Management Board for Corporate Affairs |
| | TAURON Group's Work Health and Safety (WHS) Policy | | President of the Management Board |
| | Strategic Research Agenda https://www.tauron.pl/tauron/tauron- innowacje | | Vice President of the Management Board for Strategy and Development |
| | TAURON Group's Intellectual Property Policy https://www.tauron.pl/tauron/tauron- innowacje/polityka-wlasnosci- intelektualnej-grupy-tauron | | Vice President of the Management Board for Strategy and Development |

| | | |
|---|---|---|
| TAURON Group's Corporate Risk Management Policy | | Vice President of the Management Board for Finance |
| TAURON Group's Policies for managing risks: trading, financial, operational, credit, regulatory and project risks | | Vice President of the Management Board for Finance |
| TAURON Group's Principles of Conducting Corporate Social Responsibility (CSR) Projects | Key CSR projects: https://www.tauron.pl/tauron/otoczenia/tauron-dla-otoczenia/projekty | President of the Management Board |
| TAURON Group's Principles of Conducting Sponsoring Activities | | President of the Management Board |
| Personal Data Protection Policy for TAURON Group Entities | | President of the Management Board |
| TAURON Group's Security Management System Policy | | Vice President of the Management Board for Asset Management |
| TAURON Group's Business Continuity Policy | | Vice President of the Management Board for Asset Management |
| TAURON Group's Diversity Policy | | President of the Management Board |
| TAURON Group's Recruitment Principles | | President of the Management Board |
| TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination | | President of the Management Board |
| TAURON Group's PROClient Social Policy | | President of the Management Board |

The documents listed in Table no. 8 ensure compliance of TAURON Group's operations with the requirements specified in art. 49 b, clauses 2 and 3 of the Act on Accounting. They also represent an important part of conducting a transparent policy of communications with the numerous stakeholders of TAURON Group, who may familiarize themselves with the annually published reports on the implementation thereof.

Each of the above documents contains an exhaustive description of actions taken by TAURON Group's subsidiaries to achieve the intended goals in the given area. The following sub-sections present the main principles, methods and tools implemented by TAURON Capital Group according to the individual documents (policies) and the results of the application thereof in 2021.

The ESG issues related to the environment, social responsibility and governance are very important for TAURON and the commitments in this regard are highlighted in the Group' Strategy.

Therefore, the ESG Committee, appointed by the Management Board, has been in place since December 2021, engaging the Group's top management in managing activities aimed at protecting the environment and climate (E), the entire society and the highest Corporate Governance standards.

The core task of the Committee includes creating, disseminating and supervising the Group's approach to the ESG issues. The Committee is to ensure the consistency of TAURON Group's Strategy operationalization process with these issues.

G 3. TAURON Group's Business Model

G 3.1. TAURON Polska Energia S.A. Company Management Principles

GRI 2-9, GRI 2-10, GRI 2-11, GRI 2-19

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

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

The Company shall carry out its tasks through:

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

G 3.1.1. Management Board of TAURON Polska Energia S.A.

GRI 2-15, GRI 2-17, GRI 2-18

The current 6th term of office of the Company's Management Board began its run on July 15, 2020.

In accordance with the *Articles of Association of TAURON Polska Energia S.A.* the common term of office shall last full 3 financial years.

The composition of the Company's Management Board as of December 31, 2022, and as of the date of drawing up this report:

1. Paweł Szczeszek - President of the Management Board,
2. Patryk Demski - Vice President of the Management Board for Strategy and Development,
3. Bogusław Rybacki - Vice President of the Management Board for Asset Management,
4. Krzysztof Surma - Vice President of the Management Board for Finance,
5. Tomasz Szczegieliński - Vice President of the Management Board for Trading,
6. Artur Warzocha - Vice President of the Management Board for Corporate Affairs.

The changes to the composition of the Management Board of TAURON Polska Energia S.A. that had taken place in 2022 and by the date of drawing up this Report, as well as the descriptions of the experience and competences of the Members of the Management Board of TAURON Polska Energia S.A. are described in detail in section 9 of the Report of the Management Board on the Operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2022.

Competences and description of the procedures of the Management Board of TAURON Polska Energia S.A.

The Management Board of the Company shall act on the basis of the Code of Commercial Companies and other legal regulations, the provisions of the Company's Articles of Association and the provisions of the *Regulations of*

the Management Board of TAURON Polska Energia Spółka Akcyjna with its registered office in Katowice which are available on the Company's website at the address: <https://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/dokumenty-spolki>. When performing their duties the Members of the Company's Management Board shall be acting in accordance with the principles provided in the Best Practice 2021.

Two Members of the Management Board or one Member of the Management Board together with a proxy shall be entitled to make valid statements on behalf of the Company. In case the Management Board includes one person, one Member of the Management Board or a proxy shall be entitled to make valid statements on behalf of the Company.

The meetings of the Management Board shall be convened by the President of the Management Board or a Vice President of the Management Board designated thereby. The meetings of the Management Board shall also be convened on the motion of the majority of the Vice Presidents of the Management Board as well as on the motion of the Chairperson of the Supervisory Board. The meetings shall be held at the Company's registered office on the date set by the person that has convened the meeting. In justified cases the meetings of the Management Board may be held outside the Company's registered office. Members of the Management Board may also participate in the meeting using the means of direct remote communications. The President of the Management Board or a Vice President of the Management Board designated thereby shall chair the meetings of the Management Board

The Management Board shall vote in an open ballot, unless otherwise provided for in the legal regulations. The result of the ballot shall be recorded in the minutes of the meeting.

The resolutions of the Management Board shall be passed by an absolute majority of the votes in the presence of at least the majority of the Members of the Management Board. In case of an equal number of the votes the President of the Management Board shall have a casting vote. A Member of the Management Board shall inform the Management Board of any conflict of interest that has arisen or the possibility of the arising thereof and shall not participate in the reviewing of the matter or the voting on a resolution in a matter in which a conflict of interest may arise in relation thereto. The Management Board may pass resolutions by voting in writing or using the means of direct remote communications. The resolution shall be valid when all of the Members of the Management Board have been notified of the content of the draft resolution and at least the majority of the Members of the Management Board participated in adopting the resolution. The voting in accordance with the above procedures shall be ordered by the President of the Management Board or a Member of the Management Board designated thereby, including setting the final deadline for casting of the votes by the Members of the Management Board. The Members of the Management Board voting against the resolution may submit a dissenting opinion to the minutes, which shall be recorded in the minutes along with the justification (statement of reason) thereof. The decisions of the Management Board which are the decisions on the ongoing matters (daily business) that do not require a resolution shall be recorded only in the minutes.

The internal division, among the Members of the Management Board, of the tasks and responsibilities for the individual business areas of the Company's operations, as defined in the *Organizational Regulations of TAURON Polska Energia S.A.* and including the independent (autonomous) work positions as well as the organizational units (business units) reporting directly to the Executive Directors, whose work is managed (supervised) by the Members of the Company's Management Board, is defined by the Company's Management Board Resolution No. 336/VI/2022 of September 15, 2022, *regarding the assignment of individual organizational units of the Company and independent (autonomous) work positions directly reporting to the Members of the Management Board of TAURON Polska Energia S.A.*

The structure of the Company's business areas reporting to the individual Members of the Company's Management Board is presented on the diagram (flowchart) showing the split of responsibilities of the Members of the Company's Management Board, described in section G 3.4. of this report and posted on the Company's web site at the address: <https://www.tauron.pl/tauron/o-tauronie/wladze-spolki>.

The Management Board is responsible for managing the company and setting the direction of TAURON Group's activities, including the accomplishment of the long term goals set, in accordance with the adopted strategy assuming the sustainable development of the Group. The decisions related to ESG are made in accordance with the best practices, stakeholder expectations and the best knowledge. Members of the Management Board delegate the responsibilities with respect to the sustainable development issues to the management team, and in particular to the ESG Committee. TAURON Polska Energia's Management Board periodically presents the effects of implementing the activities related to the ESG issues to the Supervisory Board and the Strategy Committee and the Audit Committee appointed as part of the Supervisory Board's remit, among others, by discussing the assessment of the effectiveness of the functioning of the risk management and internal control systems, the presentation of a report on the scope of tasks with respect to the Compliance and the progress in implementing the adopted TAURON Group's Strategy that also includes the goals in the ESG area.

In the reported period, in order to develop its knowledge, competence, skills and experience, in the field of sustainable development, the Management Board, among others, took part in numerous conferences and panel

discussions during which the issues related to the sustainable development were discussed, such as for example: Nationwide Poland Energy Summit 2022, Congress 590, ESG Congress Poland's Power of Business, the debate during PRECOP, TOGETAIR Conference and the European Economic Congress. Aware of the importance of the ESG issues, TAURON's Management Board decided to join the UN Global Compact - a global initiative of the UN grouping the sustainable business.

Rules on appointing and dismissing Members of the Management Board of TAURON Polska Energia S.A.

The Company's Management Board shall be composed of 1 to 6 persons, including the President and Vice Presidents. Members of the Company's Management Board shall be appointed and dismissed by the Company's Supervisory Board for a common term of office lasting 3 full financial years, except for the 1st term that lasted 2 years. The term of office of a Member of the Management Board shall expire, at the latest, on the date of the General Meeting which approves the financial statements for the last full financial year of the term of office of the Member of the Management Board. In accordance with the Company's Articles of Association, each of the Members of the Company's Management Board can be dismissed or suspended in office by the Company's Supervisory Board or the Company's General Meeting.

In order to recruit a person with whom an agreement for providing the management services at the Company will be concluded, the Company's Supervisory Board shall announce a competition and conduct a qualification (recruitment) procedure for the position of the President or Vice President aimed at verifying and assessing the candidates' qualifications and selecting the best candidate. A candidate for a Member of the Company's Management Board must meet the requirements set forth in § 16, clauses 3 and 4 of the Company's Articles of Association. The announcement (notice) of the qualification procedure is published on the Company's web site at the address: <https://www.tauron.pl> and in the Public Information Bulletin of the Minister competent to exercise the rights related to the State Treasury's shares. The Company notifies the shareholders of the results of the qualification (recruitment) procedure.

Policy of compensation for the Members of the Management Board of TAURON Polska Energia S.A.

The compensation system for the Members of the Management Board of TAURON Polska Energia S.A. and the key managers is described in detail in the Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022, in chapter 11, Policy of Compensation for the Members of the Management Board and the Supervisory Board.

G 3.1.2. Supervisory Board of TAURON Polska Energia S.A.

The current, sixth term of office of the Company's Supervisory Board, began its run on July 15, 2020, i.e. on the date of holding the Ordinary General Meeting of the Company approving the financial statements for the last full financial year of the tenure of the members of the Company's Supervisory Board of the fifth term, i.e. for the financial year 2019.

In accordance with the Company's Articles of Association it is a common term of office and it shall last 3 years.

The composition of the Company's Supervisory Board as of December 31, 2022, and as of the day of drawing up this report:

1. Piotr Tutak - Chair of the Supervisory Board,
2. Teresa Famulska - Vice Chair of the Supervisory Board,
3. Marcin Wawrzyniak - Secretary of the Supervisory Board,
4. Stanisław Borkowski - Member of the Supervisory Board,
5. Dariusz Hryniów - Member of the Supervisory Board,
6. Leszek Koziorowski - Member of the Supervisory Board,
7. Ryszard Madziar - Member of the Supervisory Board,
8. Grzegorz Peczkis - Member of the Supervisory Board.

The changes to the composition of the Supervisory Board of TAURON Polska Energia S.A. that took place in 2022, as well as the descriptions of the experience and competences of the Members of the Supervisory Board of TAURON Polska Energia S.A. are described in detail in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2022.

Competences and description of the procedures of the Supervisory Board of TAURON Polska Energia S.A.

The Supervisory Board of the Company shall act on the basis of the Code of Commercial Companies and other legal regulations, the provisions of the Company's Articles of Association and the provisions of the *Regulations of the Supervisory Board of TAURON Polska Energia S.A. with its registered office in Katowice* which are available on the Company's website at the address: <http://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o>

[spolce/dokumenty-spolki](#). When performing their duties the Members of the Company's Supervisory Board shall be acting in accordance with the principles provided in the Best Practice 2021.

Members of the Supervisory Board of the Company, when performing the functions and duties assigned, shall be guided in their conduct, including in making decisions, by independence of their own opinions and judgments, acting in the interest of the Company.

The Supervisory Board of the Company shall work by way of a debate, analyzing the situation of the Company and the Group against the background of the industry and the market on the basis of materials provided thereto by the Management Board of the Company, and the internal systems and functions of the Company, as well as obtained from outside, using the results of the works of its Committees.

The main form of the Supervisory Board performing the oversight of the Company's operations shall be the meetings of the Supervisory Board. The Supervisory Board shall perform its obligations collectively. The meetings of the Company's Supervisory Board shall be convened by the Chairperson of the Supervisory Board or the Vice Chairperson of the Supervisory Board by presenting a detailed agenda of the meeting:

1. in accordance with the decisions taken by the Supervisory Board,
2. of his/her own initiative,
3. at a request of each Member of the Supervisory Board,
4. at a request of the Management Board.

The meetings of the Supervisory Board shall be held at the Company's registered office. In justified cases a meeting may be convened at a different venue.

In order to convene a meeting all Members of the Company's Supervisory Board must be invited in writing at least 7 days before the date of the Supervisory Board's meeting. For important reasons the Chairperson of the Supervisory Board may shorten this period to 2 days, defining the way the invitations should be distributed. Notifications of the Supervisory Board's meeting shall be sent by electronic mail. In the notification of the meeting of the Company's Supervisory Board the Chairperson shall define the date of the meeting, venue of the meeting and the detailed draft agenda. The Supervisory Board of the Company shall meet on as needed basis, however not less frequently than once every 2 months. The Supervisory Board may hold meetings without convening a formal meeting if all Members of the Supervisory Board are present and nobody objects against the fact of holding the meeting or against the agenda of the meeting.

A change of the proposed agenda of the meeting may occur when all Members of the Company's Supervisory Board are present at the meeting and no one raises an objection against the changed agenda of the meeting. An issue not included in the agenda of the meeting should be included in the agenda of the next meeting.

Participation in a meeting of the Supervisory Board shall be a Supervisory Board Member's duty. A Member of the Supervisory Board shall provide information on the reason for his/her absence in writing. Excusing an absence of a Member of the Supervisory Board shall require a resolution of the Company's Supervisory Board. Members of the Company's Management Board may take part in the Supervisory Board's meetings unless the Supervisory Board raises an objection. Participation of the Members of the Company's Management Board in the Supervisory Board's meetings shall be mandatory if they have been invited by the person convening the meeting of the Supervisory Board. Other persons may also take part in the meetings if they have been invited in the above mentioned way.

The Supervisory Board may seek opinions of experts using the knowledge of the Company's employees, including in particular, legal counsels who provide regular legal assistance for the Company.

The Supervisory Board may also appoint independent experts to obtain an opinion and make the adequate decision, as well as invite them to meetings of the Supervisory Board. In case a transaction of the Company with a related entity requires an approval of the Supervisory Board of the Company, before adopting a resolution on granting consent, the Supervisory Board assesses whether it is necessary to first seek an opinion of an external entity that will carry out the valuation of the transaction and analysis of its economic effects. If the conclusion of the transaction with a related entity requires the approval of the General Meeting, the Supervisory Board of the Company prepares an opinion on the legitimacy of concluding such a transaction and in such a case assesses the need for a prior seeking of an opinion of an external entity. In the cases referred to above, the Supervisory Board of the Company adopts a resolution to commission the selected expert to carry out the work, obliging the Management Board of the Company to conclude an applicable agreement.

The meetings of the Supervisory Board shall be chaired by the Chairperson of the Supervisory Board, and in case of his/her absence by the Vice Chairperson of the Supervisory Board. For important reasons, with the consent of the majority of the Members of the Supervisory Board present at the meeting, the person chairing the meeting shall be obligated to subject to a vote a motion to interrupt the meeting and set the date of resuming the meeting of the Company's Supervisory Board. The Supervisory Board shall make decisions in the form of resolutions. The Supervisory Board's resolutions shall be passed mainly during the meetings thereof. The Supervisory Board shall

pass resolutions if at least half of its members are present at the meeting and all of its members have been invited in the appropriate manner defined in the Regulations of the Supervisory Board. Subject to the mandatory legal regulations in force, including the Code of Commercial Companies and the provisions of the Company's Articles of Association, the Supervisory Board shall pass resolutions by an absolute majority of votes, where the absolute majority of votes shall be understood as more votes cast "for" than "against" and "abstain". Resolutions shall not be passed on matters not included in the agenda unless all Members of the Supervisory Board are present and nobody raises an objection. This shall not apply to the resolutions on excusing a Supervisory Board's Member's absence at the meeting. Resolutions shall be voted on in an open ballot. A secret ballot shall be ordered only in the cases stemming from the provisions of the law.

In accordance with the Company's Articles of Association the Supervisory Board may pass resolutions in writing or using the means of direct remote communications. Passing a resolution in such a way shall require a prior notification of all Members of the Supervisory Board of the content of the draft resolution and the participation of at least half of the Members of the Supervisory Board in passing the resolution. The Company's Supervisory Board may pass resolutions this way as long as no Member of the Company's Supervisory Board raises an objection. When voting on a resolution in the above mentioned way a Member of the Company's Supervisory Board shall indicate his/her vote, i.e. "for", "against" or "abstain". A resolution with a note that it has been passed in writing or by voting using the means of direct remote communications shall be signed by the Chairperson of the Supervisory Board. Resolutions passed this way shall be presented at the forthcoming meeting of the Supervisory Board along with the result of the voting.

Participation in a meeting of the Company's Supervisory Board using the means of direct remote communications, i.e. a conference call or a video conference, shall be allowed. In case the Members of the Company's Supervisory Board take part in a meeting of the Company's Supervisory Board using the means of direct remote communications, the resolutions shall be passed if at least half of the Members of the Company's Supervisory Board participate in the vote.

The Members of the Supervisory Board shall take part in the meetings and exercise their rights and responsibilities in person, and while performing their duties they shall be obliged to act with due diligence. The Members of the Supervisory Board shall be obliged to keep confidential information related to the Company's activities that they have acquired in connection with holding their seat or on another occasion.

The Supervisory Board may, for important reasons, delegate its individual members to perform certain supervision (oversight) activities on their own for a defined period of time. The Supervisory Board may delegate its members, for a period not longer than three months, to temporarily perform the duties of the Members of the Management Board who have been dismissed, submitted their resignation or if for other reasons they cannot perform their functions. The above mentioned delegation shall require obtaining a consent of the Member of the Supervisory Board who is to be delegated.

The Company's Supervisory Board may appoint from among its members permanent or temporary (ad hoc) working groups, committees to perform specific actions. The standing committees of the Company's Supervisory Board shall be:

1. Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. (Audit Committee),
2. Nominations and Compensation Committee of the Supervisory Board of TAURON Polska Energia S.A. (Nominations and Compensation Committee),
3. Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. (Strategy Committee).

The composition, tasks and rules (procedures) of operation of the above mentioned committees shall be defined in the regulations thereof passed by the Supervisory Board.

The information on the composition of the committees of the Supervisory Board of TAURON Polska Energia S.A. and the changes thereof that took place in 2022, as well as the descriptions of their competences and activities are provided in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2022.

Rules on appointing and dismissing Members of the Supervisory Board of TAURON Polska Energia S.A.

The Supervisory Board of the Company shall be composed of 5 to 9 persons, appointed for a common term of office lasting 3 full financial years, except for the first term that lasted 1 year. The term of office of a Member of the Supervisory Board shall expire, at the latest, on the date of the General Meeting which approves the financial statements for the last full financial year of the term of office of the Member of the Supervisory Board. In accordance with the Company's Articles of Association members of the Company's Supervisory Board shall be appointed and dismissed by the General Meeting (GM), subject to the following:

1. during the time when the State Treasury, together with the State Treasury controlled entities within the meaning of § 10 clause 5 of Company's Articles of Association, hold a number of the Company's shares that entitle them to exercise at least 25% of the total votes in the Company, the State Treasury shall be entitled to appoint and

dismiss Members of the Company's Supervisory Board in the number equal to half of the maximum number of members of the Company's Supervisory Board defined in the Company's Articles of Association (in case such number is not integral it shall be rounded down to an integral number, for example 4.5 shall be rounded down to 4) and increased by 1, provided that the State Treasury:

- 1) shall be obliged to vote at the General Meeting (GM) on establishing the number of Members of the Company's Supervisory Board that would correspond to the maximum number of Members of the Company's Supervisory Board defined in the Company's Articles of Association in case such a motion is submitted to the Company's Management Board by a shareholder or shareholders who hold a number of votes that entitle them to exercise at least 5% of the total number of votes in the Company,
 - 2) shall be excluded from the voting at the General Meeting (GM) on appointing and dismissing other members of the Company's Supervisory Board, including independent members of the Company's Supervisory Board; this shall not, however, apply to the case when the Company's Supervisory Board cannot act due to its membership being smaller than required by the Company's Articles of Association, and the shareholders present at the General Meeting (GM), other than the State Treasury, do not supplement the membership of the Company's Supervisory Board in accordance with the distribution of seats in the Company's Supervisory Board defined in this section,
2. during the time when the State Treasury, together with the State Treasury controlled entities within the meaning of § 10 clause 5 of the Company's Articles of Association, hold a number of the Company's shares that entitle them to exercise less than 25% of the total number of votes in the Company, the State Treasury, represented by the minister competent to exercise the rights related to the State Treasury's shares, shall be entitled to appoint and dismiss one member of the Company's Supervisory Board,
 3. appointing and dismissing members of the Company's Supervisory Board by the State Treasury pursuant to the above mentioned clause 1 or 2 shall take place by means of a statement submitted to the Company.

In accordance with the Articles of Association of the Company, at least two Members of the Supervisory Board of the Company should meet the independence criteria specified in the Act of May 11, 2017, on certified auditors, audit firms and public supervision, and should not have actual and significant connections with a shareholder holding at least 5% of the total number of votes in the Company.

Members of the Company's Supervisory Board shall submit to the Company, prior to their appointment as members of the Supervisory Board, a written statement on compliance with the independence criteria mentioned in the above act as well as on the existence or non-existence of the actual and significant connections with a shareholder holding at least 5% of the total number of votes in the Company. In case a situation occurs where the independence criteria are not fulfilled, a Member of the Supervisory Board shall be obligated to inform the Company promptly thereof.

Information on the compliance by the Members of the Supervisory Board of TAURON Polska Energia S.A. with the independence criteria is posted on the Company's website at: <https://www.tauron.pl>, and is presented in detail in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022.

Policy of compensation for the Members of the Supervisory Board of TAURON Polska Energia S.A.

The compensation system for the Members of the Supervisory Board of TAURON Polska Energia S.A. is described in detail in the Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022, in chapter 11, *Policy of Compensation for the Members of the Management Board and the Supervisory Board*.

G 3.1.3. General Meeting of TAURON Polska Energia S.A.

Description of the procedures and competence of the General Meeting of TAURON Polska Energia S.A.

The procedures and powers of the General Meeting of TAURON Polska Energia S.A. are defined in the Articles of Association of TAURON Polska Energia S.A. and in the Regulations of the General Meeting of TAURON Polska Energia S.A. which are available on the website of TAURON Polska Energia S.A. at the address: <http://www.tauron.pl/tauron/relacje-inwestorskie/informacje-o-spolce/dokumenty-spolki>.

A General Meeting shall be convened by way of a notice posted on the Company's website and in a manner defined for providing the current information (disclosures, regulatory filings) by public companies. In case a General Meeting is convened by an entity or a body other than the Management Board on the basis of the regulations of the Code of Commercial Companies, and as the convening of a General Meeting requires the Management Board's cooperation, the Management Board shall be obligated to perform any activities defined by law in order to convene, organize and conduct a General Meeting that takes place either at the Company's registered office or in Warsaw.

A General Meeting shall be opened by the Chairperson of the Company's Supervisory Board, and in case he/she is absent the following persons shall be entitled to open the General Meeting in the given order: the Vice

Chairperson of the Company's Supervisory Board, the President of the Company's Management Board, a person designated by the Company's Management Board or a shareholder who registered at the General Meeting such a number of shares that entitle him/her to exercise the highest number of votes. Subsequently, the Chairperson of the General Meeting shall be elected from among the persons entitled to participate in the General Meeting.

A General Meeting shall pass resolutions irrespective of the number of shares represented at the Meeting, unless the regulations of the Code of Commercial Companies, as well as the provisions of the Company's Articles of Association state otherwise. A General Meeting may order a break in the meeting by the majority of two thirds of the votes. Breaks shall not exceed 30 days in total.

A break in the General Meeting's session may take place only in exceptional situations indicated each time in the justification (statement of reason) of the resolution, prepared based on the reasons presented by a shareholder requesting the ordering of the break.

The resolution of the General Meeting on ordering a break shall clearly indicate the date of the session's resumption, however, such a date shall not create a barrier for the participation of the majority of shareholders in the resumed meeting, including the minority shareholders.

The competences of the General Meeting of TAURON Polska Energia S.A. are described in detail in section 9 of the Report of the Management Board on the Operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022.

Description of the shareholders' rights and the way they are exercised

The description of the shareholders' rights and the way they are exercised is provided in detail in section 9 of the Report of the Management Board on the operations of TAURON Polska Energia S.A. and the operations of TAURON Capital Group for the financial year 2022.

G 3.1.4. Description of the principles applied to amend the Articles of Association of TAURON Polska Energia S.A.

Amendments to the Articles of Association of TAURON Polska Energia S.A. shall be made in accordance with the provisions of the Code of Commercial Companies, in particular: an amendment to the Articles of Association of TAURON Polska Energia S.A. shall take place by way of a resolution of the General Meeting, passed by the majority of three fourths of the votes, and shall then require issuing of a decision by a competent court on entering the amendment into the register of entrepreneurs (business register). The consolidated text of the Articles of Association of TAURON Polska Energia S.A., including the amendments passed by the General Meeting, shall be adopted by the Supervisory Board by way of a resolution.

In accordance with the Articles of Association of TAURON Polska Energia S.A., a material change to the subject of the operations of TAURON Polska Energia S.A shall require two thirds of the votes in the presence of persons representing at least half of the share capital.

G 3.2. Principles of TAURON Group's management

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

G 3.2.1. Code of TAURON Group

The management of TAURON Group is based on the leading role of the corporate center, i.e. the parent company - TAURON Polska Energia S.A., which manages the subsidiaries that are a part of the Lines of Business and the shared service centers. The relations with respect to making decisions are regulated by the Code of the Group, which is the core regulatory act of TAURON Group. The Code of the Group regulates its operations, ensuring the implementation of the goals through tailored solutions with respect to the management of TAURON Group's entities, enabling achieving of the effects assumed in the Strategy.

G 3.2.2. TAURON Group's Business and Operational Model

GRI 2-6, GRI 301-1

The Business and Operational Model is a response to the needs and goals set out in TAURON Group's Strategy. This document defines the Group's management model, defines the high-level architecture of the processes as well as the functions and tasks of the Corporate Center, Lines of Business and other units. In order to ensure flexibility, resilience and adaptation of TAURON Group to the changes in the environment, in particular those resulting from climate change, the current Business and Operating Model of Taron Group takes into account the role of ESG (as an increasingly important tool of the communications with the environment (stakeholders)). TAURON Group's

Business and Operational Model also includes comprehensive provisions indicating the independence (unbundling) of the operations conducted by the Distribution System Operator (hereinafter also called: DSO).

A new TAURON Group's Strategy for the years 2022 - 2030 with an outlook until 2050 was adopted in June 2022. The key assumptions of the above mentioned strategy include the spin-off of the coal assets outside TAURON Group, the development of the renewable energy capacity, as well as the digitalization and ensuring information security. These issues were taken into account in the update of the Business Model, which in 2022 included: bringing all of TAURON Group's subsidiaries under the Business Model, assigning new subsidiaries to the specific Lines of Business, dividing of the roles within IT/OT, clarifying the issues related to the RES acquisitions.

Due to the reorganization processes underway at TAURON Group, affecting the ultimate shape of TAURON Group's structure and its Business and Operational Model, further updates resulting from the implementation of TAURON Group's Strategy are assumed.

The foundations of the Business and Operational Model include:

- building the value of TAURON Group as a whole (priority of the economic interest of the Group),
- environment protection and adaptation to the challenges stemming from climate change,
- focus on customers (internal and external),
- adhering to the Group's values (PRO values),
- accelerating and simplifying the decision making processes,
- taking advantage of the knowledge, qualifications and competences of TAURON Group's personnel.

The assumptions of the Business and Operational Model include:

- being applicable at all of TAURON Group's subsidiaries,
- providing support for the building of TAURON Group's value in line with the Group's Strategy,
- acting in accordance with the corporate values (PRO values),
- Group wide organizational and decision making consistency,
- ensuring compliance with the principles of "unbundling" towards the DSO within TAURON Group,
- clear division of duties and responsibilities,
- efficient exchange of information, utilization of the personnel knowledge,
- variability of the Business and Operational Model,
- flexibility, resilience and adaptation to changes in the external and internal.

The Business Model introduces the division of roles and responsibilities, based on the assignment of process competences among the Corporate Center, Lines of Business and Shared Service Centers. This division is shown in Figure no. 15.

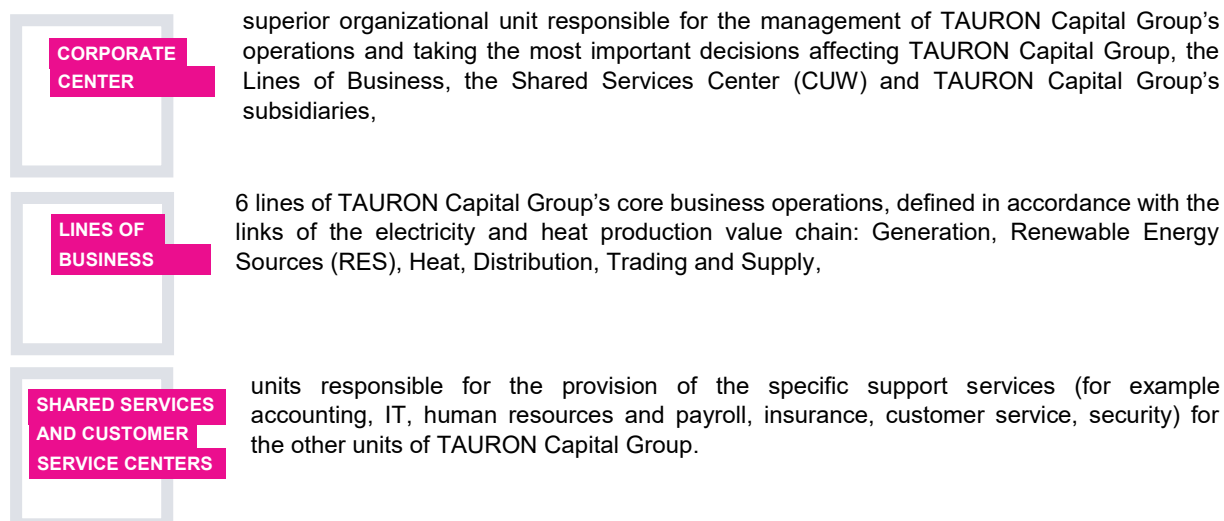


Figure no. 15. The division of obligations (duties) and responsibilities under TAURON Capital Group's business model in 2022 (excluding the Mining Line of Business that had been functioning until December 31, 2022, in connection with the transfer of ownership of the shares of TAURON Wydobycie to the State Treasury as of that date)

TAURON Group is operating in the fuel and energy sector mainly, on the Polish market, and the products and services offered as well as the sales amount are described in the Management Report on the operations of

TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022, in chapter 5.2 Financial Results of TAURON Capital Group by Segments of Operations. TAURON Group does not offer products and services that have been banned and/or withdrawn, or those that are the subject of a public debate or public concern. The fuels, products and services required to conduct the operations are acquired through transparent purchasing procedures.

The Group’s business operations were conducted in 2022 based on six Lines of Business (Segments): Generation, Heat, Renewable Energy Sources (RES), Distribution, Trading and Supply. Within the structure of TAURON Group, which is a vertically integrated enterprise, the Distribution System Operator is functioning as part of the Distribution Line of Business. As of 31.12.2022, TAURON Wydobycie (Mining) subsidiary was spun off and divested to the State Treasury, whose operations included the performance of the hard coal mining processes at three coal mines.

There are subsidiaries functioning as part of the Group, whose operations are focused on providing the support services for the Group’s other subsidiaries, such as, for example, accounting, IT services, human resources, payroll and benefits (entitlements), insurance services, security services (these operations were spun off and divested in December 2022). Customer service is provided by the TAURON Obsługa Klienta subsidiary for the Supply Line of Business and for the Distribution Line of Business (in compliance with the principles of unbundling).

TAURON Group’s business model is presented in Figure no. 16.

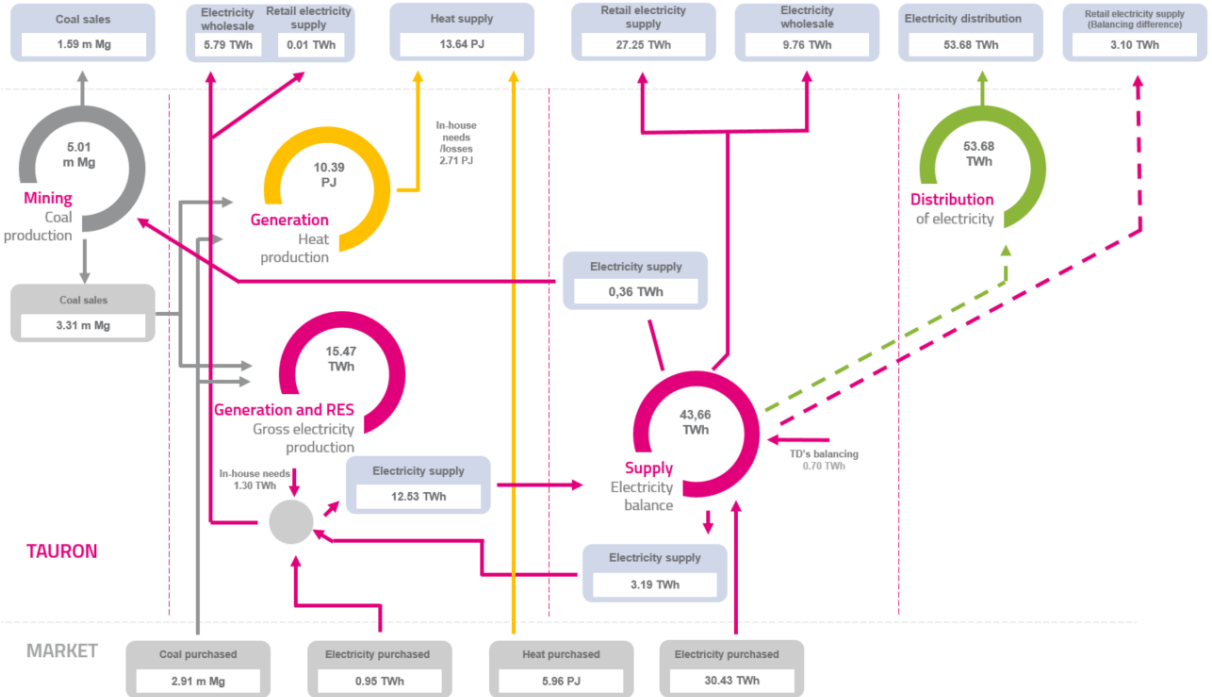


Figure no. 16. TAURON Group’s business model in 2022

TAURON Capital Group’s production capital

The carrying amount (balance sheet value) of all of TAURON Group’s assets is more than PLN 45 billion (including the fixed assets’ carrying value of PLN 35 billion). TAURON Group’s assets are very diverse, which is due to both the characteristics of the individual segments, as well as the significant differences in the age of the individual machines and devices, as well as of the entire generation and mining plants.

The development of the Group’s operations is in line with the European and global trends, and the coming years will be a period of the Group’s transition towards the decarbonization. After the operation of the 120 MW coal-fired generating units was discontinued in 2021, the TAURON Wytwarzanie (Generation) subsidiary is planned to be transferred to the National Energy Security Agency (NABE) with 2.5 GW of available capacity, mainly the 200 MW power generation units, which will lead to the exclusion of the coal-fired power generation from the Group's operations. The hard coal fuel will be used only by the combined heat and power plants with the prospect of decarbonization by 2030. The development of new low- and zero-carbon power generation sources is planned. It is assumed that in 2025-2030 their share in the installed capacity will reach approximately 80%. Such measures will reduce the CO₂ emissions by approximately 14 million Mg by 2030.

The total installed capacity of the renewable energy sources stood at 659 MWe in 2022. The total installed capacity of the RES assets that were commissioned in 2022 clocked in at 44 MWe. These were:

- 30 MWe Piotrków wind farm,
- 6 MWe Majewo wind farm,
- 8 MWe Choszczno II PV farm.

TAURON Group launched further RES projects with a total capacity of 224 Mwe in 2022. These were:

- 37.14 MWe Mysłowice (quarters no. II) PV farm,
- 45.6 MWe Proszówek (stage I) PV farm,
- 58.5 MWe Mierzyn wind farm,
- 30 MWe Warblewo wind farm,
- 33 MWe Gamów wind farm,
- 19.6 MWe Nowa Brzeźnica wind farm.

The largest contribution to TAURON Group's economic performance (earnings) comes from the Distribution Line of Business, in which the largest capital expenditures are also incurred - in the region of PLN 2 billion per annum. The changing environment, in particular the development of renewable energy sources, including also the prosumer energy sources, has a large impact on the need to upgrade and expand, as well as adapt the existing grid infrastructure. In addition, the growing expectations of the customers and the quality requirements set by the President of the Energy Regulatory Office have an impact on the need to improve the quality and reliability of electricity supply. In view of the above, TAURON Dystrybucja in implementing a cable grid construction program, increasing the share of the cable lines in the distribution grid and thus improving the quality indicators, security of electricity supply and resilience to the extreme weather conditions.

The key data on TAURON Group's production capital in 2020-2022 is presented in Table no. 9.

Table no. 9. GRI 2-6. Key data on TAURON Group's production capital in 2020-2022

| Key data on the capital | 2022* | 2021 | 2020 |
|---|-------------------|-------------------|-------------------|
| Hard coal extracting coal mines | 3 | 3 | 3 |
| Hard coal fired power plants (number) | 6 | 6 | 6 |
| Hard coal fired power plants (installed capacity) | 4.1 GWe; 0,8 GWt | 5.2 GWe; 1.1 GWt | 5.2 GWe; 1.3 GWt |
| Combined heat and power plants (number) | 4 | 4 | 4 |
| Combined heat and power plants (installed capacity) | 0.35 GWe; 1.1 GWt | 0.35 GWe; 1.1 GWt | 0.35 GWe; 1.2 GWt |
| Proprietary district heating networks - TAURON Ciepło (length) | 904 km | 896 km | 888 km |
| Heat supply | 13.64 PJ | 15.08 PJ | 11.6 PJ |
| Hydroelectric power plants (number) | 34 | 34 | 34 |
| Hydroelectric power plants (installed capacity) | 133 MW | 133 MW | 133 MW |
| Wind power plants (number) | 11 | 9 | 9 |
| Wind power plants (installed capacity) | 417 MW | 381 MW | 381 MW |
| Photovoltaic power plants (number) | 3 | 2 | |
| Photovoltaic power plants (installed capacity) | 19 MW | 11 MW | |
| Cogeneration engines - gas from methane drainage (number) | 4 | 4 | |
| Cogeneration engines - gas from methane drainage (installed capacity) | 10.8 MWe | 10,8 MWe | |
| Electricity distribution lines (length) | 246 500 km | 245 800 km | 241 600 km |
| Transformers (distribution) | 59 800 | 60 800 | 60 900 |
| MV/LV transformer stations and MV network switchgears | 62 100 | 61 600 | 59 100 |
| HV/MV stations | 497 | 495 | 493 |
| Capital expenditures (PLN million) | 3 962 | 2 932 | 4 039 |

| | | | |
|----------------------------|-------|-------|-------|
| Depreciation (PLN million) | 2 216 | 2 101 | 1 954 |
|----------------------------|-------|-------|-------|

* As of 31.12.2022

** from continuing and discontinued operations

TAURON Group's management of the production capital is performed through efficient operations, as well as expansion and modernization investments, including:

- investments related to connecting new consumers (and producers) to the distribution grid, expanding and upgrading the grid in order to improve the quality and reliability of the power supply for electricity consumers,
- new capacity in renewable technologies and improving the productivity of the existing assets,
- expanding and upgrading the district heating network,
- seeking to build low- and zero-carbon heat sources.

The results achieved by TAURON Group in 2020-2022 with respect to production capital management are presented in Table no. 10.

Table no. 10. GRI 301-1. Results achieved by TAURON Capital Group with respect to production capital management in 2020-2022

| Results achieved | 2022 | 2021 | 2020 |
|--|-----------------|-----------------|-----------------|
| Commercial coal production by segment groups: coal dust, medium size lump coal, large size lump coal, eco-pea coal | 5.01 million Mg | 5.15 million Mg | 4.54 million Mg |
| Net electricity production | 14.16 TWh | 14.3 TWh | 11.4 TWh |
| including electricity production from RES | 1.48 TWh | 1.7 TWh | 2.0 TWh |
| Heat distribution | 8.62 PJ | 9.42 PJ | 8.44 PJ |
| Heat generated | 10.58 PJ | 12.00 PJ | 11.63 PJ |
| Electricity distribution | 53.68 TWh | 53.97 TWh | 50.26 TWh |

Mining

Until December 31, 2022, the operations related to hard coal mining, cleaning (upgrading) and sales to the utility scale power plants, district heating industry and individual customers had been conducted. The operations in this area were conducted by: TAURON Wydobycie and Spółka Usług Górniczych. The structure of the TAURON Wydobycie (Mining) subsidiary was based on a model composed of the Center (Centrum), with its seat in Jaworzno, and three production plants (coal mines): Zakład Górniczy Sobieski (Sobieski Coal Mine) in Jaworzno, Zakład Górniczy Janina (Janina Coal Mine) in Libiąż and Zakład Górniczy Brzeszcze (Brzeszcze Coal Mine) in Brzeszcze. The Center's operations included, among others, shared functions management, planning and sales. The production facilities were mainly dealing with hard coal mining and cleaning (upgrading). This Line of Business also included a subsidiary that provided mining works services – Spółka Usług Górniczych. As a result of the spin-off process under way in 2022, these assets were divested to the State Treasury as of the end of 2022.

In addition to coal mining, also mining operations that involve open-pit extraction of limestone, as well as the processing and sales thereof within the Group and outside the Group, are conducted. The operations in this area are carried out by Kopalnia Wapienia "Czatkowice" (Czatkowice Limestone Mine), an open-pit mine that extracts high quality deposits of Carboniferous limestone, located in the Krzeszowice municipality. The limestone from the Czatkowice deposit is widely used in the energy, metallurgical, construction, lime, cement, sugar and road building industries, as well as in agriculture.

Generation

It comprises electricity generation using conventional sources and renewable energy sources, including the biomass burning process. The operations are conducted by the TAURON Wytwarzanie subsidiary and Nowe Jaworzno Grupa TAURON company which was incorporated into TAURON Wytwarzanie in 2022. Electricity generation by the conventional units is carried out by the power plants with the total capacity of approx. 4.1 GWe and 0.9 GWt and by the 49 MWe biomass fired generating unit as well as by the 5 MW photovoltaic power plant. The power plants are located in the following cities: Łaziska Górne, Będzin, Trzebinia and Jaworzno. This Line of Business also includes the TAURON Serwis subsidiary that provides technical maintenance (support) services. Activities aimed at spinning off TAURON Wytwarzanie from TAURON Group to the State Treasury (in accordance with the government's program to create NABE), as an entity operating coal-fired generation assets, were carried out in 2022. Among other things, the services previously outsourced to other TAURON Group's subsidiaries were reconstituted at the company. Research and development projects, as well as investment activities, were spun off to TAURON Inwestycje subsidiary, which will remain within TAURON Group's structures.

Heat

It comprises heat generation, using the co-generation sources, transmission and distribution as well as supply. Heat generation is carried out by 5 combined heat and power plants, with the total capacity of approx. 0.35 GWe and 1,2 GWt, located in the following cities: Katowice, Tychy, Bielsko-Biała, Czechowice-Dziedzice and Cieszyn, as well as by the local boiler houses. The co-generation units are using hard coal and biomass for their production, while the heat generation units also use oil and gas. The district heating operations are conducted by the TAURON Ciepło, SCE Jaworzno III and Energetyka Cieszyńska subsidiaries, that are, in total, operating more than 1 thousand km of the distribution district heating networks on the territory of, among others, Katowice, Dąbrowa Górnicza, Sosnowiec, Będzin, Chorzów, Siemianowice Śląskie, Jaworzno, Mysłowice and Cieszyn, including 904 km of TAURON Ciepło's own networks, 119 km of SCE Jaworzno III's own networks and 55 km of Energetyka Cieszyńska's network.

Renewable Energy Sources

It comprises electricity generation using renewable energy sources, except for biomass burning, which, according to the Business Model, is carried out within the Generation and Heat Lines of Business. Electricity production from biomass is also classified as renewable energy at TAURON Group. This line of business is managing 34 hydroelectric power plants with the total capacity of 133 MW, located primarily in the south of Poland, 11 wind based power plants with the total capacity of nearly 417 MW, located mainly in the north of Poland, and a 14 MW photovoltaic power plant. The segment's operations are conducted by TAURON Ekoenergia, TAURON Zielona Energia, special purpose vehicles set up to build new RES sources and TAURON Ekoserwis (a subsidiary providing support and maintenance services for the hydro power assets).

Distribution

It comprises electricity distribution using the distribution grid located in the south of Poland. TAURON Capital Group distributes electricity on the territory of the following regions (provinces): Małopolska, Lower Silesia, Opole and Silesia, and partly also Świętokrzyskie, Podkarpackie, Łódzkie, Wielkopolska and Lubuskie. The operations are conducted by the TAURON Dystrybucja subsidiary that performs the function of the DSO. The operational functions (activities) are carried out by 11 branches located in Będzin, Bielsko-Biała, Częstochowa, Gliwice, Jelenia Góra, Cracow, Legnica, Opole, Tarnów, Wałbrzych and Wrocław. The operations of TAURON Dystrybucja are supported by the TAURON Dystrybucja Pomiarów subsidiary.

Trading

It comprises electricity wholesale trading, as well as trading and management of the CO₂ emission allowances and property rights arising from the guarantees of origin (GO) of electricity, as well as fuels. Such operations are conducted by the TAURON Polska Energia and TAURON Czech Energy subsidiaries. The Trading Line of Business also includes the procurement of biomass, as well as the utilization of the mining and burning processes' by-products carried out by the Bioeko Grupa TAURON subsidiary.

Supply

It comprises the supply of electricity and natural gas, as well as the related products, to the final consumers. The operations are conducted by the TAURON Sprzedaż and TAURON Sprzedaż GZE subsidiaries. The supply operations are conducted nationwide and, on a smaller scale, on the Czech market. This Line of Business also includes services related to street lighting, as well as energy efficiency and smart technologies services carried out primarily by the TAURON Nowe Technologie subsidiary. The company is managing approx. 721 thousand street lamps. In 2022, TAURON Group also offered the broadband Internet access services. The service is provided by the TAURON Obsługa Klienta subsidiary.

Shared Services

The other operations are a part of a separate line of business called Shared Services Centers. It includes such services, provided for TAURON Group's subsidiaries as, among others, accounting and human resources services, as well as IT services, carried out by the TAURON Obsługa Klienta subsidiary, managing insurance policies for all of the Group's subsidiaries – the TAURON Ubezpieczenia subsidiary, security and order keeping services – the Wsparcie Grupa TAURON subsidiary. The property security service business was spun off from TAURON Group in December 2022, as a result of the optimization measures and the need to raise security level of TAURON Group's power infrastructure.

The goal of such a division of competences is to relieve the Lines of Business from the obligation to carry out the processes that are not directly associated with their core business operations (non-core operations related processes), and also to reduce the costs of performing such processes thanks to the economies of scale and the improvement of operational efficiency. As part of the operations of the TAURON Obsługa Klienta subsidiary customer service is also provided for the TAURON Sprzedaż and TAURON Sprzedaż GZE subsidiaries and, taking into account the need to ensure independence of the DSO and compliance with other unbundling rules, for the TAURON Dystrybucja subsidiary. Figure no. 17 presents the structure of TAURON Group's Lines of Business.

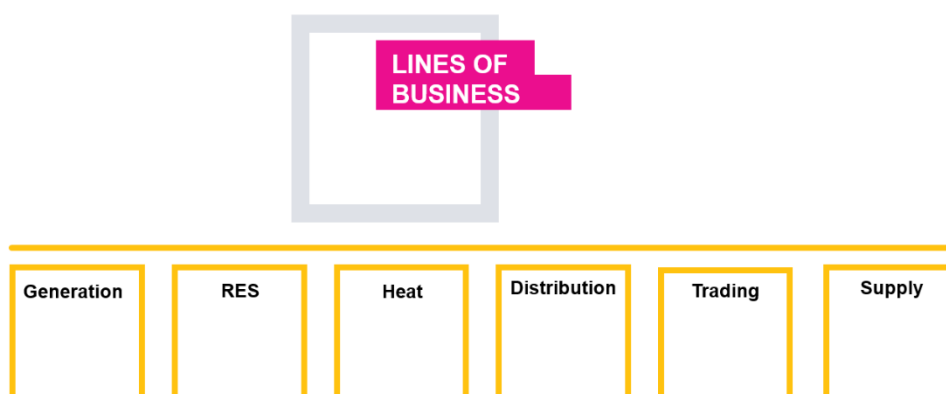


Figure no. 17. Structure of TAURON Group's Lines of Business (excluding the Mining Line of Business that had been functioning until December 31, 2022, in connection with the transfer of ownership of the shares of TAURON Wydobycie to the State Treasury as of that date)

G 3.3. TAURON Capital Group's organization

TAURON Capital Group's organization, that implements the Group's business model described in section G 3.2.2., should be viewed according to three aspects:

- process (business) related aspect – based on the process structure that clearly defines responsibilities and how processes are implemented. The advantages stemming from the way key business processes are conducted build value and impact the competitive position of TAURON Group,
- line of business related aspect – associated with the profile of the operations conducted and the place within the Group's value chain,
- equity related aspect – the structure of the formal and legal domination of the Group's subsidiaries.

G 3.3.1. Process based organization

The regulations implemented in 2018, along with the Business Model, introduced management by processes within TAURON Group. In 2022, as part of the update of the Business and Operational Model, the functions and tasks performed as part of process management were reviewed and updates were introduced with respect to:

- the Model covering all of TAURON Group's subsidiaries – in order to standardize TAURON Group's management principles with respect to all of its entities,
- assigning TAURON Group's new subsidiaries to the Lines of Business,
- IT/OT systems, in order to ensure a consistent approach to the IT/OT systems management across TAURON Group,
- division of competences with respect to the acquisition of the RES projects.

The process documentation describes the division of competences and recurring actions performed, operational processes, including the descriptions of exchanged products and services. Processes are the superior organization

in relation to the organizational structure of the individual subsidiaries and run horizontally across entire TAURON Group.

Based on the main products, TAURON Capital Group's processes were divided into three groups: management, operational and support processes. The chart presented in Figure no. 18 shows mega-processes identified at TAURON Group (the highest process level).



Figure no. 18. TAURON Capital Group's mega-processes in 2022

The owners of the mega-processes (the highest process level) are the designated directors at TAURON Polska Energia. The process documentation (maps, diagrams and process sheets) defines and describes the decision making powers (competences) and actions to be undertaken by the individual organizational units within TAURON Capital Group's various subsidiaries. The owners of the mega-processes decompose these into lower level processes and appoint their owners. Each process has its owner and process metrics defined by the higher level process owner. The process documentation defines the course of action (interdependencies) and decision making competences (powers) for the recurring activities.

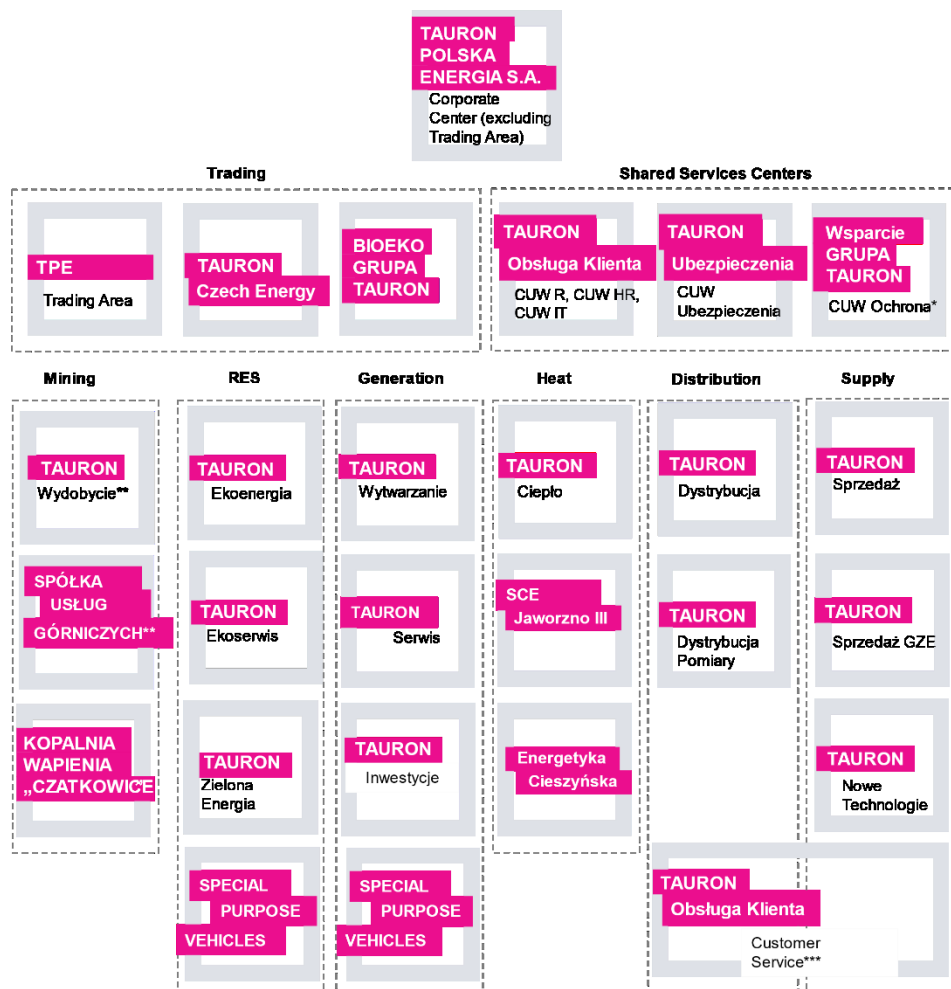
The goal of the process based management model implemented is to benefit from the operating synergies among TAURON Group's various subsidiaries, share knowledge and use the best practices, standardize and automate processes, and also to ensure consistency of actions taken within TAURON Capital Group's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

The essence of the management by processes lies in a continuous search for and implementation of efficiencies along with a clear and transparent division of competences and responsibilities. Processes are subject to assessment and are modified accordingly to improve their efficiencies. The process documentation is published in the intranet and is available to all employees of the Group. The competences and process interdependencies described in the process documentation supplement the competences stemming from the organizational structure of the individual subsidiaries and support the operations of the Group's subsidiaries as a single entity.

G 3.3.2. Organization by Lines of Business

TAURON Capital Group's operations are conducted based on six Lines of Business: Generation, Heat, Renewable Energy Sources (RES), Distribution, Trading, and Supply.

Lines of Business are responsible for implementing the core processes and support processes at the Line of Business level, and they participate in management processes and support processes implemented at the Group level. They are presented, including the assignment of the individual subsidiaries of TAURON Group thereto, in Figure no. 19.



*Security services were spun-off and divested in December 2022. WGT's other operations have been carried out as part of the Usługi Grupa Tauron subsidiary since 2023
 **Companies divested to the State Treasury in December 2022.
 *** with unbundling requirements having been met.

Figure no. 19. Assignment of TAURON Capital Group's subsidiaries to the Lines of Business and Shared Services Center (CUW) in 2022

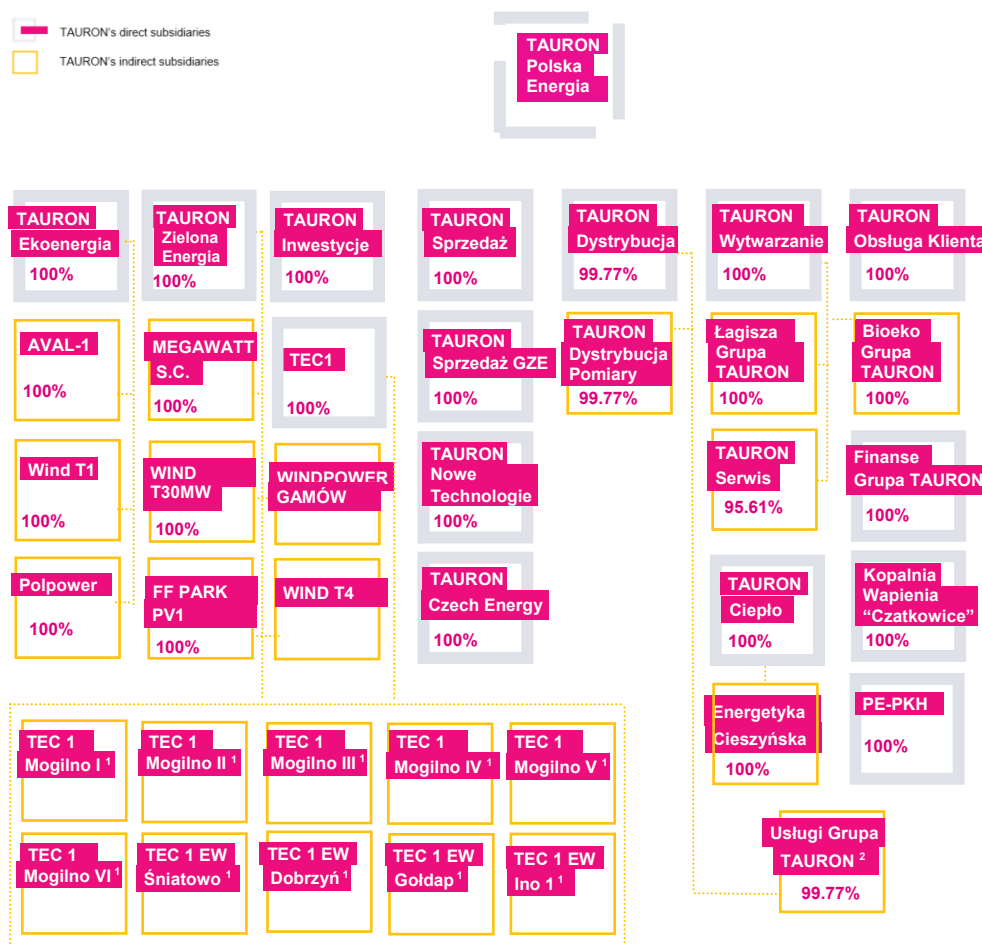
G 3.3.3. Formal and legal organizational structure

GRI 2-2

As of December 31, 2022, and as of the date of drawing up this report TAURON Capital Group's key subsidiaries, besides the TAURON Polska Energia S.A. parent company, included 39 subsidiaries subject to consolidation that are listed below.

In addition, as of December 31, 2022, and as of the date of drawing up this report, the Company, directly or indirectly, held shares in 33 other companies.

TAURON Capital Group's structure, including the companies subject to consolidation, as of December 31, 2022, is presented in Figure no. 20.



¹TEC1 sp. z o.o. is the General Partner, TAURON Zielona Energia sp. z o.o. is the Limited Partner.
²formerly Marselwind sp. z o.o.

Figure no. 20. TAURON Capital Group's structure, including the companies subject to consolidation, as of December 31, 2022

Parent company's organizational structure

TAURON Polska Energia S.A is TAURON Capital Group's parent company, performing the role of the corporate center. The company's operations are managed by the Management Board within which the competences for managing the business units are split among the President of the Management Board (CEO) and the Vice Presidents of the Management Board. The current division of competences within the Management Board of TAURON Polska Energia S.A. is provided in section G 3.1. TAURON Polska Energia S.A. Company's Management Principles

G 3.4. Changes to the principles of TAURON Polska Energia S.A. and TAURON Capital Group Management

GRI 2-11

Changes to the principles of the Company's management

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

The organizational structure (diagram) of TAURON Polska Energia S.A., as of December 31, 2022, and as of the day of drawing up this Report is presented in Figure no. 21.

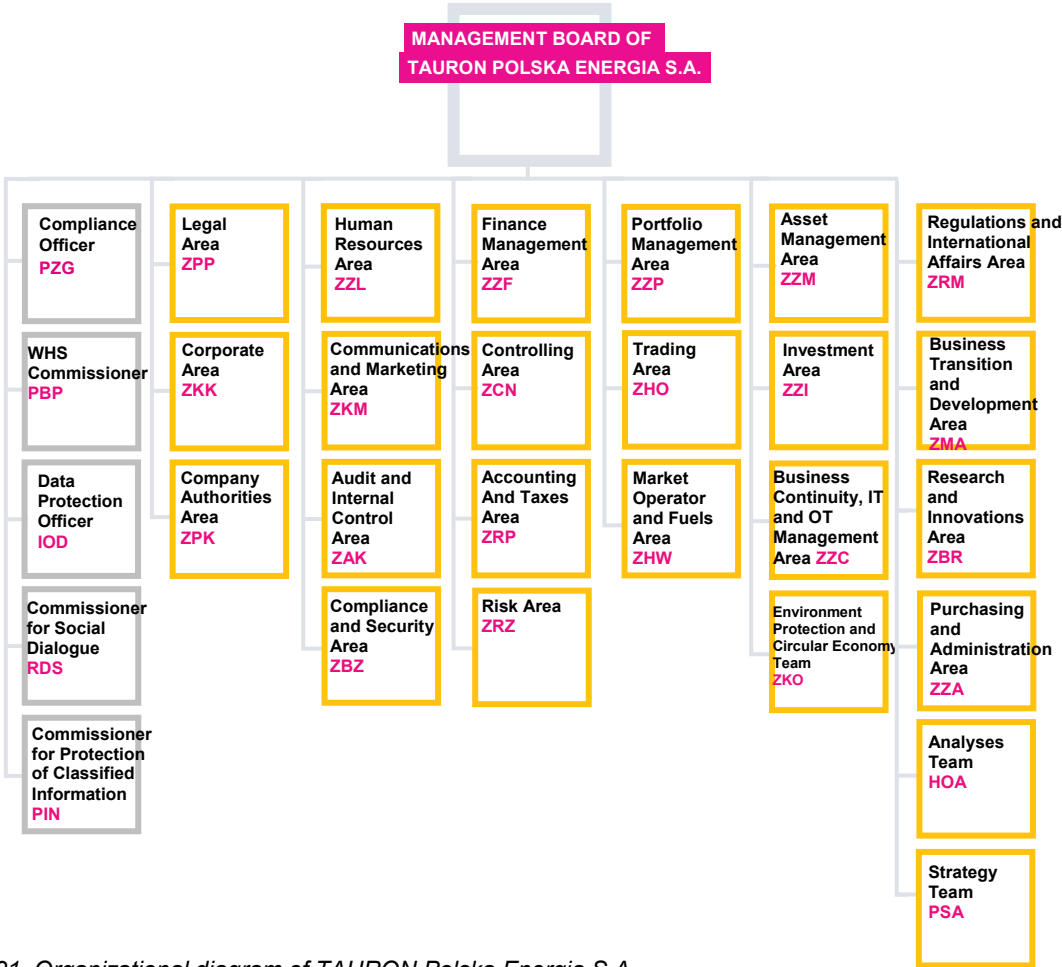


Figure no. 21. Organizational diagram of TAURON Polska Energia S.A.

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

The diagram showing the division of responsibilities of the Members of the Management Board of TAURON Polska Energia S.A. as of the day of drawing up this Report is presented in Figure no. 22.

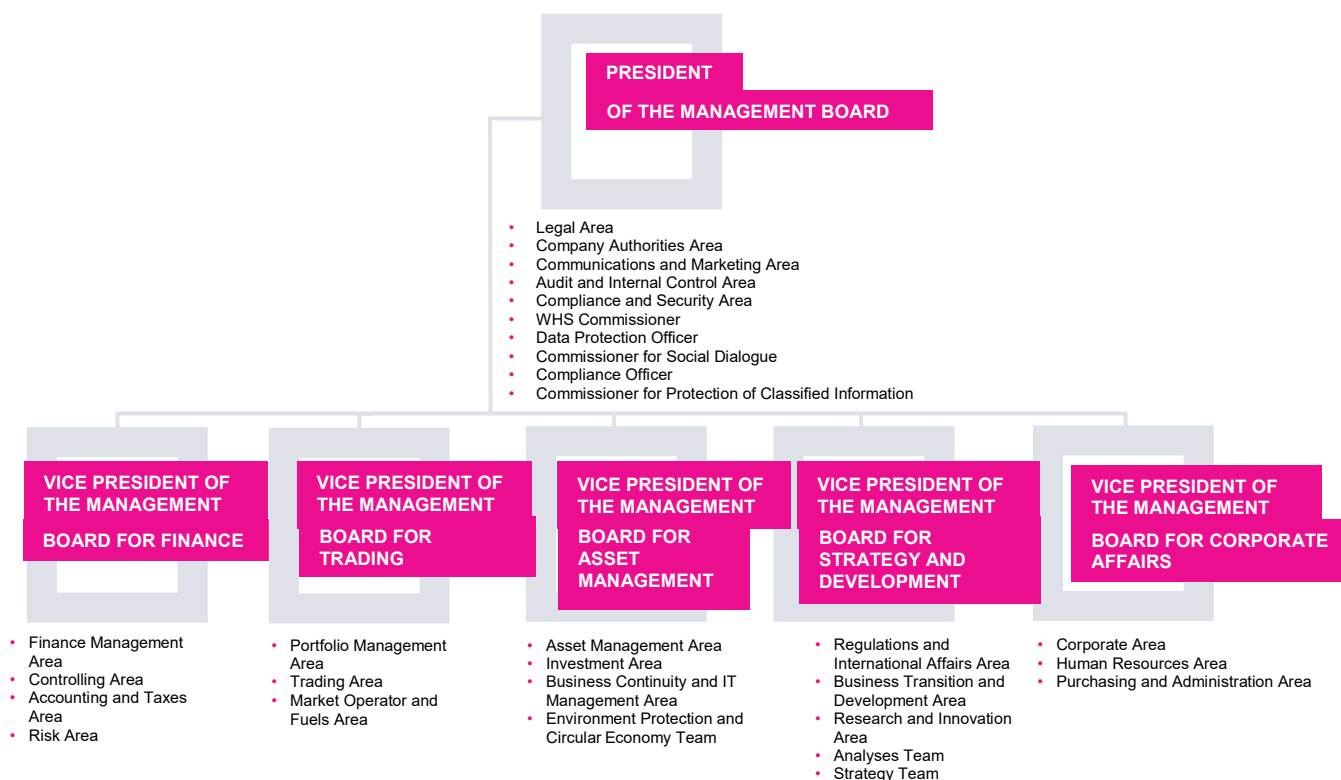


Figure no. 22. The diagram showing the division of responsibilities of the Members of the Management Board of TAURON Polska Energia S. A.

Changes to the principles of TAURON Capital Group's management

TAURON Group's Business and Operational Model in place defines the management model of TAURON Capital Group, emphasizing the role of ESG as an increasingly important tool of communications with the environment (stakeholders) in order to provide flexibility, resilience and adaptation of TAURON Capital Group to the changes in the environment, in particular those stemming from climate change.

Over the course of 2022, the TAURON Group's Business and Operational Model was updated twice, taking into account the Group's changing needs and operating environment (conditions).

G 4. TAURON Capital Group's main risks and the management thereof

G 4.1. What TAURON Group expects as a result of the regulatory and market changes

Due to the changes taking place in the European climate policy as well as social and economic transformations (including in terms of resource efficiency), and the military conflict in Ukraine, the energy sector is experiencing a fast rise in the impact of the broadly understood environment on its results and operations. The most important factors affecting the functioning of TAURON Group include regulatory changes taking place at both the European as well as the national law level.

Recent years have demonstrated a very rapid pace of changes taking place in the Group's regulatory, economic, macroeconomic and market environment. In particular, the following factors are observed:

- introducing further and tightening the existing regulations and requirements with respect to the environment protection and counteracting climate change (among others, Winter Package, FIT for 55, REPower EU, Grid Codes, ETS Directive, Directive on industrial emissions, European Green Deal, European Commission guidelines on climate impact reporting),
- implementation of regulations with respect to freezing of the electricity, gas and heat prices in Poland, which is a consequence of the ongoing conflict in Ukraine and its impact on the economic environment (embargo on the hydrocarbons imported from Russia, increase in gas, electricity, coal prices),
- not seen before increase in the volatility of the prices of electricity and related products,

- steadfast change of the energy mix towards low or zero emission electricity generation sources,
- further development of the distributed and prosumer energy,
- advancing integration of the European electricity markets,
- increase of the awareness of TAURON Group's stakeholders regarding the environment protection and climate impact.

TAURON Group assumes that the above mentioned trends will continue, aiming at a further transition towards an innovative and low-emission economy, and achieving, in the long run, climate neutrality as well as implementing circular economy in the European Union.

Due to the above, TAURON Group is actively monitoring both the regulatory environment, as well as the market environment, in order to prepare an action plan adequate for the external conditions. In particular, the risk management system functioning in this respect at TAURON Group is geared towards implementing adequate and effective responses to potential threats, as well as towards the possibilities of taking advantage of emerging market opportunities.

G 4.2. Three Line Defense Model

In order to ensure safe functioning of the organization, the so-called Three Line Defense Model is in place at TAURON Group and it constitutes an internal control system. It includes:

as part of the first line of defense - functional control performed by:

- lower and middle level management,
- the Group's other personnel.

as part of the second line of defense - independent control performed by the following functions:

- risk management,
- compliance assurance,
- safety assurance,

as part of the third line of defense: institutional control performed by the internal audit.

The results of the Internal Audit Team's activities are reported directly to the senior management and the Audit Committee/Supervisory Board. The way the so-called Three Line Defense Model is organized is illustrated in Figure no. 23.



Figure no. 23. TAURON Capital Group's three line defense model

G 4.3. TAURON Capital Group's risk management objective and principles

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

In line with its Strategy TAURON Polska Energia is implementing the process of managing the risk related to the operations of TAURON Capital Group. The primary goals of risk management include ensuring the broadly understood security of TAURON Capital Group's operations. In particular, risk management is to ensure increased predictability of the Group achieving its strategic goals, including sustainable generation of its financial results and

protection of the Group's current economic value (preventive function), as well as supporting decision-making processes.

TAURON Capital Group's risk management:

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

G 4.4. TAURON Group's risk management strategy

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

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

The basic classification of the corporate risk is presented in Figure no. 24.

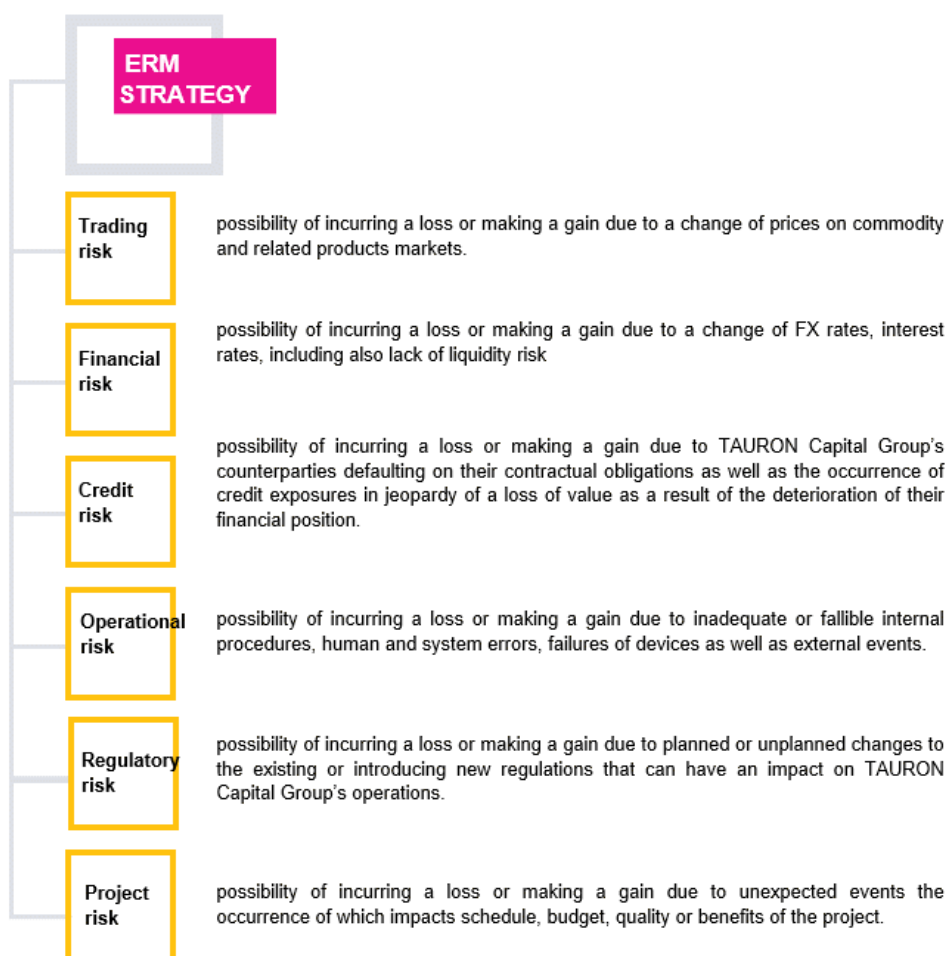


Figure no. 24. Description of TAURON Capital Group's specific risks in the ERM system

G 4.4.1. Roles and responsibilities of the risk management system's participants

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

The rules in place at TAURON Capital Group introduce the function of the Risk Owner, i.e. the person responsible for managing the given risk as well as developing and implementing an effective response to a threat. While the control function, process coordination, as well as the responsibility for the correct functioning of the risk management system is placed at TAURON Polska Energia S.A., in the Area of the Executive Director for Risk.

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

The links between the various roles and documents regulating TAURON Capital Group's ERM System in detail are presented in Figure no. 25.

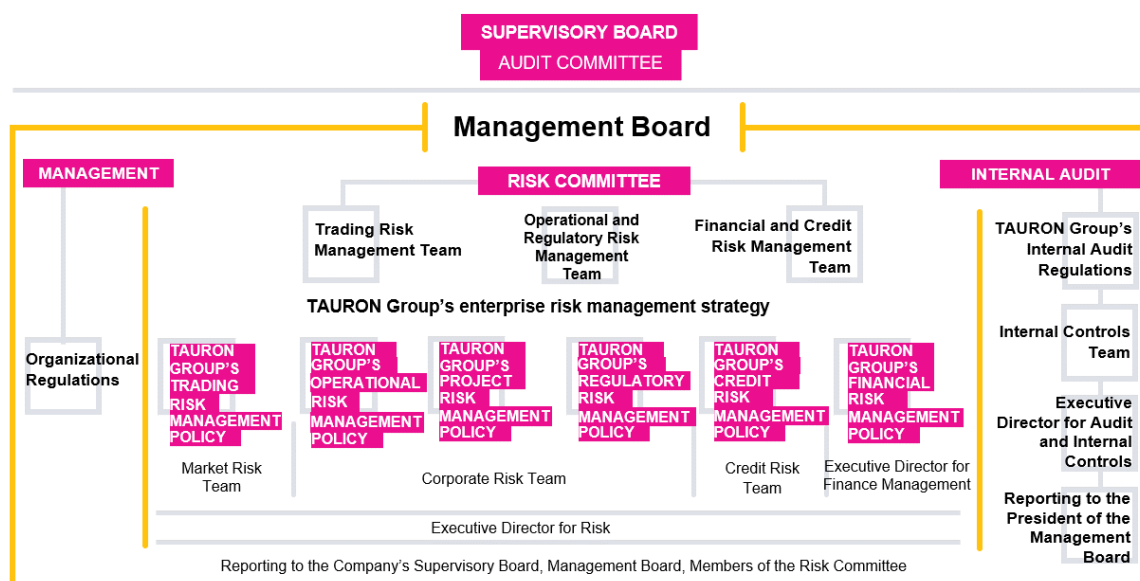


Figure no. 25. The links between the various roles in the context of the ERM Strategy and the documents regulating the ERM System in detail

All of the above specific risks take into account climate opportunities and risks.

G 4.4.2. Risk management tools

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

While carrying out the Risk Management Process (ERM), estimates are made of the probability and impact of risks (both threats and opportunities), placing a value (valuation) on the impact of the individual risk factors on the planned level of EBITDA or other economic data that is material from the point of view of TAURON Group's operations. The values (valuations) in question constitute a company secret and are not publicly available.

In addition, it is possible to separate and aggregate the individual groups of risk factors (and, similarly, business opportunities) for the purpose of placing a value (valuation) on them and estimating their probability and impact, particularly in the area related to climate change and energy transition of assets (transition risks and opportunities).

G 4.4.3. Risk model

Risk model defines a consistent risk classification, enabling a consistent and comprehensive capturing of risk across TAURON Capital Group. Each risk identified is assigned to specific categories and sub-categories. The main risk categories and sub-categories, in accordance with TAURON Capital Group's Risk Model in place, include:

1. Operational risk, within which the following risks are identified:
 - Environment - risks determining the impact of the external environment (stakeholders) on the implementation of TAURON Group's goals,
 - Technology, infrastructure and security - all events having an adverse effect on the security of employees, information as well as the generation, transmission, mining or IT infrastructure,
 - Employees and organizational culture - risks related to employee issues and organizational culture as well as the pandemic risk,
 - Compliance Risk - risks related to non-compliance, internal and external abuse (fraud), as well as unethical behavior,
 - Customers and contractors (counterparties) - risks related to the volatility of the supplies/services market, failure of the customer/contractor (counterparty) to meet contractual obligations and the adverse changes or terminations of commercial contracts by customers, affecting both volume as well as margin.
2. Financial and credit risk, within which the following risks are identified:

- Finance and credit – risks related to changes in exchange rates and interest rates, as well as the risk of TAURON Group’s contractors (counterparties) defaulting on contractual obligations.
- 3. Trading (commercial) risk, within which the following risks are identified:
 - Trading - risks related to the market volatility of electricity and related products market prices to which the enterprise is exposed.
- 4. Regulatory risk, within which the following risks are identified:
 - Regulations - risks determining the adverse impact of changes in the legislation at the national and the European level having a direct impact on the operations of TAURON Group.

G 5. TAURON Group’s due diligence procedures

G 5.1. Internal control and audit procedure

TAURON Capital Group’s internal audit and internal control process is organized in such a way as to ensure broadly understood security and safety of the Group’s operations, while supporting the implementation of the Strategy’s objectives. As part of its control and audit activities, the Group strives to increase the predictability of achieving strategic goals - including stable achievement of the assumed financial result - by also focusing on the potential risks that may threaten the value levers (drivers) that are key for the implementation of the Strategy.

The main goals of the Audit and Internal Control Area at TAURON Polska Energia include planning and implementation of the audit and control tasks within TAURON Group, creating and coordinating of the principles of the functioning of the audit and internal control at TAURON Group as well as providing support for the organization in maintaining an effective internal control system.

The audit activities are carried out by the Audit Teams of the Audit and Internal Control Area at TAURON Polska Energia, conducting planned and ad hoc audit tasks both at TAURON Polska Energia, as well as at TAURON Capital Group’s subsidiaries. The Audit Teams, based on the Annual Audit Plan for the given calendar year, while performing process based audit tasks, assess the current level of the individual risks and the effectiveness of the management thereof. As part of the audit activities, the correctness of the audited processes as well as the adequacy and the implementation of the control mechanisms in the audited processes are also verified. If any irregularities are identified, the auditors recommend taking adequate corrective actions (remedies). The implementation of the recommendations is the responsibility of the management of the audited entities, and the degree of the implementation of the audit recommendations is monitored on an ongoing basis.

Internal control (conducted by the owner) is understood as a set of activities of a detective (detection control), preventive (preventive control) and corrective (correction of irregularities and deficiencies) nature. The control (audit) tasks are performed in the form of ad hoc and scheduled controls (audits) by the audit teams composed of the employees holding the Autonomous (Independent) Specialist for the Transaction Control (Audit) Positions as part of the Audit and Internal Control Area at TAURON Polska Energia, as well as by the organizational units competent for the internal control operating at some of the subsidiaries.

The Audit and Internal Control area conducted 21 scheduled and ad hoc tasks in 2022

A new model for the periodic Evaluation of the Internal Control System has been implemented to provide the Management Board of TAURON Polska Energia and the Audit Committee of the Company’s Supervisory Board with independent and objective information on the functioning of the control mechanisms in the business processes. As part of the above mentioned model, the assessment of the adequacy, implementation and effectiveness of the selected control mechanisms related to the risks assessed as significant for the Internal Control System was initiated, for the first time, in 2022.

The goal of the organization of the Audit and Internal Control Area is to enable the scope of audits and controls to cover the entire operations of the organization, both from the perspective of the needs of TAURON Group as well as those of the individual subsidiaries. On the other hand, the direct organizational reporting to the President of the Management Board allows the Area to maintain the necessary independence and objectivity required to perform its duties effectively. The Executive Director for Audit and Internal Control has also been provided with the ability to periodically report directly to the Audit Committee, as a standing committee established within the Supervisory Board of TAURON Polska Energia. This empowerment is implemented in the Company’s Organizational Regulations currently in force.

G 5.2. Most important aspects relate to the internal controls and risk management with respect to the process of drawing up financial statements and consolidated financial statements

Supervision over the application of consistent (uniform) accounting rules by TAURON Capital Group’s subsidiaries when developing reporting packages for the purpose of drawing up TAURON Capital Group’s consolidated financial statements

In order to ensure consistent accounting principles based on International Financial Reporting Standards (IFRS), approved by the European Union, the Accounting Policy of TAURON Polska Energia S.A. Capital Group (Accounting Policy) was developed and implemented by TAURON Capital Group. This document shall be accordingly updated in case there are changes to the regulations. The rules defined in the Accounting Policy shall be applicable to TAURON's standalone financial statements and TAURON Capital Group's consolidated financial statements. TAURON Capital Group's subsidiaries shall be obligated to apply the Accounting Policy when preparing the reporting packages that provide the basis for preparing TAURON Capital Group's consolidated financial statements.

In addition, TAURON Capital Group developed and implemented an intra-group regulation that comprehensively regulates issues related to the rules and deadlines for preparing the reporting packages for the purpose of consolidated financial statements. The reporting packages shall be validated by the holding company's Consolidation and Reporting Team and by an independent certified auditor during an audit or review of TAURON Capital Group's consolidated financial statements.

Procedures used to authorize and provide opinions on the Company's financial statements and TAURON Capital Group's consolidated financial statements.

The Company has implemented financial statements' authorization procedures. Quarterly, half year and full year financial statements of the Company and TAURON Capital Group's consolidated financial statements shall be approved by the Company's Management Board before being published. Full year financial statements of TAURON and TAURON Capital Group's consolidated financial statements shall be additionally presented for evaluation to the Company's Supervisory Board before being published. The Company's Vice President of the Management Board for Finance (Chief Financial Officer) shall oversee the preparation of financial statements, while the Management Boards of the subsidiaries included in the consolidation shall be responsible for preparing the reporting packages for TAURON Capital Group's consolidated financial statements.

The Supervisory Board's structure includes the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.

IT systems as well as financial and accounting processes

TAURON Capital Group's subsidiaries maintain accounting books (ledgers) which constitute the basis for preparing financial statements using ERP grade financial and accounting computer systems, enabling system audits of the correctness of the document flow and classifying of the business events. Consolidated financial statements are prepared using an IT tool used to consolidate financial statements, providing system control with respect to the consistency (integrity) and timeliness of preparing the consolidation data.

TAURON Capital Group's subsidiaries have implemented IT and organizational solutions that provide control of access to the financial and accounting system and ensure adequate protection and archiving of the accounting books. Access to IT systems is restricted based on applicable access rights assigned to authorized personnel. Control mechanisms are applied in the process of granting and changing access rights to the financial and accounting systems. The rights granted are also subject to periodic verification.

The accounting functions at TAURON Group's subsidiaries are to a significant degree integrated - TAURON Capital Group's material subsidiaries' financial and accounting services are performed by CUW-R (Shared Services Center – Accounting) and as a result of that TAURON Capital Group's financial and accounting processes are to a large degree unified. The subsidiaries adjusted their own procedures to the flow of the financial and accounting processes, taking into account the specifics of the individual segments. In 2022, as part of the implementation of the government's program of Poland's electricity sector's transition, which envisages the spinning off of the coal assets from power companies that the State Treasury is a shareholder of to the National Energy Security Agency, the reorganization works were carried out to integrate the assets intended to be spun off into a single entity (i.e. TAURON Wytwarzanie S.A. subsidiary), which also included the transfer of the accounting services for the assets to be spun off to TAURON Wytwarzanie S.A.

TAURON Capital Group's Business Model clearly distributes responsibilities with respect to the financial and accounting processes between the Company (indicated as the Corporate Centre) and the subsidiaries and CUW R, indicating that the Corporate Centre is the owner of processes associated with accounting and reporting of TAURON Capital Group. With respect to the tasks of the Corporate Centre, strategic functions associated with the development of the model of operations and standards of TAURON Capital Group were indicated in the area of accounting and supervision of the implementation of standards in the accounting area in the subsidiaries and CUW R. Moreover, it was indicated that the Company as the Corporate Centre is responsible for drawing up the Company's financial statements and the consolidated financial statements of TAURON Capital Group. A clear split of responsibilities and strong emphasis on the fulfillment of the supervisory functions by the Corporate Centre in relation to CUW R and the subsidiaries is, inter alia, aimed at improving the process of preparing the financial statements.

Subjecting the Company's financial statements and TAURON Capital Group's consolidated financial statements to an audit and reviews by an independent certified auditor

The Company's full year financial statements and TAURON Capital Group's full year consolidated financial statements are subject to an audit by a certified auditor. In November 2021, the Company selected an entity authorized to audit and review the financial statements as well as the consolidated financial statements of the Company and to audit the financial statements of selected TAURON Capital Group's subsidiaries. The contract with the entity authorized to audit financial statements was concluded for the audit of the financial statements and the consolidated financial statements for the years 2022-2024, as well as for the review (audit) of the interim financial statements and the interim consolidated financial statements for the 6-month periods ending on June 30, 2022, June 30, 2023 and June 30, 2024.

The rule related to changing the audit firm of the Company and TAURON Capital Group

The Company has in place the *Policy for selecting an audit firm to conduct an audit and review of the financial statements and the consolidated financial statements of TAURON Polska Energia S.A.*, adopted by the Audit Committee of the Company's Supervisory Board, which includes the following rule:

1. Maximum duration of continuous audit engagements (mandates) carried out by the same audit company or an entity related to that audit company or any member of the network operating in the EU countries that such audit companies are members of, shall not exceed 10 years,
2. After the 10-year duration of the mandate (engagement) neither the audit company, nor any member of its network operating within the European Union shall conduct an audit of the Company for the subsequent 4 years,
3. A key certified auditor shall not conduct an audit of the Company for a period longer than 5 years,
4. A key certified auditor may again conduct an audit of the Company after at least 3 years have elapsed from the completion of the last audit.

G 5.3. TAURON Capital Group's Key Policies, Codes and Principles in force as part of the Corporate Governance

GRI 3-3

G 5.3.1. TAURON Group's Anti-corruption Policy

GRI 2-24, GRI 205-1, GRI 205-2, GRI 205-3, GRI 206-1

TAURON Group has adopted a zero-tolerance policy on corruption.

The basic document regulating the area of counteracting corruption at TAURON Capital Group is TAURON Group's Anti-corruption Policy whose goal is to define uniform rules and standards of conduct that allow for the identification, countering and mitigation of the risk of an occurrence of corruption activities as well as other fraud (abuse).

The implementation and compliance with the Anti-corruption Policy is to ensure the compliance of the operations of TAURON Capital Group's subsidiaries with the applicable law, the internal and intra-corporate regulations, as well as the ethical principles, thus ensuring proper protection of the interests, reputation and image of the subsidiaries and entire TAURON Capital Group, as well as the transparency of actions taken towards the external entities.

The Policy applies to all of the employees, members of the management board and supervisory authorities, as well as the proxies and the powers of attorney of the subsidiaries. TAURON Group also requires compliance with the standards of behavior set out in the Policy by the external entities.

The goal of the Policy is to counteract not only corruption activities, but also other abuse (fraud), which include, for example:

- theft or misappropriation of company assets (cash, materials, products, tools, equipment) or the property of external entities with which the employee has business relations,
- deliberate falsifying of the company documents or entering false information and data into their content,
- managing the company's documentation in an unreliable (inaccurate) or untruthful manner, in particular destroying, deleting, concealing, altering or falsifying documents regarding the company's operations,
- deliberate disclosing of information inconsistent with the facts in the financial statements,
- using the company's resources for private purposes.

The areas susceptible to the risk of corruption or other fraud related to the operations of TAURON Capital Group include in particular:

- purchasing (procurement) proceedings,
- cooperation with the external entities,
- implementation of the investment processes,
- transactions with related entities,
- expenses related to business trips or entertainment,
- representation and advertising expenses, including invitations and gifts,
- expenditures on the marketing and consulting services,
- cash transactions
- donations and sponsorship agreements.

The following ways of implementing the Anti-corruption Policy by TAURON Capital Group are defined:

1. The Group exercises due diligence to ensure that contacts with the external entities are open and transparent, so as to exclude the possibility of corruption and other abuse (fraud).
2. The Group undertakes to take appropriate (in particular lawful), adequate and proportionate actions in relation to the occurrences of corruption activities and other abuse (fraud). In particular, the company shall notify law enforcement authorities of any potential violations of the legal regulations in the event of a justified suspicion of such violations.
3. Employees and external entities are encouraged to provide information on the violations of the Anti-corruption Policy as well as other irregular behaviors.
4. Anti-corruption clauses are introduced in contracts with the external entities.
5. Raising of the employees' awareness with respect to the possibility of identifying corrupt activities and other abuse (fraud) is ensured through information activities, training, initiatives related to the elimination of corruption events, enabling proper understanding of the Policy and the application of its principles by employees in their daily work.
6. Cooperation with the external entities in order to eliminate corruption activities and other abuse (fraud).

Due diligence procedures

The activities of the Compliance Officer and the Compliance Coordinators at TAURON Capital Group's subsidiaries are based on the guidelines presented in the Standards recommended for the compliance management system with respect to counteracting corruption and the whistleblowers protection system at the companies listed on the markets organized by the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.), adopted on October 8, 2018.

As part of the due diligence procedures, among other things, the ongoing monitoring of compliance risks is conducted, as part of which data is collected on the cases of corruption and other fraud at TAURON Group's Subsidiaries.

The due diligence procedures also include the mandatory training for all of TAURON Group's employees with access to a computer work station named "TAURON Group's Compliance Management System". This training presents issues related to, among others, counteracting corruption, conflict of interest prevention, rules for accepting and giving gifts.

E-learning training on TAURON Group's Compliance Management System was provided in 2022 to 75% of TAURON Group's employees with access to the training platform

Actions taken and results achieved

Among the activities undertaken as part of TAURON Group's Anti-corruption Policy, the investigating and probing (fact finding) of corruption activities and other abuse (fraud) are of key importance.

No cases of corruption had been identified in 2022.

Each employee is obliged to study the provisions of TAURON Group's Anti-corruption Policy, to strictly comply with its content and to sign an appropriate statement on having familiarized himself/herself with the regulation. Newly hired employees are also familiarized with the Anti-corruption Policy.

In addition, TAURON Polska Energia provides monitoring of the procedures as well as the internal and intra-corporate regulations in force at TAURON Capital Group, also with a view to make improvements and develop a system of counteracting corruption and other abuse (fraud).

A brochure outlining the most important provisions of TAURON Group's Anti-Corruption Policy is posted on TAURON's website.

An educational and informational campaign entitled "Compliance Chasing Corruption" was carried out at TAURON Group in 2022, as part of which a podcast was recorded with the participation of the Compliance Officer and the Compliance Coordinator at the TAURON Nowe Technologie subsidiary.

As part of TAURON Group's Compliance Day 2022, a training panel was held to discuss the rules for accepting and giving gifts at TAURON Group.

G 5.3.2. TAURON Group's Corporate Purchasing Policy

GRI 2-24

The Corporate Purchasing Policy implements the priorities set out in TAURON Group's Strategy regarding ensuring financial stability. TAURON Group's Strategy formulates expectations for the purchasing area, as a continuation of actions taken to improve the efficiency of the purchasing processes and increase the maturity level of the purchasing processes at TAURON Group

TAURON Group's Corporate Purchasing Policy is to facilitate the implementation of the strategic goals of the Purchasing Area, in particular with respect to:

- centralizing TAURON Group's most important purchasing processes,
- standardizing the purchasing procedures and processes at TAURON Group,
- increasing the level of digitalization of the purchasing processes at TAURON Group.

Due diligence procedures and internal regulations

Due diligence procedures with respect to the Corporate Purchasing Policy include all actions aimed at the continuous improvement of the purchasing processes, both with regard to acquiring goods as well as the operational purchase order processing. To be able to more fully achieve the above objective, the Purchase Order (Contract) Award Regulations and Purchasing Strategy document, whose sample constitutes an appendix to the Corporate Purchasing Policy, have been implemented.

Purchase Order (Contract) Award Regulations

A single common purchasing regulations have been in place at TAURON Group for a number of years, along with the tender documentation templates. The regulations define the principles of planning, preparation and the manner of proceeding and awarding the Purchase Orders (Contracts), and ensure transparency of the purchasing process at TAURON Group. The events of 2022, i.e. the war in Ukraine, forced the introduction of an additional verification (vetting) of the contractors with whom cooperation is undertaken based on the so-called sanction regulations. The changing market, business and legal environment requires a flexible approach to the purchasing regulations, resulting in the subsequent updates thereof. The purchasing area is cooperating closely with the organizational units responsible for compliance, audit and internal control, personal data protection and taxes in order to improve the purchasing process.

The principle of equal treatment of contractors associated with the public procurement law does not allow for the exclusions of contractor from the supply chain due to the footprint generated by their operations and the negative impact on climate. Engagement with suppliers to improve environmental performance in the current state of the law is done on a voluntary basis on the part of suppliers, who can give a non-binding consent to disclose information on the impact of their operation on the environment and climate.

Purchasing Strategies

A Purchasing Strategy is developed for selected purchasing categories, which presents an action plan aimed at optimizing purchasing and reducing the risk of a given purchase, as well as gaining access to solutions and innovations implemented by the suppliers. It also enables the creation of a Knowledge Base in the Purchasing Organization Support System (System Wspierania Organizacji Zakupów - SWOZ) for the contractor market. Due to the changing market conditions and deteriorating availability of products or services, a decision was made in some areas to change some purchasing categories or decentralize them, in order to increase competitiveness by allowing smaller contractors to perform contracts (fulfill purchase orders).

Actions taken and results achieved

Implementation of the goals established in the Corporate Purchasing Policy resulted in the simplification and standardization of the purchasing process. The key metric of the efficiency of the purchasing process is the increase in the number of bids submitted in the tender proceedings, the so-called increase in the competitiveness of the proceedings, which translates into cost reduction, reduction of the supply chain risks and gaining access to the best solutions available on the market. The higher competitiveness of the proceedings is also projecting a positive image of the ordering (contracting) party on the market, as a transparent and professional entity.

G 5.3.3. Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries

GRI 2-24

An important initiative implemented at TAURON Capital Group as part of a responsible supply chain is the inclusion of the sustainability criteria into the purchasing process management standard. TAURON Group promotes the idea of corporate social responsibility among its suppliers. It expects cooperation with the contractors (counterparties) who respect human rights and act in accordance with the legal regulations, ensure safe and dignified working conditions and apply not only the highest ethical standards, but also take care of the environment and the climate.

The criteria regarding corporate social responsibility with respect to TAURON Group's contractors (counterparties) are defined and collected in a single document, i.e. the Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries. The Code is an applicable standard in the Capital Group, promoting responsibility among stakeholders and encouraging the implementation of responsible practices among suppliers (including compliance with environmental standards included in legally binding agreements with suppliers).

Due diligence procedures and internal regulations

The goal of the Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries is to define uniform standards and transparent rules of conduct as part of the business operations conducted by the subsidiaries, in particular with respect to the relationships with the contractors (counterparties). The Code also includes the rules related to the workforce (among others, work health and safety, discrimination, personnel policy, forced labor, hiring children and minors), the natural environment (environment protection, responsible resource management, taking care of the climate), interactions with the stakeholders (among others, fair competition, combating fraud (abuse), security and protection of information, investor relations).

The Code is applied in relations with the contractors (counterparties) of TAURON Group's subsidiaries and is applicable to all employees, members of the management board and supervisory bodies of the subsidiaries, as well as proxies and powers of attorney.

The Code is linked with TAURON Capital Group's other documents:

- TAURON Group's Corporate Social Responsibility Code of Conduct,
- TAURON Group's Policy of Respect for Human Rights,
- TAURON Group's Anti-Corruption Policy,
- The procedure for assessing (vetting) the credibility of TAURON Polska Energia S.A.'s contractors (counterparties),
- TAURON Group's rules for organizing ventures in cooperation with external entities,
- TAURON Group's Purchase Order (Contract) Award Regulations.

Actions taken and results achieved

A contractor (counterparty) that takes part in the proceedings organized by TAURON Capital Group's subsidiaries is obliged to submit a statement confirming that it has studied TAURON Group's Corporate Social Responsibility Code of Conduct and to comply with its provisions.

G 5.3.4. TAURON Group's Compliance Policy

GRI 2-24

TAURON Group's Compliance Policy defines the basic principles of operation of TAURON Group's Compliance Management System, in particular: the objective, structure, tools, stages and areas of compliance management.

The Compliance Policy applies to all employees, members of the management board and supervisory bodies of the subsidiaries, as well as the proxies and powers of attorney of TAURON Group.

The objective of the Compliance Management System is to create such factual situation at TAURON Group in which compliance risks are kept to a minimum.

The Compliance Management System's task is to reduce the risk of sanctions, financial losses as well as the loss of reputation, while contributing to building and consolidating the positive image of TAURON Group. This system was created taking into account the needs and specifics of the entire organization and covers the activities of all organizational units of TAURON Group's subsidiaries.

TAURON Group's Compliance Management System is run by:

- Compliance Officer with the support of the Compliance Team at TAURON Polska Energia,
- Compliance Coordinators at TAURON Capital Group's subsidiaries,
- Ethics Committee.

The Compliance Officer is responsible for:

- supervision of TAURON Group's compliance management related activities,
- compliance risk management,
- ensuring compliance of TAURON Group's activities with applicable legal regulations, intra-corporate and internal regulations as well as ethical standards,
- overseeing and conducting of fact finding investigations (including receiving of reports and taking follow-up activities) related to the breaches of legal regulations, internal and intra-corporate regulations as well as ethical standards,
- advising and issuing guidelines and communications related to compliance,
- overseeing of the conducting of activities aimed at counteracting and mitigating the risks of a conflict of interest, corruption or other irregularities,
- overseeing of TAURON Group's activities aimed at counteracting money laundering (anti-money laundering activities) and financing of terrorism,
- coordinating of TAURON Group's activities related to raising of the awareness with respect to compliance,
- reporting on compliance management at TAURON Group,
- co-designing of the internal control system.

TAURON Capital Group's due diligence can be demonstrated based on, among others:

- adoption and application of TAURON Group's Corporate Social Responsibility Code of Conduct,
- adoption and application of TAURON Group's Compliance Policy,
- adoption and application of TAURON Group's Anti-Corruption Policy,
- adoption and application of TAURON Group's Human Respect Policy
- conducting of the Compliance training as well as information and education campaigns related to Compliance,
- implementing anti-corruption clauses to be included in the contracts,

- adoption and application of the TAURON Group's Rules for accepting and giving gifts,
- regulating and implementing TAURON Group's Fraud (Abuse) Reporting System (Whistleblower System) and conducting the fact finding investigations (probes),
- implementation and application of TAURON Group's Contractors (Counterparties) Credibility Assessment (Vetting) Procedure,
- implementation and application of the Principles (Code) of Conduct for controls (audits) at TAURON Group's subsidiaries.
- implementation and application of TAURON Group's Procedure for counteracting money laundering (anti-money laundering) and financing of terrorism.

The Compliance Officer, together with the Compliance Team, conducts cyclical monitoring of the compliance risks that may have a negative impact on TAURON Group's operations. As part of the monthly risk monitoring, the data on fraud, unethical behavior, non-compliance with laws and corruption is aggregated.

In the event of risk materialization, a Risk Response Plan is triggered, according to which the acceptable state for the limit of that risk is to be reached. Based on the aggregated data, a report is prepared quarterly for the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. (and every six months the reports for the Supervisory Board of TAURON Polska Energia S.A. are prepared). The above mentioned reports and statements contain the information on the identified risks.

After the end of every calendar year, the Compliance Officer prepares a TAURON Group Compliance Report containing information on the functioning of the Compliance Management System at TAURON Group, including, among other things, an assessment of the adequacy and effectiveness of the system, along with a description of the significant issues related to the functioning of the system. The report also includes the information on the identified compliance risks.

Compliance Training

Due diligence also includes training and information activities at TAURON Group.

The Compliance Officer, together with the Compliance Team, conducted training sessions on compliance management at TAURON Group for the newly hired TAURON Polska Energia S.A. employees, as well as the training courses targeted at selected substantive areas of TAURON Group's operations in 2022.

On 19/10/2022, another Compliance Day was held, which included the following trainings:

- "The latest compliance trends and challenges for the management teams related thereto",
- "All faces of the conflict of interest", i.e. what falls under the conflict of interest category at TAURON Group?,
- "Verification (vetting) of counterparties on sanctions lists", i.e. a pill of knowledge on the application of the sanctions regulations at TAURON Group,
- "Can I accept it or not?" – i.e. TAURON Group's rules for accepting and giving gifts,
- How is the implementation of the Act on whistleblowers progressing at TAURON Group?,
- Shouldn't a whistleblower be afraid? – a few comments on the Act on the protection of persons reporting law violations (Whistleblower Protection Act),
- Draft Due Diligence Directive, or what obligations are lurking for entrepreneurs?

The event was attended by more than 650 employees from various TAURON Group's subsidiaries.

Compliance Awards 2021

In 2022, the award in the category of Whistleblowing Project of the Year during the 2021 Compliance Awards was given to the report entitled "Whistleblowing - good practices for ethical business," a project that TAURON Polska Energia's Compliance Area was also involved in.

The project included:

- conducting a series of dialogue sessions on the subject of whistleblowers protection, with the business, administration and NGOs representatives invited, among others, to take part in those sessions,
- a market survey aimed at verifying the condition of the whistleblowing in Poland for the year of the directive's transposition.

The author of the report is the law firm Domański Zakrzewski Palinka sp.k., with the support of the United Nations Global Compact Network Poland and with the participation of the representatives of the business community (including TAURON Group), public, social organizations and experts with respect to whistleblowing, labor law, personal data protection and compliance.

G 5.3.5. TAURON Group's Principles of counteracting a conflict of interest

GRI 2-15, GRI 2-24

TAURON Group's Corporate Social Responsibility Code of Conduct says: "We avoid situations that could potentially cause a conflict of interest. A conflict of interest in case of an employee of TAURON Group takes place when, acting in his/her own interest or in the interest of any entity, the employee at the same time carries out activities against the interests of TAURON Group. We openly communicate cases that constitute or may constitute a source of a conflict of interest, and we take actions aimed at minimizing the risk of a conflict of interest emerging."

TAURON Group is running its operations in a transparent manner, respecting the provisions of the law, the provisions of the internal and intra-corporate regulations as well as the highest ethical standards, which translates into actions aimed at eliminating situations that may lead to an emergence of a conflict of interest.

The Principles (Rules) of Counteracting a Conflict of Interest are also in force at TAURON Group. Their purpose is to: identify circumstances that constitute a conflict of interest or may cause it, define the rules for preventing, identifying and managing a conflict of interest, and increasing the level of awareness among employees in terms of identifying, avoiding and disclosing a conflict of interest.

An employee is obliged to immediately report to his/her immediate superior and TAURON's Compliance Officer, and, at the Subsidiaries other than TAURON, to the Compliance Coordinator, the possibility of a potential or actual conflict of interest occurring.

In addition, in accordance with TAURON Polska Energia's Labor Regulations in force, one of the basic duties of an employee is to inform his/her superior if he/she undertakes an additional employment, business activities or performs assignments whose scope may lead to a conflict of interest between the employer and the employee.

If a potential conflict of interest is reported, the Compliance Officer at TAURON Polska Energia would issue an opinion in this regard. In order to document the circumstances or events that may result in or cause a conflict of interest at the subsidiaries, conflict of interest registers are maintained. A practical manifestation of counteracting conflicts of interest at TAURON Group is also the submission by the members of tender committees and experts, for the purposes of the given purchasing procedure, of the statements that they are not in a legal or factual relationship with the contractor that could raise reasonable doubts with respect to their impartiality.

With regard to the Members of the Management Board of TAURON Polska Energia an obligation to avoid undertaking professional or non-professional activities that could lead to a conflict of interest has been introduced.

Conflicts of interest are not disclosed to stakeholders.

Actions taken and results achieved

The Compliance Officer at TAURON Polska Energia, and at TAURON Group's other subsidiaries, the Compliance Coordinator, in accordance with the Company's policies, conducts outreach and training activities aimed at raising the employees' awareness with respect to preventing, reporting and managing a conflict of interest.

As part of Compliance Day 2022, a training course on counteracting a conflict of interest at TAURON Group was conducted for the interested employees of TAURON Group.

G 5.3.6. Personal data protection policy for TAURON Group's entities

GRI 2-24, GRI 2-27, GRI 418-1

With respect to personal data protection, TAURON Capital Group has a Personal Data Protection Policy for TAURON Group's entities in place, as well as internal processes regarding this matter, including, among others, processes dealing with risk analysis, counterparty assessment, disclosures and advisory services or audit implementation. These activities comply with the provisions of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27.04.2016 on the protection of natural persons in relation to the processing of personal data and on the free flow of such data and the repealing of Directive 95/46/EC (General Data Protection Regulation), hereinafter GDPR.

The documentation indicated sets out the principles and obligations of the Administrator (Controller) with respect to ensuring security and confidentiality of personal data, as well as regarding access to the information on its processing for the persons (data subjects) that the given personal data is applicable to. In the event that, despite the security measures applied, a breach of personal data protection (e.g. data leakage or loss) has occurred, the Data Protection Controllers (Administrators) at TAURON Group, using the specially prepared forms, inform persons (data subjects), whose personal data is processed by TAURON, of such an occurrence, doing it in a manner in accordance with the legal regulations.

Due diligence procedures provided in the described Policy include in particular:

1. General principles for the processing of personal data specified in art. 5 of GDPR.
2. Rules ensuring that data is processed in accordance with the law - art. 6-11 of GDPR.
3. Obligations of the Data Controllers (Administrators) to comply with the rights of persons whose data is processed - art. 12-23 of GDPR.
4. Regulations on the fulfillment of the general obligations with respect to the data processing entrusted with the Data Controller (Administrator) and the Processing Entity (among others, templates of the agreement for entrusting the processing of personal data to an entity other than TAURON Group's Subsidiaries, personal data sharing agreements or personal data co-management agreements were updated) - art. 24-31 of GDPR.
5. The necessary data processing security measures, taking into account the nature of the scope, context and purposes of data processing - Art. 32- 36 of GDPR.
6. Control mechanisms over data processing in the form of monitoring the compliance with the regulations and the accepted processing procedures by the Data Protection Officer - art. 27-43.
7. Requirements with respect to the transfer of data to third countries and international institutions - Art. 44 - 49 of GDPR.

In 2022, TAURON Group updated the adopted measures stemming from the GDPR due to the need to:

- ensure the protection of personal data irrespective of the place of its processing,
- carry out risk analyses in order to assess the effects of personal data protection,
- ensure mandatory notification of protection breaches,
- ensure data protection by default and personal data protection by design,
- implement the rights of the customers and contractors (counterparties) whose data is processed by TAURON,
- update the content of the information clauses and consents regarding the processing of personal data,
- adapt the IT systems to the new security requirements for personal data processing.

In the Policy, in accordance with art. 24 and art. 32 of the GDPR, in the performance of the above mentioned compliance obligations, measures that take into account the state of technical knowledge, costs, nature, scope, context, purposes of processing, as well as the risks for persons to whom data is related have been implemented.

The following principles are enforced at TAURON Capital Group:

- legality (lawfulness) of personal data processing: personal data is processed in accordance with the generally applicable law, based on an established legal basis,
- reliability: personal data is processed in a fair (reliable), adequate, relevant and required manner for the purposes of its processing,
- purposefulness: personal data is processed solely for specific purposes,
- accountability: TAURON Group effectively documents the handling of the given persons' data in order to be fully accountable and prove the fulfillment of the legal obligations regarding its processing,
- minimization: TAURON Group minimizes the processing of personal data, processing it only for the necessary purposes, arising under the provisions of law,
- correctness: TAURON Group takes care of the correctness of data with the utmost diligence, verifying it and enabling its owners (entities subject to GDPR rights), for example, to update the data,
- security: particular emphasis is placed on the security of personal data processing using IT systems, implementing tools and procedures aimed at increasing the security of data processing. Procedures optimizing the security of personal data are implemented and updated, and TAURON Group's personnel is trained in this regard.

Actions taken and results achieved

TAURON Capital Group undertook further intensive activities in 2022 to demonstrate its care for the security of the personal data processed, by:

1. Ensuring the update of the internal regulations with respect to personal data protection (updates to the Policy were prepared, internal processes of the Data Protection Officer were updated).
2. Keeping the inventory of equipment and software used for processing the information, including their type and configuration, up to date.
3. Undertaking actions to ensure that the persons involved in the information processing process hold the applicable authorizations and participate in this process to an extent adequate to the tasks and duties carried out thereby to ensure information security.
4. Promptly changing the authorizations in the event of a change in the tasks of the persons referred to in item 4 (review of user rights).

5. Providing training for the people involved in the information processing process, with particular regard to such issues as:
 - a. requirements for the proper processing of personal data and the reduction of the security risks of its processing,
 - b. consequences of violating information security rules, including the legal liability,
 - c. use of measures to ensure information security, including devices and software that minimize the risk of human errors.
6. Ensuring the protection of the information processed against theft, unauthorized access, damage or interference thereof, by:
 - a. monitoring of access to the information (review of user rights),
 - b. activities aimed at detecting unauthorized information processing activities,
 - c. providing measures to prevent unauthorized access at the level of operating systems, network services and applications.
7. Establishment of and compliance with the basic principles guaranteeing security of work in case of mobile processing and remote work.
8. Securing the personal data in a manner that prevents its disclosure, modifications, deletion or destruction by an unauthorized person.
9. Including, in the support services contracts signed with third parties, of the provisions guaranteeing an adequate level of information security by meeting certain requirements to ensure the confidentiality of the entrusted personal data (personal data processing entrustment agreement).
10. Setting the rules for dealing with the information that minimize the risk of a theft of information and the information processing means, including mobile devices.
11. Implementation of an adequate level of security in the ICT systems, involving, in particular:
 - a. taking care of software updates,
 - b. minimizing the risk of information loss as a result of a failure,
 - c. protection against errors, loss, unauthorized modification,
 - d. using cryptographic mechanisms by the users in a manner adequate to the threats or the requirements of a legal provision,
 - e. ensuring the security of system files,
 - f. promptly taking actions after noticing the undisclosed vulnerabilities of the IT systems to the possibility of security breaches.
12. Preparing for an implementation of a system for promptly reporting of incidents, enabling the identification and analysis of breaches of personal data protection security, so that corrective action can be taken quickly.

There was no justified complaint regarding a breach of customer privacy received from the regulatory authorities in 2022, while the total number of identified leaks, thefts or incidents of customer data loss increased by 32 complaints in 2022 to 706 complaints, i.e. a 4.7% increase in the number of complaints compared to the same period in 2021.

Increase in the contracted agreements' performance operations in 2022 by TAURON Obsługa Klienta Sp. z o.o., at the strategic supply and distribution companies, i.e. TAURON Sprzedaż Sp. z o.o., TAURON GZE Sp. o.o. and TAURON Dystrybucja S.A. by approx. 2 million (to 12 million) compared to 2021 generated a strong increase in the number of legitimate customer privacy violation complaints received from third parties and acknowledged by TAURON, which rose by 76, compared to 2021. (2021/2022 percentage change of more than 3800%), as a result of errors on personal data processing operations (human error), errors of TAURON's postal operator, i.e. the Polish Post (delivery of a package to a TAURON customer to the wrong address), and the currency of TAURON customers' personal data in its processing operations (a failure to update TAURON customers' contact details).

Actions aimed at correcting (reducing) an increase in the number of legitimate complaints related to the violations of customer privacy received from external entities and acknowledged by TAURON, will be a priority for TAURON's personal data protection area in 2023.

Material complaints regarding breaches of customer privacy and loss of customer data at TAURON Group in 2022 is presented in Table no. 11.

Table no. 11. GRI 418-1. Substantiated complaints regarding breaches of customer privacy and loss of customer data at TAURON Capital Group in 2022

| Material data on customer privacy in 2022 | |
|--|-----|
| Total number of data leakage, theft or loss of customer data cases found | 706 |

| | |
|--|----|
| Number of substantiated (justified) complaints regarding breaches of customer privacy received from third parties and acknowledged by the organization | 78 |
| Number of substantiated (justified) complaints regarding breaches of customer privacy received from the regulatory authorities | 0 |
| Total number of substantiated (justified) complaints regarding breaches of customer privacy | 78 |

TAURON Sprzedaż, TAURON Sprzedaż GZE, TAURON Dystrybucja subsidiaries are the centers for the arising of material complaints regarding breaches of customer privacy and loss of customer data (data leakage) in 2022.

G 5.3.7. TAURON Group's Security Management System Policy

GRI 2-16, GRI 2-24

TAURON Group's Security (Safety) Management System Policy was implemented in July 2018 and it applies to all of TAURON Group's subsidiaries. The update of the provisions of the document was published in Q1 2022.

The Security (Safety) Policy and the specific regulations related thereto form a unified, consistent and comprehensive Security (Safety) Management System within TAURON Group that:

- provides an optimal level of security (safety), adequate to the existing threats,
- takes into account the identified risks,
- provides a structured response to threats that minimize the effects or eliminate the risk of the occurrence thereof,
- ensures that the actions taken are systemic in nature, aimed at seeking to achieve the planned security (safety) goals.

The Policy defines TAURON Group's approach to ensuring security (safety) as part of its business operations and describes the functioning of the Security Management System, which is maintained by TAURON Group.

The Policy defines standards, rules of conduct and organizational structures with respect to security (safety) within TAURON Group, including the assignments of competences and responsibilities. As part of the above mentioned Policy update, among other things, new rules for conducting security audits and the security requirements for third parties were implemented.

Security (safety) management has been divided into substantive areas, including among others:

1. Safety Management System,
2. Information security,
3. IT/OT systems security,
4. Physical security,
5. Security incidents.

Within each area, detailed internal and intra-corporate regulations are developed.

The Security Management System is based on international standards with respect to information security management, such as ISO 27000 and NIST standards.

Due diligence procedures and internal regulations

As part of the Security (Safety) Management System, a number of intra-corporate regulations have been established, regulating in detail specific security (safety) aspects in the given area of operations:

1. TAURON Group's Security (Safety) Management System Policy - general document,
2. TAURON Group's Information Classification and Handling Policy,
3. TAURON Group's Physical Security Policy, along with a set of detailed requirements for physical security,
4. TAURON Group's Principles of IT System Management,
5. A comprehensive set of security standards for the IT/OT area,
6. TAURON Group's Incident Management Principles.
7. TAURON Group's Principles of cooperation of the Task Teams in the event of an announcement of the CRP alert degrees in the event of a terrorist threat related to the ICT systems.
8. TAURON Group's Requirements for Designers and Contractors of Technical Security Systems and Fire Alarm Systems at TAURON Group.
9. TAURON Group's Guidelines for the use of Unmanned Aerial Vehicles.
10. TAURON Group's Principles of reuse and safe destruction of information carriers .

For the purpose of clarifying in detail the aspects of security (safety) management, the subsidiaries may develop internal regulations, applying the principle that these regulations may not lower the level of security (safety) sanctioned by the intra-corporate regulations.

As part of the Security (Safety) Management System, there is a set of processes responsible for various aspects of security (safety) management that are implemented accordingly throughout TAURON Group.

Communication of the critical incidents

TAURON Group defines a critical incident as an incident that causes or may cause a serious deterioration of the quality or an interruption of the continuity of the provision of a key service (within the meaning of the Act of July 5, 2018, on the National Cyber Security System). In the event of an occurrence of such an incident, the information on the incident is communicated to the supervisory bodies and to the Management Board in accordance with *TAURON Group's Security Incident Management Principles* in force.

Actions taken and results achieved

Due to the fact that the security (safety) of TAURON Group comes largely down to the attitudes and behavior of employees and colleagues, a number of educational activities are carried out to raise awareness and competences with respect to the broadly understood security (safety):

- mandatory e-learning training for all employees,
- mandatory introductory training in basic security (safety) aspects for the newly hired employees,
- training on the classifying and handling of Information for TAURON Group's employees, including on the use of the dedicated technical solutions,
- substantive (subject matter) training for the employees responsible for various aspects of security (information security, IT/OT security, security audits),
- promoting the principles in force according to the Policy through information (outreach) campaigns and content available on the Group's intranet site,
- alerts and security (safety) information (bulletins) as reactions to current and emerging threats for TAURON Group.

TAURON Group is undertaking a number of activities to ensure the security (safety) of TAURON Group's infrastructure, including by:

- maintaining an extensive infrastructure for monitoring security (safety), physical security and IT/OT security,
- using technical and organizational safeguards (physical security, ICT security),
- maintaining structures responsible for the detection and rapid response to security incidents (in-house Security Operation Center (SOC) operating for 24 hours a day whose employees use special tools such as Security Information Event and Management Software (SIEM) and Security Orchestration Automation & Response (SOAR) as well as an in-house Computer Security Incident Response Team (CSIRT) with high competences in the field of cyber security),
- cooperation with state authorities and services in identifying and neutralizing threats as well as attacks against TAURON Group's systems and infrastructure,
- conducting security audits and tests carried out using in-house resources and with the involvement of external companies,
- applying the *security by design* and *security by default* principles in designing, ordering, maintaining systems and infrastructure that affect security,
- participation in the structures of the National Cybersecurity System,
- cooperation with the power sector entities with respect to the exchange of information on threats, response to incidents, providing feedback and agreeing on common security standards.

TAURON Group is undertaking a number of activities aimed at ensuring security (safety) and raising awareness of TAURON Group's customers, including by:

- providing information to customers on threats directly related to them, e.g. extortion, *phishing*, spoofing for TAURON Group, fake SMS messages, etc.,
- maintaining and updating information on threats directly related to customers on TAURON Group's website.

G 5.3.8. TAURON Group's Business Continuity Policy

GRI 2-24

TAURON Group's Business Continuity Policy was implemented in October 2020. The document was updated in 2022 and TAURON Group's Business Continuity Policy was replaced by a document called TAURON Group's Business Continuity Management Policy, based on the PN-EN ISO 22301:2020 standard - Common Safety: Business Continuity Management System - Requirements.

Ensuring availability, reliability and quality of the product and service delivery to the customer and maintaining business continuity is a priority for TAURON Group, which is in line with TAURON Group's Strategy for the years 2022-2030 with an outlook until 2050.

TAURON Group, as the entity responsible for providing the key services such as the electricity and heat generation and distribution, is committed to:

- meet the requirements related to the Business Continuity Management System (BCMS) at TAURON Group, which arise, among other things, from the legal, regulatory, organizational and industry requirements as well as the best practice, taking them into account in the internal corporate regulations,
- identify the services and processes that are key from the point of view of their availability (key services, critical processes) for the internal and external customers, and carry out the Business Impact Analysis (BIA) for them, and identify the risks and their assessment as part of the Risk Analysis (RA),
- ensure adequate resources, mechanisms and means for the proper functioning of the BCMS at TAURON Group,
- developing, maintaining, testing, documenting and improving of the Business Continuity Plans and the Disaster Recovery Plans, ensuring TAURON Group's entities uninterrupted continuity of the operations in the event of the unexpected situations disrupting the normal operations, including the emergencies,
- continuous improvement of TAURON Group's BCMS.

TAURON Group's Business Continuity Management Policy, developed for this purpose, is the foundation of the BCMS, defining its objectives, scope and the division of the responsibilities within TAURON Group. The structure of the BCMS described therein takes into account the context of TAURON Group's operations and its commitment to developing the broadly understood operational resilience in the energy sector.

Access to Basic Services

Ensuring access to the electricity at the reasonable prices is currently one of the primary legal and social obligations undertaken by TAURON Group's Management Board. TAURON Group provides access to the power grid for more than 5.8 million households located on approximately 18% of Poland's territory. The TAURON Dystrybucja subsidiary performs the duties of the Distribution System Operator (DSO), thereby taking on the burden of ensuring the uninterrupted electricity supply for the industry, households, hospitals, schools, institutions, etc. With respect to ensuring the non-discriminatory access to the grid, the DSO not only meets the requirements of the law, but also takes the broader measures aimed at providing the customers with support in the implementation of the grid connection procedures and in the selection of an electricity supplier, as well as pre-empts the requirements of the law by implementing projects aimed at providing the support for the improvement of its customers' efficiency (for example by installing the remote readout meters).

In accordance with the law, the customers choose an electricity seller for themselves. Free market supply of electricity and, until 2022, gas is carried out by TAURON Sprzedaż and TAURON Sprzedaż GZE. Both subsidiaries are offering customers the comprehensive products (electricity distribution and electricity supply). TAURON Sprzedaż acts as a supplier of last resort in the designated area of operations. This means that in the event that another supplier selected by the customer is unable to carry out the electricity supply (e.g. in the event of a bankruptcy), the provision of the electricity supply is automatically taken over by TAURON Sprzedaż, ensuring the uninterrupted electricity supply to the customers. Recently, there have been many cases of bankruptcy of the electricity supply companies and TAURON Sprzedaż secured the continuity of the power supply for several thousand customers. TAURON Sprzedaż supports its customers in improving the efficiency of energy consumption through the educational activities, and by offering advisory services and selling energy efficient equipment, as well as the automation and intelligent systems, thanks to which the customers are able to save energy. TAURON's counseling, sales and support with respect to the implementation of the grid connection procedures for the residential photovoltaic installations makes it easier for the customers to achieve individual goals for reducing the system electricity consumption leading to the lower CO₂ emissions.

The TAURON Ciepło subsidiary is engaged in the production of the system heat (district heating) and its distribution in the area of the Silesia and Dąbrowa conurbation, among others, but also in the markets of the smaller cities,

such as Bielsko Biala, Zawiercie, Kamienna Góra, which are not as business development oriented markets as a large metropolitan area with more than 2 million residents. Providing thermal comfort in the buildings and urban infrastructure facilities is undoubtedly a basic service that allows the community to function - ensuring the supply of hot water and heat that heats the buildings is a guarantee of thermal safety, even in the event of extreme weather conditions. TAURON produces and supplies heat for more than 800 000 residents. The access to the system heat (district heating) ensures comfort and promotes the elimination of the low emissions. The cost of heating flats and buildings, thanks to the efficiency of the heat production and distribution process, is kept at a reasonable level. TAURON took over 100% of the shares in and the management of Energetyka Cieszyńska in 2022. The corrective action was taken to secure the production and supply of the heat to the city's residents in the situation that had arisen due to the loss of liquidity.

The development of the civilization and the widespread digitization in all walks of life means that basic services include the broadband internet access. The lock-down experience during the coronavirus pandemic increased the demand for all services and at the same time forced an increase in their availability with the use of the IT channels. This applies to the ability to deal with the official matters, education, commerce, access to information and all of the other services. Providing access to the broadband Internet is a measure aimed at reducing the digital exclusion and is one of the basic services in today's world. TAURON Obsługa Klienta (Customer Service), as an Access Network Operator, is engaged in ensuring the expansion and provision of the Internet access in areas with a lower degree of urbanization, and therefore more difficult and less attractive for business. In a number of areas where there was a shortage of the fiber optic network, TAURON has built lines providing broadband access for more than 100 000 households. The expansion is continued and TAURON is extending access to more and more customers. It is noteworthy that these activities were implemented with the use of the support funds, as the commercially operating telecommunications companies were not interested in pursuing such activities. Thanks to the performance of these activities, the Internet access has been provided for the households, schools and institutions – thus reducing the digital exclusion of the population living in the areas deprived of the Internet access.

As an employer, the Group maintains high European standards of providing access to basic services for both its own employees as well as it spreads awareness of the expected standards among its subcontractors. In accordance with the applicable legal regulations, TAURON Group's employees, irrespective of the type of work they perform, are provided with access to the potable water in adequate quantities. The employees use both the public water dispensers as well as the bottled water intended for the employees performing their work in the field.

G 5.3.9. The Procedure for Assessing (Vetting) the Credibility of TAURON Group's Contractors (Counterparties)

GRI 2-24

TAURON Group has implemented the Procedure for Assessing (Vetting) the Credibility of Contractors in order to provide protection against the risk of entering into cooperation with entities acting against the law, principles of good conduct and business practices, and in particular to reduce the risk of participation in:

- tax fraud and money laundering procedures,
- cooperation with entities placed on the Sanctions Lists, subject to the financial sanctions or specific restrictive measures.

Assessment of the reliability of contractors (counterparties) is made on the basis of:

- legal and financial characteristics of the contractor (counterparty),
- information on the counterparty's operations,
- terms of the contract,
- capital (equity) and personal ties,
- information on the counterparty being subject to sanctions.

Due diligence procedures

The Compliance Officer and, at TAURON Group's subsidiaries, the Compliance Coordinators issue reports on the examination of the credibility of counterparties. In addition, as part of the conducted assessment of the credibility of counterparties, potential risks of starting or continuing cooperation with a counterparty are identified.

The Compliance Area issued a total of 1138 counterparty credibility examination reports in 2022.

The information on the external entities for which the significant risks of commencing the cooperation had been identified was periodically reported by the Compliance Officer of TAURON Polska Energia to the Audit Committee of the Supervisory Board and the Supervisory Board of TAURON Polska Energia.

In addition, in 2022, TAURON Group carried out an educational and informational campaign entitled "Know your counterparty, or why and how to verify (vet) TAURON Group's counterparties?" as part of which a report presenting

the most important information on the procedure for verifying counterparties at TAURON Group was published, and a number of training sessions were held for TAURON Group's employees interested in the subject.

G. 5.3.10. TAURON Group's Procedure for Counteracting Money Laundering (Anti-Money Laundering) and Financing of Terrorism

GRI 2-24

In order to ensure the compliance within TAURON Group with the requirements under the Act on Counteracting Money Laundering (Anti-Money Laundering) and Financing of Terrorism of March 1, 2018, TAURON Group's Procedure for Counteracting Money Laundering (Anti-Money Laundering) and Financing of Terrorism was introduced, which regulated the exchange and protection of information within TAURON Group and covered all of the Group's subsidiaries.

TAURON Group does not accept any business relationships with entities involved in money laundering or financing of terrorism, including those subject to financial sanctions or specific restrictive measures.

Obligated institutions within TAURON Group are:

- TAURON Obsługa Klienta (Customer Service),
- TAURON Ubezpieczenia (Insurance).

Due diligence procedures

TAURON Group's subsidiaries that are obligated institutions have their own internal procedures for counteracting money laundering and financing of terrorism, and every six months these subsidiaries report on their implementation to TAURON Polska Energia.

The Compliance Officer, together with the Compliance Team, every year organize AML training for employees of TAURON Group's subsidiaries that are obligated institutions.

In addition, due diligence procedures include mandatory training entitled. "Counteracting Money Laundering (Anti-Money Laundering) and the Financing of Terrorism" available on the e-learning platform for all employees of TAURON Obsługa Klienta (Customer Service) and TAURON Ubezpieczenia (Insurance) subsidiaries.

G 5.4. Risks related to TAURON Capital Group's sustainable development

Risks related to TAURON Group's sustainable development are classified in accordance with the Risk Model adopted by TAURON Capital Group. Based on that the following risk categories have been identified

1. Legal risk presented in section G 5.4.1. of this Report.
2. Compliance risk presented in section G 5.4.2. of this Report.
3. Purchasing process risk presented in section G 5.4.3. of this Report.
4. Risk related to climate change presented in section E 1.2.1. of this Report.
5. Environmental risk presented in section E 1.2.2. of this Report.
6. Social risk presented in part S 2.2.1. of this Report.
7. Human capital management risk presented in section S 1.2.1. of this Report.
8. Internal communications risk presented in section S 1.2.2. of this Report.
9. Work Health and Safety (WHS) risk presented in section S 1.2.3. of this Report.



Each of the risks is also assigned a trend and a materiality level, as indicated below:



G 5.4.1. Legal and regulatory risk

Table no. 12 presents the Legal Risk identified at TAURON Capital Group. In accordance with the Risk Model adopted by TAURON Capital Group, the Legal Risk is classified in the category: Operational risk/Environment (stakeholders), while the Regulatory Risk is classified as a separate category.

Table no. 12. Legal Risk identified at TAURON Capital Group


| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|-----------------|---|--|--|
| 1. | Legal Risk | Risk related to the non-compliance with the legal regulations, wrong interpretation of the new laws and regulations, requirements imposed by the regulator and the oversight authorities. The consequences of the materialization of risk may include financial penalties, criminal and civil law liability, damage to the Group's image. | →  | <ol style="list-style-type: none"> 1. Continuous monitoring of the regulatory environment and changes to the legal regulations, including social issues, respect for human rights, anti-corruption, environment protection and employee issues. 2. Implementation of the required changes to the internal and intra-corporate regulations. 3. Establishing working groups to prepare and implement the changes required due to the legal environment. 4. Continuous cooperation with the authorities performing oversight of the energy market and the capital market. 5. • Consultations with the organizational units with respect to the planned key regulations in the area of compliance. 6. Employee training with respect to the knowledge of the legal regulations and the internal regulations. |
| 2. | Regulatory Risk | The possibility of incurring a loss or gaining a benefit due to the planned or unplanned changes to the existing Regulations or the enactment of the new Regulations that may have an impact on TAURON Group's operations (at the national and European levels). | ↗  | <ol style="list-style-type: none"> 1. Continuous monitoring of the regulatory environment and changes to the legal regulations. 2. Active participation in the consultations with respect to the planned regulations (industry organizations, government agencies). |

G 5.4.2. Compliance Risk

GRI 2-23

Table no. 13 presents the Compliance Risk identified at TAURON Capital Group. In accordance with the Risk Model adopted by TAURON Capital Group, the Compliance risk is classified in the category: Operational Risk/Compliance Risk.

Table no. 13. GRI 2-23. Compliance Risk identified at TAURON Capital Group

| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|-----------------------------|---|--|--|
| 1. | Internal abuse (fraud) risk | Risk related to the appropriation or use of the Company's assets, its devastation, theft, use of official position for personal gain resulting in financial losses, penal and administrative sanctions, criminal and civil law liability. | →  | <ol style="list-style-type: none"> 1. Education and training activities among employees, including mandatory e-learning training with respect to the values and standards defined, among others, in TAURON Group's Corporate Social Responsibility Code of Conduct. 2. Effective functioning of the whistleblowing system in the organization, enabling TAURON Group's employees to report potential cases of fraud (abuse) to their direct superior, the Ethics Committee, the Compliance |

| | | | |
|----|--|--|---|
| | | | <p>Officer/Compliance Coordinator, or via the abuse (fraud) notification (reporting) form available at http://www.tauron.pl/.</p> <ol style="list-style-type: none"> 3. Conducting of fact finding investigations by the Compliance Officer or Compliance Coordinators. 4. Building an organizational culture based on TAURON Group's values and policies (principles). 5. Implementation of TAURON Group's Anti-Corruption Policy. 6. Applying of the principles stemming from TAURON Group's Corporate Social Responsibility Code of Conduct. 7. Implementation of the provisions of TAURON Group's Rules for accepting and giving gifts. |
| 2. | External abuse (fraud) risk | <p>Risk related to an occurrence of external abuse (fraud) that affects the operations of TAURON Group through: disclosure of information to unauthorized persons, loss of information, commercial espionage, terrorist assault and hacker attacks, tax fraud, theft, vandalism, counterfeiting, dirty money laundering.</p> <p>→</p> <p>■</p> | <ol style="list-style-type: none"> 1. Raising employee awareness through training and information campaigns on the existing threats of external abuse (fraud), including the Compliance Management System in place at TAURON Group. 2. Implementation of the provisions of the Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries. 3. Implementation of anti-corruption clauses in the contracts with the contractors (counterparties). 4. Implementation of the provisions of TAURON Group's Anti-Corruption Policy. 5. Effective use of the whistleblowing system in the organization, enabling reporting of potential cases of abuse (fraud), the system also allows for reporting of abuse (fraud) by the external entities through the abuse (fraud) reporting form available at http://www.tauron.pl/. 6. Monitoring the cooperation with the contractors (counterparties) and checking (vetting) their credibility at TAURON Group. 7. Promoting best practices, improving procedures, conducting training courses and applying TAURON Group's Corporate Social Responsibility Code of Conduct, Code of Ethics and functioning of the abuse (fraud) reporting (whistleblowing) system. 8. Building and spreading an organizational culture based on TAURON Group's values and principles. |
| 3. | The risk of unethical behavior and mobbing | <p>The risk includes the occurrence of unethical behavior resulting, in particular, in a lack of cooperation, bad atmosphere in the team, mobbing, harassment, insults, discrimination of employees.</p> <p>→</p> <p>■</p> | <ol style="list-style-type: none"> 1. Developing an organizational culture based on TAURON Group's values and principles. 2. Conducting information activities in order to familiarize the employees with TAURON Group's standards of conduct and corporate values defined in TAURON Group's Corporate Social Responsibility Code of Conduct, TAURON Group's Respect for Human Rights Policy, TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination. 3. Promoting knowledge with respect to the principles of social coexistence, moral standards and |

- principles of equity adopted for use in the society.
4. Raising employee awareness through training and information campaigns on ethical behavior.
 5. Effective use of the whistleblowing system in the organization, enabling reporting of potential cases of abuse (fraud), the system also allows for reporting of abuse (fraud) by the external entities through the abuse (fraud) reporting form available at <http://www.tauron.pl/>.

G 5.4.3. Purchasing Process Risk

Table no. 14 presents the Purchasing Process Risk identified at TAURON Capital Group. In accordance with the Risk Model adopted by TAURON Capital Group, the Purchasing Process Risk is classified in the category: Operational Risk/Customers and Contractors (Counterparties).

Table no. 14. Purchasing Process Risk identified at TAURON Capital Group

| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|-------------------------|--|----------------------------|---|
| 1. | Purchasing Process Risk | Risk related to the purchasing proceedings conducted, their erroneous implementation, unplanned increase in the purchase costs (budget overruns), taking into account methods employed to prevent violation of human rights by business partners, counteract corruption and abuse in the purchasing process as well as ensure compliance with the ethical and moral standards during the implementation thereof. The consequences of the materialization of the risk include unfavorable purchase agreements, the need to cancel the tender proceedings, damage to the image of TAURON Capital Group and a loss of credibility with the stakeholders. Risk of a lack of environmental and climate responsibility on the supply chain side. | → ■ | <ol style="list-style-type: none"> 1. Implementation of the provisions of the Code of Conduct for the Contractors (Counterparties) of TAURON Group's Subsidiaries. 2. Applying of TAURON Group's Anti-Corruption Policy. 3. Applying of anti-corruption clauses in the contracts with the contractors (counterparties). 4. Implementation of the Respect for Human Rights Policy. 5. Standardization of the principles (rules) of conducting proceedings in the purchasing process and the transparency thereof. 6. Developing lasting relationships with the contractors (counterparties) based on trust and mutual respect. 7. Expecting the contractors (counterparties) to comply with the legal regulations, ethical standards and good commercial practices, including work health and safety rules, principles of discrimination and unequal treatment, respect for human rights and dignity of employees, transparent personnel policy, environment protection, fair competition, prevention and countering of fraud, as well as information security and protection. 8. Applying of the standard contract forms (drafts, templates) and standard clauses in the contracts regarding compliance with human rights by TAURON Capital Group's business. |

G 5.5. Whistleblowing System

GRI 2-26, GRI 2-27

TAURON Group has a Whistleblowing (Fraud Reporting) System in place, which is a systematic sequence of consecutive actions aimed at receiving and reviewing the received notification and informing the notifying person (whistleblower) about the results of the investigation.

The Whistleblowing System is a part of the organization's compliance management system. The Whistleblowing System is operated based on the provisions contained in TAURON Group's Corporate Social Responsibility Code of Conduct and TAURON Group's Anti-Corruption Policy.

As part of this system, it is possible to report (whistle blow) activities that are in breach of the commonly applicable law and the violations of the internal and intra-corporate regulations through the communications channels adopted at TAURON Group, i.e.:

- in person to the Compliance Officer,
- in writing, to the following address: Compliance Officer, ul. Ks. Piotra Ściegiennego 3, 40-114 Katowice, by phone: + 48 32 774 22 22,
- via e-mail: compliance@tauron.pl,
- via the Abuse (Fraud) Reporting Form available at: <https://www.tauron.pl/tauron/o-tauronie/formularz-zgloszenia-naduzycia/>.

At TAURON Group's subsidiaries, abuse (fraud) can be reported in person, by phone or in writing to the address of the Compliance Coordinator.

Employees are required to immediately report any reasonable suspicion of corruption or other abuse (fraud). For this purpose, TAURON Capital Group provides:

- the above mentioned communications channels allowing employees and external entities to safely (including anonymously) report potential violations,
- confidentiality of the reporting person's identity and the information provided,
- protection against any form of retaliation against anyone who reports, in good faith, corruption or other abuse (fraud).

External entities, in particular contractors (counterparties) and other stakeholders of TAURON Group's subsidiaries, in case they have identified irregularities in TAURON Capital Group's operations, also have an option to use the Fraud (Abuse) Report Form.

The Compliance Officer, and in case of a company (subsidiary) other than TAURON Polska Energia, a Compliance Coordinator, having received the notification, confirms to the person submitting the notification the fact of its receipt, excluding the anonymous reports, and verifies its authenticity, and then undertakes, with due diligence, follow-up actions in order to investigate the circumstances indicated in the notification in accordance with the procedures in force in this respect at TAURON Capital Group.

The Compliance Officer, and in case of a company (subsidiary) other than TAURON Polska Energia, the Compliance Coordinator, informs the person submitting the notification, excluding the anonymous reports, about the final result of the fact finding (investigation) procedure or about its extension in connection with the ongoing analysis of the facts described in the notification.

TAURON Group also maintains Fraud Registers.

If corruption or other abuses (fraud) are confirmed, the subsidiaries take corrective (remedial) measures aimed at preventing similar events in the future. The Compliance Officer, and in case of companies (subsidiaries) other than TAURON Polska Energia, the Compliance Coordinators undertake educational and information activities in order to provide understandable and easily accessible information on the principles of reporting corruption or other abuse (fraud) at TAURON Capital Group.

Case reporting statistics

A total of 226 potential cases of irregularities were reported at TAURON Group in 2022, including 150 notifications filed via the Fraud Report Form. Total number of anonymous reports: 73.

No cases of corruption had been identified in 2022.

During the reporting period, no material cases of non-compliance with the laws and regulations had been identified, and no material penalties for the non-compliance with the laws and regulations or any non-financial sanctions for the non-compliance were imposed on TAURON Group.

Actions taken and results achieved

As part of the 2022 update of TAURON Group's Corporate Social Responsibility Code of Conduct, the process of reporting violations and taking follow-up actions has been streamlined.

Fact finding probes were conducted in relation to the reports received.

In addition, in order to build awareness with respect to counteracting fraud, training sessions were organized in 2022, including the "Shouldn't a whistleblower be afraid? Draft Act on the Protection of Whistleblowers" training course held as part of the Compliance Day 2022 for the personnel of TAURON Group's Human Resources Area, the Compliance Coordinators and other employees interested in the subject.

E – Environment (Environment and Climate)

E 1. TAURON Capital Group's strategy and business model in the context of climate and environment protection requirements

GRI 305-4, GRI 3-3

Being aware of the progressing climate changes and their effects, as well as of the important role and tasks of the power sector in the broadly understood transition to a low emission economy, TAURON Group is taking actions aimed at reducing the negative impact of TAURON Group on the climate and the environment and taking the greatest possible advantage of the opportunities associated therewith. TAURON Group's Strategy for the years 2022 - 2030 with an outlook until 2050, adopted in June 2022, defines three priorities and a series of actions aimed at a socially acceptable energy transition of TAURON Group in order to ultimately achieve climate neutrality by 2050. For the energy industry, the climate impact includes both, the weather related occurrences, as well the as the regulatory changes and the shifts in customer attitudes. All of this is not without significance for the business model and the Strategy. TAURON Group monitors the regulatory changes and the changes of the financial institutions' policies. The above determines the weight of the climate and environmental issues as well as the development of RES at TAURON Group. In accordance with the Strategy adopted in June 2022, TAURON Group will increase the share of the RES capacity in the Group's generation mix to approx. 80% in 2030, which will allow for reducing the emissions from approx. 750 kg CO₂/MWh in 2021, to less than 160 kg CO₂/MWh, as shown in Figure no. 26.

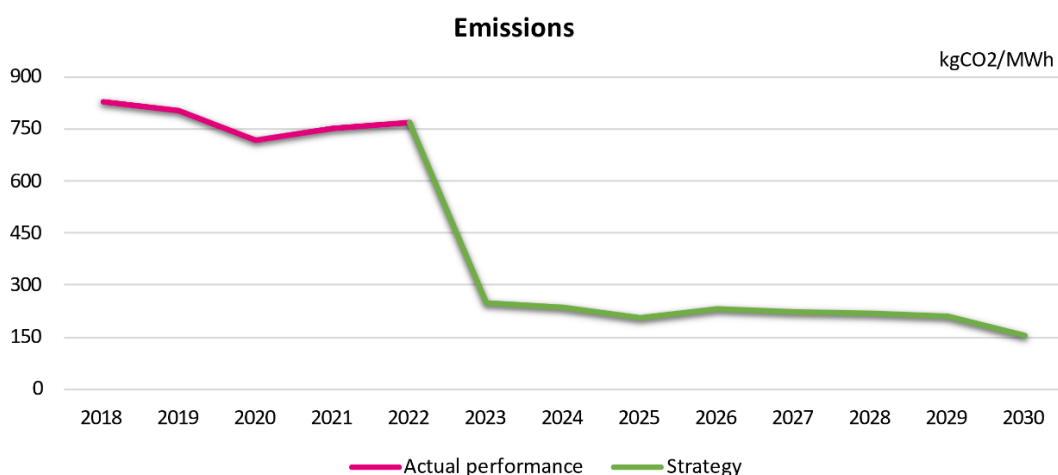


Figure no. 26. . GRI 305-4. TAURON Group's commitments are reflected in the CO₂ emissions planned to be achieved by 2030.

TAURON Group's currently implemented Strategy and its business model are in line with the implementation of the terms of the Paris Agreement, assuming limiting global warming to a value below 2^oC as well as striving and taking actions aimed at not exceeding the temperature increase rate of more than 1.5^oC. In the case the expected curbing of the temperature increase does not materialize, the measures and actions taken will have to be more radical, and their implementation will be significantly accelerated.

Based on the scenario assuming warming at a maximum rate of 2^oC, the changes in the external environment will be evolutionary, as a result of the growing awareness of the society and businesses and the ever increasing availability of the new technologies. If the evolutionary activities cannot stop the temperature rise and the forecasts will be clearly indicating that there is a high probability of exceeding the average temperature rise by more than 2 °C above the value from the pre-industrial era, the changes in the external environment, in particular with respect to the regulations, organization of the power (energy) system and the power (energy) production model, as well as the customer awareness and behaviors will be deeper and faster.

The Group's opportunity will be the growing energy awareness of the public, coupled with the rising cost of energy, which will result in a growing interest in energy efficiency, energy conservation (saving) and the production of electricity from the renewable energy sources (RES). A significant change in this regard was experienced in 2022 as a result of Russia's aggression against Ukraine and the energy crisis triggered by this aggression, as a result of which countries, energy utility companies and societies in the European Union had to change their existing energy operating models. The war caused by Russia has further highlighted the need for energy independence, which can be achieved, among other things, through the greater use of the renewable energy sources. The social pressure and the EU regulations are causing Poland to introduce increasingly more stringent environmental standards and restrictions for the fossil fuels, including rising costs of the CO₂ emissions (charges for the CO₂ emissions). The high level of the CO₂ emission allowances prices is also associated with the use of the regulatory mechanisms leading to the reduced supply thereof. The EU's commitments to reduce the emissions by 55% in 2030 (the new target of 57% is being agreed upon) will be implemented through the supply controls – that is why the development of the low- and zero-emission energy sources is so important. TAURON Group's strategy responds to these

challenges by increasing capacity in the renewable energy sources, investing in the distribution grids, remote readout meters, digitization and cyber security, as well as the lowering of the CO₂ emission levels.

The improvements of energy efficiency and the levels of the greenhouse gas emissions in 2022 are presented in sections E 1.1.2. TAURON Group in the area of environment - activities, impact, protection, results and E 1.1.4. TAURON Group and climate and sustainable business development - activities, impact, trends, results.

In the long term, the negative impact of TAURON Group on the environment and climate will be decreasing, both due to the need to comply with the expected tightening of the environmental requirements and the climate policy, through the investments in the new, low and zero-emission energy sources, but also due to the permanent shutdown of the obsolete conventional power generation units or their spinning off from TAURON Group.

The Group's transition towards the low and zero-emission energy will have an impact on the business model, shifting the place where the revenue is generated in the value chain.

More on TAURON Group's Strategy in section 2 TAURON Group's Strategy for the years 2022 – 2030 with an outlook until 2050.

E 1.1. Policies supporting the management of the following areas: environment, climate, sustainable development in the value chain

E 1.1.1. TAURON Group's Environmental Policy

GRI 2-24, GRI 3-3

Environment protection is a strictly controlled and regulated area in the energy and mining industry, both on the national law level, as well as on the EU regulations' level. Notwithstanding the applicable regulations, TAURON Group, taking responsibility for the consequences of using natural resources, is taking actions that go beyond the legal obligations. Such actions are defined in the documents titled TAURON Group's Environmental Policy and TAURON Group's Climate Policy.

TAURON Group's Environmental Policy adopted by the Management Board in 2017 and updated as needed, defines TAURON Group's approach to the management of the issues related to the impact made by its operations on the natural environment, including the direction of its environmental activities and the principles that should be followed in the environment related matters. The Environmental Policy is the benchmark for assessing all of the activities of TAURON Group's subsidiaries in the area of environment protection and environmental management.

The Environmental Policy includes the general principles, values and vision followed by TAURON Group in order to limit the impact on the natural environment, both as part of the direct, as well as the indirect impacts throughout the entire value chain. The document also presents the principles of responsible communications related to the environmental issues, ensuring the clarity and understanding of the operations of TAURON Group that may impact the environment as well as of the activities undertaken for the benefit of the environment.

E 1.1.2. TAURON Group in the area of environment - activities, impact, protection, results

GRI 2-25, GRI 3-3, GRI 305-5, GRI 416-1

TAURON Group's natural capital

Natural capitals used by TAURON Group - water, solar energy, biomass, minerals (coal, limestone, gas), wind - are used throughout its entire business chain. The Group's aspiration is to use the natural capitals in a responsible manner while minimizing the negative impact on the environment and climate. A confirmation of this approach is the implementation of actions stemming from TAURON Group's Strategy for the years 2022-2030 with an outlook until 2050, adopted by the Management Board in 2022, as part of which a significant change in the weights of the individual natural capitals in TAURON Group's value chain was presented. This will be made possible by the Group's ongoing decarbonization - the spin-off of the coal mining assets outside the Group (which took place as of 31/12/2022) and the readiness to sell the conventional power generation assets (TAURON power plants) based on the coal fuel to NABE (National Energy Security Agency) in 2023. The turn towards the renewable energy sources means a successive increase in the use of the wind and solar energy and a reduction in the use of the non-renewable resources, primarily solid fossil fuels. The new Strategy also emphasizes the need to intensify the efforts aimed at shoring up the circular economy.

The changes in the way the natural capital is used in the perspective of the following years of TAURON Group's business operations will be implemented in such a way as to ensure the certainty of the electricity supply to the customers. In 2022, despite the unfavorable external environment conditions, TAURON Group had a fairly stable raw materials' base, enabling it to supply the Group's conventional generation assets and the external customers. The armed conflict in Ukraine triggered by Russia's aggression caused a global crisis on the fossil fuel market, including hard coal, which in turn necessitated taking of the adequate measures by maximizing the hard coal supplies from the domestic market and supplementing the required supply volumes by importing fuel from the third

countries (including Indonesia and Colombia), outside the Russian Federation's zone of influence. By guaranteeing the fuel supplies from the domestic coal mining and importing entities, the stable power generation during the periods of the volatile or extreme weather conditions that negatively affect the security of the power system was ensured.

TAURON Group's natural capital includes renewable and non-renewable natural resources. The deposits of non-renewable resources are exploited in a responsible, rational, regulated, systematic and sustainable manner.

The tools supporting responsible resource management as part of the natural capital include: TAURON Group's Environmental Policy and TAURON Group's Climate Policy. The Policies comprehensively address all types of activities carried out by the Group that involve an environmental impact and use of resources in accordance with the sustainable development principles.

The resources and raw materials used by TAURON Group are presented in Tables no. 15 and 16.

Table no. 15 GRI 301-1 Non-renewable resource deposits exploited by TAURON Capital Group in 2022

| | Number of deposits | Mineral | Number of coal mines | Aggregate area of the mining sites km ² | Operative resources m ton |
|---|--------------------|-------------|----------------------|--|---------------------------|
| 8 | Primary mineral | hard coal** | 3 | 218.77 | 324.4* |
| 1 | | limestone | 1 | 1.34 | 63.6* |
| 1 | Associated mineral | methane | 1 | | |

* In the case of both TAURON Wydobycie and the Kopalnia Wapienia (Limestone Mine) "Czatkowice", the resources have been determined on the basis of the inventory level as of 31.12.2021 minus the extraction for 2022. The exact inventory level of the operative resources as of 31.12.2022 will be known after the preparation of a resource inventory report, which will take into account not only depletion related to extraction, but also changes in the deposit's resources related to the more accurate intelligence, losses and the resource reclassifications made.

**On 31.12.2022 there was a spin-off of coal assets outside the Group.

Table no. 16. GRI 301-1. Raw materials used by TAURON Capital Group in 2020-2022

| TOTAL | 2022 | 2021 | 2020 |
|----------------------------------|------------|------------|------------|
| RENEWABLE RESOURCES | | | |
| Agro biomass [tons] | 58 946 | 82 283 | 124 203 |
| Forest biomass [tons] | 356 885 | 435 137 | 553 537 |
| NON-RENEWABLE RESOURCES * | | | |
| Net coal [tons] | 6 518 851 | 6 419 493 | 4 888 015 |
| Net coal production** [tons] | 5 007 348 | 5 146 853 | 4 541 216 |
| Sludge [tons] | 203 775 | 248 142 | 249 980 |
| Natural gas [m ³] | 41 940 767 | 30 057 357 | 12 067 032 |
| Heating oil [tons] | 40 924 | 40 340 | 26 324 |
| Diesel oil [m ³] | 7 105 | 6 796 | 6 289 |
| Limestone [tons] | 266 639 | 269 563 | 197 288 |
| Limestone production [tony] | 2 108 880 | 2 011 529 | 1 722 376 |

* Includes the consumption and production by the Group's subsidiaries

**On 31.12.2022 there was a spin-off of coal assets outside the Group. Discontinued operations

For the primary raw materials used as part of the natural capital, the proximity principle is applied by the Group, thereby reducing the carbon footprint associated with the transportation.

In 2022, the Group was preparing itself for the obligation to verify the sustainable development criteria for the biomass used for electricity generation purposes.

TAURON Group's total consumption of renewable raw materials in the form of biomass came in at more than 415 thousand tons in 2022.

The subsidiaries operating biomass burning installations (TAURON Wytwarzanie and TAURON Ciepło), covered by the emission allowances trading system, and the biomass supplier (Bioeko Grupa TAURON) obtained certificates of the voluntary certification system authorizing them to issue documents confirming the sustainable development criteria. Since January 1, 2022, the biomass used for the Group's electricity generation purposes has met the so-called "sustainable biomass" criteria.

The renewable natural resources used by the Group include:

- biomass,
- water used in a total of 34 run-of-river and reservoir hydro power plants and in conventional power generation processes,
- wind to power 11 wind power plants,
- solar energy was produced by 3 photovoltaic farms with a total capacity of 19 MW at TAURON Group as of the end of 2022.

TAURON Group, acting in compliance with the legal regulations and fulfilling its obligations under the provisions of administrative decisions related to the performance of its business operations, takes into account environmental protection needs and acts in a way that contributes to the accomplishment of the broader goal of sustainable development, in particular, the implementation of a circular economy and the achievement of environmental goals in terms of resource efficiency. More information on the use of the natural capital and the results achieved is provided in the thematic sections related to: Emissions, Wastewater and Waste, Waste Management Program, and Circular Economy.

The areas of potential direct environmental impact of TAURON Group's business activities in 2022 are presented in Table no. 17.

Table no. 17. GRI 3-3. Identification and classification of potential detrimental impact on environment associated with TAURON Group's business activities in 2022

| Subsidiary | Aspect | Emissions of pollutants into the air | Pollution emissions to water / water relations | Waste | Land use | Biodiversity** |
|---------------------------------------|--------|--------------------------------------|--|--------------------|--------------------|--------------------|
| TAURON Wytwarzanie | | Important | Important | Important | Important | Not very important |
| TAURON Ciepło | | Important | Important | Important | Not very important | Not very important |
| TAURON Wydobycie | | Not very important | Important | Important | Important | Important |
| TAURON Inwestycje | | - | - | Not very important | Important | Not very important |
| TAURON Nowe Technologie | | Not very important | Not very important | - | - | - |
| TAURON Ekoenergia | | - | Important | Not very important | - | Important |
| Nowe aktywa "Zielony Zwrot TAURONA" * | | - | - | - | Not very important | Important |
| Kopalnia Wapienia "Czatkowice" | | Not very important | Not very important | Not very important | Important | Important |
| Bioeko Grupa TAURON | | - | - | Important | Not very important | Not very important |
| Energetyka Cieszyńska | | Important | Not very important | Important | Not very important | Not very important |
| Marselwind | | - | - | - | - | - |
| TAURON Dystrybucja | | - | Not very important | Not very important | - | Important |
| TAURON Sprzedaż | | - | - | - | - | Not very important |
| TAURON Zielona Energia | | - | - | - | Important | Important |
| TAURON Dystrybucja Pomiaru | | - | - | Not very important | - | - |

* TZE, TEC1 I-VI, TEC1 EW Goldap, TEC1 Ino1, Aval 1, Wind T1, Polpawer, Megawatt Wind T4, WindT30MW, FF Park PV1, Windpower Gamów

** direct and indirect impact, potentially negative, but also potentially positive.

Due diligence procedures and internal regulations

Due to the diverse production and service profiles of TAURON Group's subsidiaries, their impact on the environment varies significantly. Therefore, the principles of the Environmental Policy are transferred to the individual internal documents of the individual subsidiaries in a way corresponding to their role in TAURON Capital Group's value system.

Minimizing of the negative impacts on the environment is effectively implemented by TAURON Group taking into account the specifics of the operations conducted, technological development and access to the environmentally friendly technologies. TAURON Group's activities are in compliance with all environmental regulations. The environmental management systems in place at TAURON Group confirm the implementation of environmental activities with due diligence and care for the natural environment. The environmental procedures and instructions functioning at TAURON Group strictly assign roles and responsibilities in the individual processes as well as the procedures to be followed. TAURON Group implements training and awareness programs for employees.

Some of TAURON Capital Group's subsidiaries have implemented a certified environment management system in accordance with the ISO14001 standard. TAURON Wytwarzanie subsidiary, representing conventional electricity generation, has additionally received the certificate of the European Community's Eco-Management and Audit Scheme (EMAS), the EU's environmental certification system, aimed at creating a sustainable development culture in an organization and efficient management of available resources and energy, operating pursuant to Regulation (EC) No 1221/2009 of the European Parliament and of the Council of November 25, 2009, on voluntary participation by organizations in the European Community's Eco-Management and Audit Scheme.

TAURON Capital Group is monitoring, on an ongoing basis, the main aspects of the direct and indirect environmental impact of its operations, and the most important environmental performance indicators (metrics) are communicated in the form of monthly reports to the managers overseeing operating activities, including the top managers and the members of the management board.

Through the implemented Eco-Management and Audit Scheme (EMAS), TAURON Group communicates the environmental management issues to the internal and external stakeholders, evaluates and improves environmental performance in one of its largest lines of business (power generation). The operational processes implemented by TAURON Group are subject to external and internal auditing as part of the systems and certifications maintained in accordance with the certificates listed in the table below. The purpose of the environmental management systems in place within TAURON Group is to ensure continuous improvement of the organization in the environmental matters and minimize the negative impact on the natural environment by identifying areas for improvement, creating and implementing activities aimed at improving quality, increasing the efficiency of operations and minimizing the negative impact on the environment, while the certifications obtained as part of the environmental management systems in place confirm that TAURON Group ensures the high quality of its production processes, products and services and meets the requirements of customers and all stakeholders, while implementing activities aimed at protecting the environment and ensuring occupational health and safety. Table no. 18 presents the environmental management system, while Table no. 19 presents the quality and security (safety) management systems in place at TAURON Group in 2022.

Table no. 18 GRI 3-3. Classification of TAURON Group's environmental management systems in 2022.

| | Implemented system | Certified system | External audits | Number of locations (facilities sites) covered by the system |
|---------------------------------|--|---|---|--|
| Environmental management system | <ul style="list-style-type: none"> • KW "Czatkowice" • TW Łaziska • TW Łagisza • TW Siersza • TW Jaworzno II • TW Jaworzno III • TW Stalowa Wola • NJGT • TC ZW Tychy • TC ZW Bielsko Biala • EC 1 i EC 2 • TC Kamienna Góra • TC CC Zawiercie • TC CC Olkusz • TC Ciepłownia Lokalne | <ul style="list-style-type: none"> • KW "Czatkowice" • TW Łaziska • TW Łagisza • TW Siersza • TW Jaworzno II • TW Jaworzno III • TW Stalowa Wola | <ul style="list-style-type: none"> • KW "Czatkowice" • TW Łaziska • TW Łagisza • TW Siersza • TW Jaworzno II • TW Jaworzno III • TW Stalowa Wola | 15 |
| ISO 14 001 | <ul style="list-style-type: none"> • KW "Czatkowice" • TW Łaziska • TW Łagisza • TW Siersza • TW Jaworzno II • TW Jaworzno III • TW Stalowa Wola • NJGT | <ul style="list-style-type: none"> • KW "Czatkowice" • TW Łaziska • TW Łagisza • TW Siersza • TW Jaworzno II • TW Jaworzno III • TW Stalowa Wola | <ul style="list-style-type: none"> • KW "Czatkowice" • TW Łaziska • TW Łagisza • TW Siersza • TW Jaworzno II • TW Jaworzno III • TW Stalowa Wola | 8 |
| EMAS | <ul style="list-style-type: none"> • TW Łaziska • TW Łagisza • TW Siersza, • TW Jaworzno II | <ul style="list-style-type: none"> • TW Łaziska • TW Łagisza • TW Siersza • TW Jaworzno II | <ul style="list-style-type: none"> • TW Łaziska, • TW Łagisza, • TW Siersza, • TW Jaworzno II, | 6 |

| | | | | |
|-------|--|--|--|----|
| | <ul style="list-style-type: none"> • TW Jaworzno III • TW Stalowa Wola | <ul style="list-style-type: none"> • TW Jaworzno III • TW Stalowa Wola | <ul style="list-style-type: none"> • TW Jaworzno III, • TW Stalowa Wola | |
| REACH | <ul style="list-style-type: none"> • TW Łaziska • TW Łagisza • TW Siersza • TW Jaworzno II • TW Jaworzno III • TW Stalowa Wola • TC ZW Tychy • TC ZW Bielsko Biała EC 1 i EC 2 • TC Kamienna Góra • TC CC Zawiercie • TC CC Olkusz • TC Ciepłownie Lokalne | <ul style="list-style-type: none"> • TW Łaziska • TW Łagisza • TW Siersza • TW Jaworzno II • TW Jaworzno III • TW Stalowa Wola • TC ZW Tychy • TC ZW Bielsko Biała EC 1 i EC 2 • TC Kamienna Góra • TC CC Zawiercie • TC CC Olkusz • TC Ciepłownie Lokalne | <ul style="list-style-type: none"> • TW Łaziska • TW Łagisza • TW Siersza • TW Jaworzno II • TW Jaworzno III • TW Stalowa Wola • TC ZW Tychy • TC ZW Bielsko Biała EC 1 i EC 2 • TC Kamienna Góra • TC CC Zawiercie • TC CC Olkusz • TC Ciepłownie Lokalne | 12 |

Acronyms: TW – TAURON Wytwarzanie, KW “Czatkowice” – Kopalnia Wapienia “Czatkowice”, TC – TAURON Ciepło, ZW – Zakład Wytwarzania (Generation Plant), CC – Ciepłownia Centralna (Central Heating Plant), NJGT – Nowe Jaworzno Grupa TAURON, EMAS - EcoManagement and Audit Scheme), REACH – Regulation (EC) No. 1907/2006 of the European Parliament and of the Council on the Registration, Evaluation, Authorization and Restriction of Chemicals.

Other subsidiaries of TAURON Group do not meet the level of materiality due to the scale of their direct impact on the environment.

Table no.19. GRI 416-1. Classification of the quality and security (safety) management systems in place at TAURON Group in 2022

| | Implemented system | Certified system | External audits | Number of locations (facilities, sites) covered by the system |
|---|--|--|--|---|
| Quality management system | <ul style="list-style-type: none"> • KW “Czatkowice” • WGT • TWd ZG Janina • TWd ZG Sobieski • TWd ZG Brzeszcze | <ul style="list-style-type: none"> • KW “Czatkowice” • WGT | <ul style="list-style-type: none"> • KW “Czatkowice” • WGT | 5 |
| ISO 9001 | <ul style="list-style-type: none"> • KW “Czatkowice” • WGT | <ul style="list-style-type: none"> • KW “Czatkowice” • WGT | | 2 |
| ISO 17025 | <ul style="list-style-type: none"> • TDP • TW LC | <ul style="list-style-type: none"> • TDP • TW LC | <ul style="list-style-type: none"> • TDP • TW LC | 2 |
| ISO 45001 | <ul style="list-style-type: none"> • TW Łaziska • TW Łagisza • TW Siersza • TW Jaworzno II • TW Jaworzno III • TW Stalowa Wola | <ul style="list-style-type: none"> • TW Łaziska • TW Łagisza • TW Siersza • TW Jaworzno II • TW Jaworzno III • TW Stalowa Wola | <ul style="list-style-type: none"> • TW Łaziska • TW Łagisza • TW Siersza • TW Jaworzno II • TW Jaworzno III • TW Stalowa Wola | 6 |
| ISO 22301 | <ul style="list-style-type: none"> • TW 6 sites • TC 6 sites • TD all branches • TOK • NJGT | | | All sites |
| Product certificates National Technical Assessments | <ul style="list-style-type: none"> • BGT • TWd | <ul style="list-style-type: none"> • BGT | <ul style="list-style-type: none"> • BGT | 17 |
| KZR INiG System – confirming compliance with the requirements of sustainable operations with respect to the supply of biofuels as well as heat and electricity production | <ul style="list-style-type: none"> • BGT • TC • TW | <ul style="list-style-type: none"> • BGT • TC • TW | <ul style="list-style-type: none"> • BGT • TC • TW | All sites |
| Certificate confirming compliance with applicable requirements and standards GMP+B2 Production of feed ingredients GMP+FC system (based on GMP+C6) GMP International | <ul style="list-style-type: none"> • KWC | | | 1 |

Acronyms: TW – TAURON Wytwarzanie, TW LC – TAURON Wytwarzanie Laboratorium Centralne (Central Lab), KW “Czatkowice” / KWC – Kopalnia Wapienia “Czatkowice”, TC – TAURON Ciepło, WGT – Wsparcie Grupa TAURON, TWd – TAURON Wydobywanie, TDP – TAURON Dystrybucja Pomiary, TD – TAURON Dystrybucja, TOK – TAURON Obsługa Klienta, BGT – Biomasa Grupa TAURON, NJGT – Nowe Jaworzno Grupa TAURON, KZR INiG System – a global certification system owned by the Oil and Gas Institute - National Research Institute (Instytut Nafty i Gazu - Państwowy Instytut Badawczy (INiG-PIB)).

Actions taken with environmental effects and results obtained (COMMITMENT)

The Group's activities in 2022 focused on changing the group's so-called fuel "mix" and investing in RES in order to reduce the group's carbon intensity. These activities were carried out by the dedicated subsidiaries: TAURON Zielona Energia and TAURON Inwestycje. Table no. 20 presents completed, in-progress and under development investments in large scale RES in 2022.

Table no. 20. GRI 305-5. TAURON Group's investments in large scale RES in 2022

| | Completed in 2022 | In progress | Commenced / under development |
|------------|---|--|---|
| Wind farms | <ul style="list-style-type: none"> Piotrków 30 MW Majewo 6 MW | <ul style="list-style-type: none"> Mierzyn 58,5 MW Warblewo 30 MW Nowa Brzeźnica 19.6 MW Gamów 33 MW | |
| PV farms | <ul style="list-style-type: none"> Choszczno II 8 MW | <ul style="list-style-type: none"> Mysłowice Dzieńkowice: Stage I 37 MW Proszówek 55 MW stage I 45.6 MW | <ul style="list-style-type: none"> Mysłowice Dzieńkowice: Stage II up to 65 MW |
| Total MWs | 44 MW | 224 MW | 65 MW |

TAURON Group, as a rule, no longer invested in environmental protection installations for the coal-fired generating units in 2022, which was possible as a result of the time derogations received (under administrative decisions introducing changes to the integrated permits in a procedure involving a public participation) and the investment program aimed at adjusting the "capacity market" and the "BAT Conclusions" completed in mid-2021. In 2022, TAURON's environmentally upgraded coal-fired power units were operating with a regime that met the requirements of the "BAT Conclusions" and thus further reduced the emissions of sulfur dioxide, nitrogen oxides and dust into the air, as well as additional reductions in the emissions of other air pollutants such as chlorine, hydrogen fluoride and mercury from the existing sources.

As part of the investments and sustainable development in the area of the conventional power generation, the focus was on the tasks related to connecting new facilities to TAURON Ciepło's district heating networks, as well as the continuation of the Low Emission Elimination Program through further connections of the buildings, previously heated by the individual sources, or the continuation of the investments in ZWB EC 2 in Czechowice Dziedzice (construction of a new source based on the gas fuel).

In addition, TAURON Ciepło carried out large investment tasks with pro-environmental effects, the most important of which included:

ZW Katowice:

- modernization of the electrostatic precipitator - reducing the dust emissions and energy intensity of the unit,
- major overhaul of the BCF 100 boiler and turbine unit - reduction of the thermal losses,
- overhauls of the feed pumps - reduction of the energy intensity of the pump units.

ZW Tychy:

- modernization of the water management system in order to expand the existing water demineralization station with the reverse osmosis lines was begun (the design was completed in 2022, and the implementation of the investment project is planned for 2023). The investment project will make it possible to manage the highly saline wastewater from the ionite treatment stations.

ZW Bielsko Biala:

- installation and modernization of the flue gas emission control systems at ZWB EC1 and EC2 - In case of EC1, the task was to adapt the flue gas emission measurement system to the legal requirements (BAT). Following the upgrade, the system records the measurement of NH₃, which can be used to reduce the amount of ammonia emitted into the atmosphere. At the EC2 plant, the flue gas emission monitoring system had to be upgraded bringing it into compliance with the legal requirements (BAT),
- modernization of the OFz-230 boiler at ZWB EC2 in Czechowice-Dziedzice - this has a direct impact on improving the distribution of the bed circulation by reducing the percentage share of coal in the fly and bottom ashes in the boiler, which directly improves the combustion along with a simultaneous reduction in the combustion losses (lower total quantity of ash), which is directly related to meeting the stringent BAT flue gas emission standards for this boiler,

- modernization of the electrostatic precipitator of the BC50 unit at ZWB EC2 - reducing of the dust emissions and the energy intensity of the unit.

Local district heating plants:

- a number of smaller modernization tasks resulting in significant reductions of the electricity consumption.

TAURON Dystrybucja, by implementing the modernization and replacement of the existing assets on an ongoing basis, especially the tasks related to the alteration of the switchgear systems, indoor substations or transformer/switch substations (GPZs), makes a direct contribution to the improvement of the soil and groundwater safety.

TAURON Group assumes responsibility for the natural environment and the consequences of using its resources. The Group's subsidiaries estimate that the amount of charges to be paid for the business use of the environment in 2022 is approximately PLN 34.9 million, as shown in Table no. 21.

Table no. 21. Estimated charges to be paid for the business use of the environment by TAURON Capital Group due for 2022

| # | Subsidiary name | Charges ¹ for the business use of the environment due for 2022 (PLN '000) |
|--------------|--|--|
| 1. | TAURON Wytwarzanie (following the consolidation with Nowe Jaworzno Grupa TAURON) | 14 793.1 |
| 2. | TAURON Ciepło | 4 251.7 |
| 3. | TAURON Wydobywanie | 15 031.4 |
| 4. | TAURON Ekoenergia | 410.8* |
| 5. | TAURON Dystrybucja | 209.3 |
| 6. | KW "Czatkowice" | 65.6 |
| 7. | TAURON Nowe Technologie | 66.4 |
| 8. | TAURON Obsługa Klienta | -** |
| 9. | TAURON Sprzedaż | -** |
| 10. | Bioeko Grupa TAURON | 3.8 |
| 11. | Usługi Grupa TAURON / Marselwind | -** |
| 12. | Energetyka Cieszyńska | 70.9 |
| 13. | TAURON Inwestycje | -** |
| Total | | 34 903 |

¹Partly estimated data, the annual settlement has not been completed.

* Charge for water consumption for the purpose of running hydropower plants, assessed at the rate of PLN 1.24 per 1 MWh of electricity produced by the hydro power facilities in 2022 is PLN 406.2 thousand and a fee of PLN 4.6 thousand for discharging rainwater or snowmelt into the waters.

** Extent of using the environment does not generate charges, as their amount is below the threshold starting from which fees are paid.

Emissions, waste water (sewage) and waste

GRI 3-3, GRI 305-7

The Group does not currently have a dedicated program in place aimed at reducing the air emissions from the units burning solid fuels. Such a program was implemented in earlier years and ended with the introduction of the stricter emission standards and operating regimes as of August 2021, reducing the previous impact of the dust, nitrogen oxides, sulfur dioxide, chlorine and hydrogen fluoride emissions on the air quality. Further commitments and measures taken by the Group are focused on reducing the CO₂ emissions. This is due to the fact that all of the operating generating units of TAURON Wytwarzanie and TAURON Ciepło have already achieved the levels of concentrations of the substances emitted into the air in accordance with the best available techniques. In 2022, TAURON Group's generation units were operated with extraordinary intensity as a consequence of the requirements of the National Power System (NPS - KSE) operator and, as a result, the direct absolute air emissions of the NO_x, SO₂ compounds and dusts increased in relation to the previous year due to the rise of the production output. In spite of that, the emissions of TAURON Group in 2022 are significantly below the levels defined as the maximum allowed annual loads of the substances released into the air according to the permits.

Currently, there are no longer programs in place aimed at reducing the emissions of substances discharged into the air, other than the greenhouse gases. The last such program was implemented in the wake of the publication of the BAT Conclusions, and it was completed in 2021. The ad hoc retrofitting work is currently being carried out on the air protection equipment at the sources burning the solid fossil fuels. Further reduction of the Non-GHG Air Emissions will follow the planned successive change in the Group's fuel mix.

As part of its operations related to the environmental management TAURON Group is conducting an ongoing monitoring of the emissions of the NO_x, SO₂ compounds and dusts into the atmosphere and the emissions in 2022 and 2021 are presented in Tables no. 22, 22-a and 22-b.

Table no. 22. GRI 305-7. Emissions of the NO_x, SO₂ compounds and other significant compounds into the atmosphere by TAURON Capital Group in 2022 and 2021 [Mg]

| TOTAL | 2022 | 2021 |
|-----------------|--------|-------|
| NO _x | 13 148 | 8 369 |
| SO ₂ | 10 105 | 7 250 |
| Total dust | 636 | 429 |
| Other * | 8 545 | 8 050 |

* Under the other emissions item, the following compounds and substances are included: CO, HCl, HF, NH₃, mercury and other metals, others monitored and reported to the National Pollutant Release and Transfer Register database.

Table no. 22-a. GRI 305-7. Emissions of the NOx, SO₂ compounds and other significant compounds into the atmosphere by TAURON Capital Group in 2022 and 2021, per individual subsidiaries [Mg]

| | TAURON Wytwarzanie* | | TAURON Ciepło | | Kopalnia Wapienia "Czatkowice" | | TAURON Wydobywanie | | Energetyka Cieszyńska**** | | TAURON Nowe Technologie** | | Total | |
|-----------------|---------------------|-------|---------------|-------|--------------------------------|------|--------------------|------|---------------------------|------|---------------------------|------|--------|-------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| NOx | 11 994 | 6 858 | 1 015 | 1 426 | 0 | 0 | 38 | 38 | 32 | - | 68 | 46 | 13 148 | 8 369 |
| SO ₂ | 8 285 | 5 163 | 1 679 | 2 029 | 0 | 0 | 55 | 55 | 81 | - | 4 | 3 | 10 105 | 7 250 |
| Total dust | 514 | 275 | 60 | 85 | 13 | 9 | 46 | 59 | 4 | - | - | - | 636 | 429 |
| Other *** | 5 599 | 5 562 | 2 881 | 2 438 | 0 | 0 | 51 | 51 | 15 | - | - | - | 8 545 | 8 050 |

* Data for TAURON Wytwarzanie as a result of the consolidation completed includes the TAURON Group's New Jaworzno division, which was a separate subsidiary of the Group in the previous reporting year.

** For the TAURON Nowe Technologie subsidiary there is no obligation to measure the emissions of dust and other substances.

*** Under the other emissions item, the following compounds and substances are included: CO, HCl, HF, NH₃, mercury and other metals, others reported to the National Pollutant Release and Transfer Register database

**** As part of Energetyka Cieszyńska, which was acquired in 2022 (as of the end of December 31, 2022). Data includes incomplete Q4 2022. In 2021, the company was not a part of the Group.

Table no. 22-b. GRI 305-7. Operational limits of emissions of significant compounds into the atmosphere at TAURON Capital Group's individual subsidiaries, applicable in 2022

| Source | Maximum amount Mg / year | | |
|--------------------------------|--------------------------|-----------------|--------|
| | NOx | SO ₂ | Dust |
| TAURON Wytwarzanie | 18007.4 | 15205,0 | 1155,9 |
| TAURON Ciepło | 3 346.7 | 4 614.9 | 439.2 |
| Energetyka Cieszyńska | 727 | 205.0 | 250.0 |
| TAURON Nowe Technologie | 116.2 | 9.2 | - |
| TAURON Wydobywanie | 37.8 | 55.6 | 63.3 |
| Kopalnia Wapienia "Czatkowice" | Not determined* | Not determined* | 36.2 |

* Emissions are not determined for the substance, the emissions of which do not exceed 10% of the reference value (benchmark) or 10% of the permitted levels in the air averaged per hour

TAURON Group's costs and expenditures for the projects related to environment protection are presented in Table no. 23.

Table no. 23. TAURON Group's costs and expenditures for the projects related to environment protection (excluding climate related expenditures)

| | |
|---|------------------|
| TAURON Group's total environment protection expenditures | PLN 352.8 milion |
| including capital expenditures related to environment protection | PLN 40.9 milion |
| Share of investment outlays in environmental expenditures | approx. 11.6% |
| Share of environmental investment outlays in the Group's total capital expenditures | 8.9% |

Water resources management

GRI 303-1, GRI 303-2, GRI 303-3, GRI 303-4, GRI 3-3

Following the principle of resource efficiency, TAURON Group is also monitoring and optimizing the consumption of water used for the technological process purposes on an ongoing basis. This is done by closing the water circuits and by recirculating water with relatively good parameters to other production processes, with lesser requirements, for reuse.

TAURON Wytwarzanie's the 910 MW power generation unit and Łągisza Power Plant in Będzin meet the highest quality requirements for the combined (steam and water) cycles and are equipped with the water conditioning (treatment) installations based on the modern membrane techniques.

The climate changes observed, including the hydrological drought phenomenon that has been growing in strength in recent years, directly affect the availability of the resources considered as renewable, such as, for example, water. The sustainable use of these resources is implemented in the energy industry, among others, by applying the operational limits on the amount of water taken directly from the environment (surface and groundwater intakes) presented in Table no. 24.

Table no. 24. GRI 303-3. Maximum daily limits for direct water intake from the environment in force in 2022

| Source | Maximum quantity per day m ³ /d | | |
|--------------------------------|---|--------------|---------------|
| | Water from coal mine drainage (including ground water to be used for the needs of coal mines) | Ground water | Surface water |
| TAURON Wydobycie | 158 934 (8 256) | | |
| TAURON Wytwarzanie | | 14 376 | 877 272** |
| TAURON Ciepło | | | 7 209.6 |
| TAURON Dystrybucja | | 11.9 | |
| TAURON Ekoenergia | | 3.8 | |
| Kopalnia Wapienia "Czatkowice" | | 3.5 | 240 |

* The above table does not include the so-called reverse water intake for electricity generation purposes by hydropower plants, nor limits stemming from civil law contracts with external suppliers.

** The figure includes the so-called reverse water intake in an open cooling system.

The Group does not consciously declare water reduction targets for energy production purposes at this time, as it is conducting activities related to:

- the spin-off of TAURON Wytwarzanie outside TAURON Group,
- a change in the energy mix toward the wind power and photovoltaics, both of which do not involve water intake.

Thus, by implementing both of the above measures in the following years, the water intake will fall by a minimum of 70%.

The consumption of water used in the production processes by TAURON Group in 2022 is shown in Tables no. 25 and no. 25-a.

Table no. 25. GRI 303-3. TAURON Capital Group's total water [m³/year] consumption per source in 2022 and 2021

| [m ³ /year] | Total | |
|---|--------------------|--------------------|
| | 2022 | 2021 |
| rivers | 45 250 492 | 47 230 609 |
| wetlands | 0 | 0 |
| ground water | 46 729 460 | 46 577 742 |
| rain water collected directly and stored | 339 196 | 278 954 |
| water from the city network | 4 370 059 | 4 143 445 |
| Other | 19 565 350 | 18 741 603 |
| Total volume of water consumed from all sources taken into account | 116 254 558 | 116 972 353 |

Table no. 25-a. GRI 303-3. TAURON Group's total water consumption [m³/year] per source broken down by subsidiaries in 2022 and 2021

| [m ³ /year] | TAURON Wydobycie | | TAURON Wytwarzanie* | | TAURON Ciepło | | TAURON Ekoenergia | | Kopalnia Wapienia "Czatkowice" | | Energetyka Cieszyńska** | | Total | |
|---|-------------------|-------------------|---------------------|-------------------|------------------|------------------|-------------------|--------------|--------------------------------|---------------|-------------------------|----------|--------------------|--------------------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Surface water (rivers, lakes) including water from wetlands | | | | | | | | | | | | | | |
| rivers | 0 | 0 | 44 720 350 | 46 701 176 | 485 005 | 482 358 | 0 | 0 | 45 137 | 47 075 | 0 | - | 45 250 492 | 47 230 609 |
| wetlands | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - | 0 | 0 |
| Other: | | | | | | | | | | | | | | |
| ground water | 46 039 052 | 45 704 009 | 689 838 | 873 168 | 0 | 0 | 461 | 485 | 109 | 80 | 0 | - | 46 729 460 | 46 577 742 |
| rain water collected directly and stored | 0 | 0 | 339 196 | 278 954 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - | 339 196 | 278 954 |
| water from the city network | 470 064 *** | 411 991 | 2 390 316 | 2 149 767 | 1 493 038 | 1 549 598 | 1 451 | 1 280 | 6 574 | 30 809 | 8 616 | - | 4 370 059 | 4 143 445 |
| Other | 0 | 0 | 18 922 889 | 17 553 373 | 642 461 | 1 188 230 | 0 | 0 | 0 | 0 | 0 | - | 19 565 350 | 18 741 603 |
| Total volume of water consumed from all sources taken into account | 46 509 116 | 46 116 000 | 67 062 589 | 67 556 438 | 2 620 504 | 3 220 186 | 1 912 | 1 764 | 51 820 | 77 964 | 8 616 | - | 116 254 558 | 116 972 353 |

* Data for TAURON Wytwarzanie as a result of the consolidation completed includes the TAURON Group's New Jaworzno division, which was a separate subsidiary of the Group in the previous reporting year.

** As part of Energetyka Cieszyńska, which was acquired in 2022 (as of the end of December 31, 2022). Data includes incomplete Q4 2022. In 2021, the company was not a part of the Group.

*** Continuation of the "Increasing the use of water from the in-house sources in the technological processes" initiative. The goal achieved is the reduction of the water purchased from Wodociągi Chrzanowskie Sp. z o.o. compared to the 2020 baseline level (baseline level: 792 963 m³).

By optimizing the waste water treatment processes, modernizing and applying the new waste water treatment methods, as well as a result of decommissioning the Stalowa Wola open cooling facility, TAURON Group significantly reduced the total quantity of waste water produced already in 2021 relative to 2020. For this reason, no additional initiatives were carried out in 2022 in this regard, since, as in the case of the water intake, the volume of the waste water generated and required to be treated will decrease by a minimum of 70% after the completion of the spin-off of TAURON Wytwarzanie and the increase of the RES sources' capacity in the Group.

The quality and quantity of the waste water is subject to an ongoing monitoring and the total volume of waste water produced (discharged) as a result of TAURON Capital Group's operations in 2022, including its utilization method (destination), is shown in Tables no. 26 and no. 26-a.

Table no. 26. GRI 303-4. Total volume of TAURON Capital Group's waste water [m³] in 2022 and 2021 by quality and utilization method (destination)

| Waste water dump site taking into account emergency heat dumps | Total m ³ | |
|--|----------------------|-------------------|
| | 2022 | 2021 |
| Waste water discharged into the sewage system (municipal companies) | 982 893 | 984 342 |
| Waste water discharged by means of transportation to the waste water treatment plant | 472 | 564 |
| Rivers | 60 308 666 | 60 126 611 |
| Other | 0 | 1 400 842 |
| Total waste water volume | 61 292 032 | 62 512 359 |

Table no. 26-a. GRI 303-4. Total volume of TAURON Group's waste water [m³] in 2022 and 2021 by quality and utilization method (destination), per subsidiary

| Waste water dump site taking into account emergency heat dumps | Waste water volume [m ³] | | | | | | | | | | | | | |
|--|--------------------------------------|-------------------|---------------------|-------------------|----------------|----------------|-------------------|--------------|--------------------------------|---------------|-------------------------|----------|-------------------|-------------------|
| | TAURON Wydobycie | | TAURON Wytwarzanie* | | TAURON Ciepło | | TAURON Ekoenergia | | Kopalnia Wapienia "Czatkowice" | | Energetyka Cieszyńska** | | Total | |
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Waste water discharged into the sewage system (municipal companies) | 347 366 | 287 311 | 203 970 | 212 938 | 422 532 | 483 091 | 1 115 | 1 002 | 0 | 0 | 7 910 | - | 982 893 | 984 342 |
| Waste water discharged by means of transportation to the waste water treatment plant | 337 | 416 | 0 | 0 | 0 | 0 | 135 | 148 | 0 | 0 | 0 | - | 472 | 564 |
| Waste water discharged to the surface water: | | | | | | | | | | | | | | |
| Rivers | 43 621 926 | 43 373 193 | 16 532 273 | 16 522 878 | 131 944 | 184 794 | 452 | 479 | 22 071 | 45 267 | 0 | - | 60 308 666 | 60 126 611 |
| Other | 0 | 0 | 0 | 1 400 842 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - | 0 | 1 400 842 |
| Total waste water volume | 43 969 629 | 43 660 920 | 16 736 243 | 18 136 658 | 554 476 | 667 885 | 1 702 | 1 628 | 22 071 | 45 267 | 7 910 | - | 61 292 032 | 62 512 359 |

* Data for TAURON Wytwarzanie as a result of the consolidation completed includes the TAURON Group's New Jaworzno division, which was a separate subsidiary of the Group in the previous reporting year.

** As part of Energetyka Cieszyńska, which was acquired in 2022 (as of the end of December 31, 2022). Data includes incomplete Q4 2022. In 2021, the company was not a part of the Group.

Decommissioning of the units using the solid fuel at TAURON Wytwarzanie in Stalowa Wola in 2021 led to the significant reduction of the amount of waste water discharged to the surface waters (rivers) – in 2020 it was 85 205 063 m³.

Waste management program - actions taken and results achieved

GRI 306-1, GRI 306-2, GRI 3-3

TAURON Capital Group is undertaking numerous actions aimed at minimizing the negative impact on the environment, including with respect to minimizing the waste generated from the processes and activities within the entire value chain.

In accordance with the principles of the Environmental Policy, the Group has a waste treatment hierarchy in place. The Group's waste management program consists of activities that are adequate to the profile of the individual subsidiaries:

- prevention/avoidance,
- reuse/substitution of the natural materials,
- customer-facing services related to repairs that eliminate or reduce the generation of household electro-waste.

TAURON Group does not generate hazardous waste as part of the main streams of the waste generated in its production processes. As part of the adopted environmental and climate policy TAURON Group is committed to running its processes efficiently in order to keep its commitment to reduce hazardous waste.

The amount of hazardous waste generated in 2022 came in at 891 Mg, which represented less than 0.1% of the waste generated as part of the operations. This quantity is a marginal quantity in the entire area of the generation operations.

All site where hazardous waste is generated and stored are subject to the monitoring and measurement of hazardous waste in order to minimize the amount of hazardous waste generation and optimize processes with respect to hazardous waste management.

Due to the nature of TAURON Group's operations, radioactive waste is also not generated, as well as there are no significant amounts of packaging waste.

Tables no. 27 and 27-a as well as 28 and 28-a present the total weight of waste by type and utilization (handling) method.

Table no. 27. GRI 306-1, GRI 306-2. Total weight of hazardous waste [Mg] in 2022 and 2021, by waste type and waste utilization (handling) method

| | 2022 | 2021 |
|--------------------------------------|------------|--------------|
| Reuse | 0.0 | 9.3 |
| Recycling | 354.9 | 2.2 |
| Recovery (including energy recovery) | 298.0 | 494.3 |
| Neutralization | 104.2 | 24.7 |
| Storage | 15.6 | 36.2 |
| Other * | 118.1 | 437.4 |
| Total waste weight | 891 | 1 004 |

* The Group does not generate radioactive waste

Table no. 27-a. GRI 306-1, GRI 306-2. Total weight of TAURON Group's hazardous waste [t] in 2022 and 2021, by waste type and waste utilization (handling) method, per subsidiary

| | Weight of hazardous waste [Mg] | | | | | | | | | | | | | | | | |
|--------------------------------------|--------------------------------|-------------|---------------------|--------------|---------------|-------------|-------------------|--------------|--------------------|--------------|--------------------------------|-------------|-------------------------|----------|------------|--------------|-------|
| | TAURON Wydobycie | | TAURON Wytwarzanie* | | TAURON Ciepło | | TAURON Ekoenergia | | TAURON Dystrybucja | | Kopalnia Wapienia "Czatkowice" | | Energetyka Cieszyńska** | | Total | | |
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | |
| Reuse | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 9.3 | 0.0 | 0.0 | 0.0 | - | 0.0 | 9.3 |
| Recycling | 0.0 | 0.0 | 2.9 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 352.0 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | - | 354.9 | 2.2 |
| Recovery (including energy recovery) | 0.0 | 0.0 | 105.1 | 194.9 | 26.1 | 10.0 | 0.0 | 0.0 | 166.9 | 289.4 | 0.0 | 0.0 | 0.0 | 0.0 | - | 298.0 | 494.3 |
| Neutralization | 0.0 | 0.0 | 0.8 | 5.8 | 0.0 | 0.0 | 0.0 | 0.0 | 103.4 | 18.9 | 0.0 | 0.0 | 0.0 | 0.0 | - | 104.2 | 24.7 |
| Storage | 2.6 | 4.2 | 2.0 | 9.4 | 0.6 | 2.0 | 0.0 | 0.0 | 10.4 | 20.5 | 0.0 | 0.0 | 0.0 | 0.0 | - | 15.6 | 36.2 |
| Other | 89.1 | 38.1 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 | 129.9 | 0.9 | 244.9 | 27.1 | 24.5 | 0.0 | - | 118.1 | 437.4 | |
| Total waste weight | 91.7 | 42.3 | 110.8 | 211.2 | 26.7 | 12.0 | 1.0 | 129.9 | 633.6 | 584.2 | 27.1 | 24.5 | 0.0 | - | 891 | 1 004 | |

* Data for TAURON Wytwarzanie as a result of the consolidation completed includes the TAURON Group's New Jaworzno division, which was a separate subsidiary of the Group in the previous reporting year.

** As part of Energetyka Cieszyńska, which was acquired in 2022 (as of the end of December 31, 2022). Data includes incomplete Q4 2022. In 2021, the company was not a part of the Group.

Table no. 28 GRI 306-1. GRI 306-2. Total weight of non-hazardous waste [Mg] in 2022 and 2021, by waste type and waste utilization (handling) method

| | 2022 | 2021 |
|--------------------------------------|------------------|------------------|
| Reuse | 0 | 155 |
| Recycling | 3 086 | 2 203 |
| Recovery (including energy recovery) | 1 398 526 | 1 581 107 |
| Neutralization | 937 | 1 286 |
| Dump (landfill) | 4 320 | 5 969 |
| Storage | 22 614 | 9 656 |
| Composting | 0 | 0 |
| Other | 6 134 | 54 875 |
| Total waste weight | 1 435 616 | 1 655 250 |

Table no. 28-a. GRI 306-1, GRI 306-2. Total weight of TAURON Group's non-hazardous waste [Mg] in 2022 and 2021 by quality and utilization method (destination), per subsidiary

| | Weight of non-hazardous waste [Mg] | | | | | | | | | | | | | | | |
|--------------------------------------|------------------------------------|------------------|---------------------|---------------|---------------|---------------|-------------------|------------|--------------------|--------------|--------------------------------|-----------|-------------------------|----------|------------------|------------------|
| | TAURON Wydobycie | | TAURON Wytwarzanie* | | TAURON Ciepło | | TAURON Ekoenergia | | TAURON Dystrybucja | | Kopalnia Wapienia "Czatkowice" | | Energetyka Cieszyńska** | | Total | |
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Reuse | 0 | 0 | 0 | 155 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - | 0 | 155 |
| Recycling | 0 | 0 | 1 599 | 943 | 0 | 0 | 0 | 0 | 1 480 | 1 260 | 0 | 0 | 6 | - | 3 086 | 2 203 |
| Recovery (including energy recovery) | 1 276 374 | 1 468 313 | 97 709 | 75 824 | 21 642 | 36 273 | 0 | 0 | 287 | 696 | 0 | 0 | 2 514 | - | 1 398 526 | 1 581 107 |
| Neutralization | 0 | 0 | 144 | 801 | 6 | 7 | 0 | 0 | 786 | 478 | 0 | 0 | 0 | - | 937 | 1 286 |
| Dump (landfill) | 0 | 0 | 4 320 | 5 969 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - | 4 320 | 5 969 |
| Storage | 20 064 | 6 359 | 2 228 | 981 | 287 | 2 016 | 0 | 0 | 36 | 300 | 0 | 0 | 0 | - | 22 614 | 9 656 |
| Composting | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - | | |
| Other | 3 136 | 50 897 | 2 166 | 3 200 | 0 | 0 | 144 | 186 | 498 | 500 | 240 | 91 | 0 | - | 6 134 | 54 875 |
| Total waste weight | 1 299 574 | 1 525 569 | 108 115 | 87 873 | 21 935 | 38 296 | 144 | 186 | 3 088 | 3 235 | 240 | 91 | 2 520 | - | 1 435 616 | 1 655 250 |

* Data for TAURON Wytwarzanie as a result of the consolidation completed includes the TAURON Group's New Jaworzno division, which was a separate subsidiary of the Group in the previous reporting year.

** As part of Energetyka Cieszyńska, which was acquired in 2022 (as of the end of December 31, 2022). Data includes incomplete Q4 2022. In 2021, the company was not a part of the Group.

Circular economy

GRI 306-1, GRI 306-2, GRI 3-3

TAURON Capital Group is actively looking for solutions that would implement the idea of the Circular Economy whose goals include:

- taking care of the natural environment,
- reducing the harm caused by the waste produced,
- maximizing the use of the by-products of the combustion related to electricity generation or of the coal mining,
- minimizing the costs related to the disposal (neutralizing) of environmentally harmful waste and providing new functionalities to the areas transformed as a result of industrial activities,
- partnership collaborations in the field of circular economy.

As part of the operations of TAURON Group, the cycles of substances produced by the Group are closed and the reuse of the combustion and mining by-products is being spread in the economy and industry. The reuse of the substances contributes to the protection of natural resources and the reduction of the amount of waste deposited in landfills.

TAURON Capital Group is seeking to implement the model of circular economy. It is planned that the maximum quantity of the process waste generated should be used within TAURON Group, thus reducing the consumption of natural resources and curtailing the carbon footprint.

3.2 million Mg of the process by-products, coming from thermal combustion and mining of coal, was generated in 2022, with as much as 62% of that quantity brought to the market as full value products to be used, among others, in the construction, road building, mining or agricultural sector. The balance of the waste was handed over to further authorized recipients with whom TAURON Capital Group's subsidiaries have agreements in place that guarantee its further economic utilization, among others in land reclamation, macro-leveling and filling of the post-mining voids in mining.

In 2022, TAURON Wytwarzanie brought to the market as much as 100% of ashes and boiler slag coming from coal combustion as by-products from 7 system (utility scale) power plants (including the NJGT division, which is now a part of the TAURON Wytwarzanie subsidiary), to be used in construction, (building industry), road engineering, mining and agriculture.

The below figure presents the structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Capital Group, brought to the market in 2022.

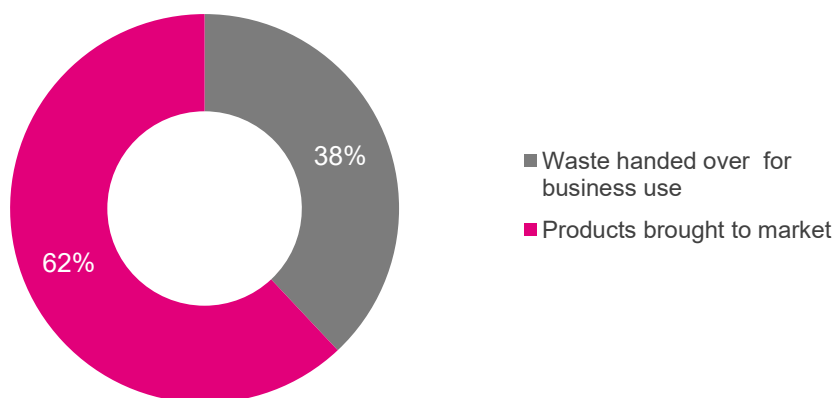


Figure no. 27. Structure (composition) of ashes, sludge, gypsum and aggregates generated by TAURON Group, brought to the market in 2022

TAURON Group's power plants produced 200 thousand Mg of ashes in 2022 that was used as a valuable raw material in fire prevention by the coal mines. The ashes from TAURON Group's power plants and combined heat and power plants cover 100% of the demand for ashes to be used for fire prevention at TAURON Wydobyćie's coal mines.

100% of TAURON Ciepłó's by-products, i.e. 205 thousand Mg, is reused in various industries.

TAURON Wydobyćie processes post-mining waste, as a result of which high quality construction and road aggregates are obtained. 127 thousand Mg of aggregates and materials produced from the post-mining waste were placed on the market in 2021.

The below figure presents the structure (composition) and quantities of the combustion and mining by-products generated by TAURON Group, brought to the market in 2022.

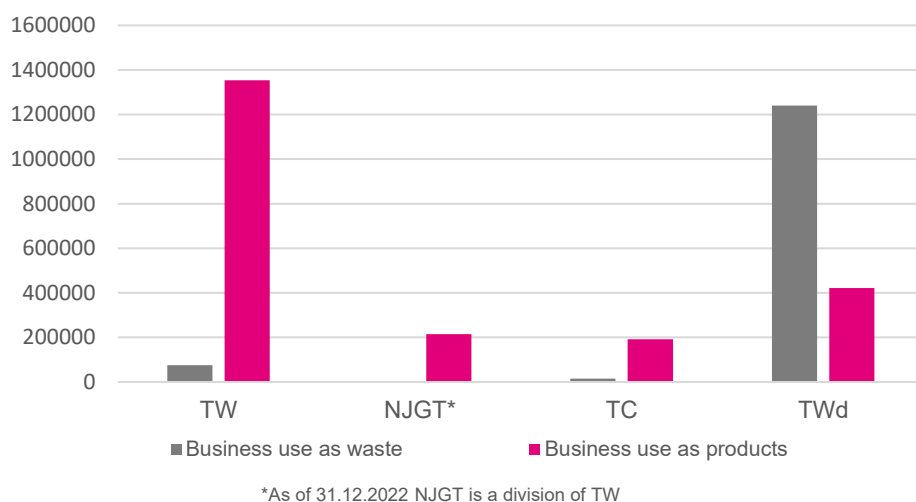


Figure no. 28. Structure (composition) and quantities of the combustion and mining by-products generated by TAURON Group, brought to the market in 2022

TAURON Group focuses on the local cooperation and the use of waste materials, using the waste stored in settling tanks and at waste dump (landfill) sites.

All of the above activities contribute to reducing of the consumption of natural resources, e.g. aggregates, sand or gravel.

In line with its strategy, TAURON Group is developing a new product segment to meet the needs of the household and SME customers. offering the service that involves the professionals repairing, at the source, the malfunctions of the internal electrical installations, radio and television equipment, household appliances, PCs, air conditioning equipment, internal water and sewage systems, locks on front doors and broken windows. The launch of the service offering involving the electricians, locksmiths, glaziers, plumbers or other professionals allows the life cycle of the used products to be extended by repairing them, which is implemented as part of the introduction of activities aimed at spreading circular economy promoting activities.

The number of mass segment customers using the Serwisant (serviceman-type) services (including equipment repair) came in at 1 512 324 in 2022.

Site Closure and Rehabilitation approach

TAURON Group's approach to dealing with assets and sites after the business operations have been completed thereupon varies depending on the nature of the individual operations and has changed in connection with the planned transition of the sector is shown in Table no. 29.

Table no. 29 TUARON Group's approach to the rehabilitation of the post-industrial sites in 2022.

| Type of activity, site | Priorities / directions | Tools |
|------------------------|---|---|
| Mining operations | <ul style="list-style-type: none"> minimizing secondary impacts safety / decommissioning of an underground mine entails a radical change of the technical and economic, organizational, legal, geological and mining conditions, as well as requires providing of the protection of an active mine. | <ul style="list-style-type: none"> strict regulations the decommissioning of underground mining facilities, as long-term process, requires the preparation of a hydrogeological documentation, traffic plans and technical projects for the mining area coal mine drainage plans |
| | <ul style="list-style-type: none"> measures aimed at restoring the forest ecosystems through the recultivation to restore forestry in an area covering more than 73 hectares. | <ul style="list-style-type: none"> technical design of the recultivation of the post-mining excavation of the "Czatkowice" Mining Plant. |

| | | | |
|--|-------------------------------|--|--|
| Power plants, combined heat and power plants, heating plants | Discontinuation of operations | <ul style="list-style-type: none"> • allocation (zoning) of the industrial areas for use in the new economic functions (no loss of their industrial character is assumed for social reasons), • adaptation of the existing buildings and industrial sites to stimulate further development or / dismantling and demolitions carried out in accordance with the approved plans and designs taking into account selective waste management | <ul style="list-style-type: none"> • ways to proceed in case of the termination of operations of the installation specified in the administrative decisions held, • procedures for environmental impact assessments of new activities, • analyses if the activity involves the use, production or release of relevant hazardous substances and having regard to the possibility of soil and groundwater contamination at the site of the installation |
| | Transition / Change of fuel | <ul style="list-style-type: none"> • use and adaptation of the existing infrastructure to the new electricity and heat generation technologies, • with respect to expendable assets: dismantling and demolitions carried out in accordance with the approved plans and designs taking into account selective waste management. | |
| Landfills, waste storage facilities, large-scale areas historically associated with waste management (GRI 306-2) | Reclaimed land | <ul style="list-style-type: none"> • allocating such land for the new industrial functions related to RES | <ul style="list-style-type: none"> • reclamation reserves, • reclamation plans, |
| | Land undergoing exploitation | <ul style="list-style-type: none"> • planning and designing reclamation aimed at the ultimate new industrial uses | <ul style="list-style-type: none"> • post-exploitation monitoring, • assessment (screening) of the environmental impact of the new activities. |

* underground coal mines were spun-off out of TAURON Group's structure as of 31.12.2022. Their decommissioning will be carried out in line with the national "Master Plan" in accordance with the social (workforce) agreement concluded by the government

After the final termination of the activity, the necessary measures are taken to control and, if it would be reasonable, reduce the spread or limit the amount of the substances identified as posing a risk (hazard). In this way, taking into account the current and future use of the land, there is no significant risk to the human health or the environment from the contamination of the soil and groundwater as a result of the prior activities allowed in the permit.

An important change in the trend associated with the transition of the sector is the move away from treating land historically associated with landfill as wasteland, and, instead, assigning it new functions, such as, for example, using it for photovoltaic farms. Due to the specifics of the support structures used to mount solar panels that do not require a high bearing capacity of the native soils, the land previously excluded from the economic use is being restored to the electricity generation functions, without having to exclude the biologically active areas from such use.

Biodiversity action program

GRI 304-1

Identification and awareness

TAURON Capital Group has knowledge of the areas that are valuable from the nature point of view, whose locations are subject to its impact, including the NATURA 2000 network areas, which is presented in Table no. 30 and Table no. 30-a.

Locations in NATURA 2000 areas where activities (operations) are conducted.

Table no. 30. GRI 304-1. Identification of priority areas for biodiversity

| Location of generation assets | NATURA habitats | NATURA birds |
|--|---|---|
| | Symbol and name | Symbol and name |
| TAURON Ekoenergia Hydro power plants ¹ | | |
| EW Wrzeszczyn | PLH020054 Ostoja nad Bobrem (Refuge on the Bóbr River) | |
| EW Olszna | | PLB020005 Bory Dolnośląskie (Lower Silesian Forests) |

| | | |
|---------------------------------|---|--|
| EW Pilchowice I | PLH020054 Ostoja nad Bobrem (Refuge on the Bóbr River) | |
| EW Pilchowice II | PLH020054 Ostoja nad Bobrem (Refuge on the Bóbr River) | |
| EW Czychów | PLH120085 Dolny Dunajec (Lower Dunajec River) | |
| EW Kuźnice | PLC120001 Tatry (Tatra Mountains) | PLC120001 Tatry (Tatra Mountains) |
| EW Janowice | | PLB020002 Grądy Odrzańskie |
| EW Głębinów | | PLB160002 Zbiornik Nyski (Nysa Reservoir) |
| EW Otmuchów | | PLB160003 Zbiornik Otmuchowski (Otmuchów Reservoir) |
| EW Turawa | | PLB160004 Zbiornik Turawa (Turawa Reservoir) |
| TAURON Ekoenergia Wind farms | | |
| Zagórze | | PLB320009 Zalew Szczeciński (Szczecin Lagoon) |

¹ Activities in these areas began decades before the establishment of the nature conservation system, in particular the NATURA 2000 network.

Table no. 30-a. GRI 304-1. Identification of priority areas for biodiversity – the distance between the existing business facilities and the nearest NATURA 2000 area

| Location of generation assets | NATURA habitats | | NATURA birds | |
|--------------------------------------|-----------------|--|---------------|---|
| | Distance (km) | Symbol and name | Distance (km) | Symbol and name |
| TAURON Wytwarzanie | | | | |
| El. Jaworzno III | 6.70 | PLH240042 Łąki w Jaworznie (Meadows in Jaworzno) | | |
| El. Jaworzno II | 5.62 | PLH240042 Łąki w Jaworznie (Meadows in Jaworzno) | | |
| El. Nowe Jaworzno | 5.62 | PLH240042 Łąki w Jaworznie (Meadows in Jaworzno) | | |
| El. Łaziska | | | 19.76 | PLB240001 Dolina Górnej Wisły (Upper Vistula River Valley) |
| El. Siersza | 7.27 | PLH240042 Łąki w Jaworznie (Meadows in Jaworzno) | | |
| TAURON Ciepło | | | | |
| Zakład Wytwarzania Katowice | 14.37 | PLH240037 Lipienniki w Dąbrowie Górnicy (Lipienniki in Dąbrowa Górnica) | | |
| Zakład Wytwarzania Tychy | | | 9,96 | PLB120009 Stawy w Brzeszczach (Ponds in Brzeszcze) |
| Zakład Wytwarzania Bielsko EC1 | 2.59 | PLH240005 Beskid Śląski (Silesian Beskid) | | |
| Zakład Wytwarzania Bielsko EC2 | | | 4,30 | PLB240001 Dolina Górnej Wisły (Upper Vistula River Valley) |
| Ciepłownia Zawiercie heat plant site | 6.03 | PLH240009 Ostoja Środkowojurajska (Mid-jurassic Refuge) | | |

| | | | | |
|--|------|--|------|--|
| Ciepłownia Olkusz heat plant site | 3.58 | PLH120006 Jaroszewiec | | |
| Ciepłownia Kamienna Góra heat plant site | 1.48 | PLH020011 Rudawy Janowickie | | |
| TAURON Ekoenergia Hydro power plants | | | | |
| EW Kraszowice | 5.55 | PLH020077 Żerkowice-Skała | | |
| EW Bobrowice I | 2.30 | PLH020095 Góra Wapienna | | |
| EW Bobrowice II | 2.00 | PLH020054 Ostoja nad Bobrem (Refuge on the Bóbr River) | | |
| EW Bobrowice IV | 2.80 | PLH020095 Góra Wapienna | | |
| EW Bystrzyca | 3.57 | PLH020019 Pasma Krowiarki (krowiarki Range) | | |
| EW Leśna | 0.08 | PLH020013 Sztolnie w Leśnej (Adits in Leśna) | | |
| EW Lubachów | 0.02 | PLH020071 Ostoja Nietoperzy Gór Sowich (Owl Mountains Bat Refuge) | | |
| EW Ławica | 1.34 | PLH020043 Przełom Nysy Kłodzkiej koło Morzyszowa (Nysa Kłodzka River Gorge near Morzyszów) | | |
| EW Opolnica | 0.58 | PLH020062 Góry Bardzkie (Bardzkie Mountains) | | |
| EW Szklarska Poręba I | | | 0.24 | PLB020009 Góry Izerskie (Jizera Mountains) |
| EW Szklarska Poręba II | 0.44 | PLC020001 Karkonosze | 0.44 | PLC020001 Karkonosze |
| EW Włodzice | 1.90 | PLH020077 Żerkowice-Skała | | |
| EW Rożnów | 0.17 | PLH120020 Ostoje Nietoperzy okolic Bukowca (Bat Refuges near Bukowiec) | | |
| EW Dąbie | 3.96 | PLH120069 Łąki Nowohuckie (Nowa Huta Meadows) | | |
| EW Przewóz | 4.31 | PLH120069 Łąki Nowohuckie (Nowa Huta Meadows) | | |
| EW Olcza | 1.60 | PLC120001 Tatry (Tatra Mountains) | 1.60 | PLC120001 Tatry (Tatra Mountains) |
| EW Marszowice | 2.49 | PLH020036 Dolina Widawy (Widawa River Valley) | | |
| EW Wały Śląskie | 0.34 | PLH020036 Dolina Widawy (Widawa River Valley) | | |
| EW Wrocław I | 4.56 | PLH020017 Grądy w Dolinie Odry (Grądy in the Odra River Valley) | | |
| EW Wrocław II | 4.62 | PLH020017 Grądy w Dolinie Odry (Grądy in the Odra River Valley) | | |
| EW Brzeg | | | 0.31 | PLB020002 |

| | | | | |
|---------------------------------|-------|--|-------|---|
| | | | | Grądy Odrzańskie (Odra River Grądy) |
| EW Kopin | | | 0.05 | PLB020002 Grądy Odrzańskie (Odra River Grądy) |
| EW Nysa | 0.62 | PLH160001 Forty Nyskie (Nysa Forts) | | |
| TAURON Ekoenergia Wind farms | | | | |
| Lipniki | | | 5.43 | PLB160003 Zbiornik Otmuchowski (Otmuchów Reservoir) |
| Wicko | 3.59 | PLH220045 Górkowski Las (Górkowski Forest) | | |
| Marszewo | 1.63 | PLH320068 Jezioro Wicko i Modelskie Wydmy (Wicko Lake and Model Dunes) | | |
| Dobrzyń | | | 5.68 | PLB040005 Żwirownia Skoki (Skoki Gravel Pit) |
| Inowrocław | 12.54 | PLH040007 Jezioro Gopło (Lake Gopło) | 12.54 | PLB040004 Ostoja Nadgoplańska (Gopło Lake Refuge) |
| Mogilno | 15.31 | PLH040028 Ostoja Barcińsko-Gąsawska (Barcin-Gąsawa Refuge) | | |
| Śniatowo | | | 3.66 | PLB320001 Bagna Rozwarowskie (Rozwarów Marshlands) |
| Goldap | 6.40 | PLH280005 Puszcza Romincka (Romincka Forest) | | |

One of such NATURA 2000 areas has been established due to the need to ensure hydrotechnical protection of the Upper Vistula River from the saline mine drainage from coal mines, as part of the industrial infrastructure of the Brzeszcze Coal Mine. The "Brzeszcze" underground water retention and dosing reservoir and discharge site is located in the Natura 2000 protected area Special Protection Area "Stawy w Brzeszczach" (Ponds in Brzeszcze) PLB 120009, with an area of 3065.9 hectares. This area covers complexes of breeding ponds in the upper Vistula River valley, located on both sides of the river. The Vistula River, meandering in its valley, forms small oxbow lakes. The refuge is home to 14 bird species listed in Annex I of the Birds Directive (out of 180 included in the Directive) and 9 species listed in the Polish Red Book (PCK). During the breeding season, the area is inhabited by at least 1% of the national population of the following bird species listed in the Polish Red Book: little bittern, purple heron, little tern, blind-winged warbler, coot, crane, redshank, black-capped warbler, laughing-stock, and barred warbler. The bittern, black tern and great crested grebe are relatively high in numbers.

In addition, the deposit currently exploited by Kopalnia Wapienia "Czatkowice" is located in Park Krajobrazowy Dolinki Krakowskie (Dolinki Krakowskie Landscape Park), whose western border is directly adjacent to the Natura 2000 area "Dolinki Jurajskie" and the nature reserve "Dolina Eliaszkówki" (Eliaszkówka Valley). The "Czerna" Natura 2000 area, the "Krzyszowice" Natura 2000 area as well as the rest of the "Jurassic Valleys" Natura 2000 area also located in close proximity to the Limestone Mine.

Restoration and re-establishing forest ecosystems associated with open-pit mining operations

The biodiversity action program with respect to historical activities is based on key principles:

- re-establishing habitat types – an attempt to re-establish nesting sites that were disturbed during the works conducted as part of the investment project,
- re-establishing biodiversity values – an attempt to re-establish biodiversity if it was disturbed during the works conducted as part of the investment project,

- re-establishing ecosystem services – an attempt to re-establish the ecosystem if it was disrupted during the works conducted as part of the investment project.

The biodiversity action program through restorations of forest ecosystems is being implemented by Kopalnia Wapienia "Czatkowice" (Czatkowice Limestone Mine) based on the "Technical design for the recultivation of the post-mining pit of the Czatkowice Mining Plant." The design envisages the recultivation to restore forestry in an area covering more than 73 hectares. It defines the species composition of the cultivation, the characteristics of the required planting material, the timing of the works and the schedule of the cultivation care for a period of five years after its establishment.

Actions taken and results achieved

Following the project "Expansion of the exploitation of the Carboniferous limestone deposit in the direction towards the village of Paczółtowiec", Kopalnia Wapienia "Czatkowice" is conducting the monitoring of nature. The results of the monitoring achieved in 2022 are presented below:

1. Chiropterofaunal monitoring

In 2022, as part of the chiropterofauna monitoring, research was carried out in the winter shelters (roosts) of bats and in their feeding grounds.

It was determined that 731 bats from seven species hibernated in the winter shelters penetrated (in 2021 it was 563 bats from eight species). The condition of the population of the lesser horseshoe bat on the wintering grounds was assessed as adequate (FV rating) - its number increased as compared to previous years, and the number of the greater spotted nightjar bat remains at a similar level (FV rating). A slight decrease in the number was observed for the greater nightjar bat (U1 rating).

The assessment of the habitat conditions at the Raclawicka Cave (Jaskinia Raclawicka), one of the key winter shelters (roosts) of the Kraków Highland, has not changed as compared to the previous years.

Two breeding colonies of bats of the lesser horseshoe bat and the greater spotted (perched) nightjar bat were found at the monastery in Czerna. In the case of the lesser horseshoe bat, its number was slightly lower than in previous years (U1 rating), the size of the breeding colony of the greater spotted (perched) nightjar bat increased (FV rating). The condition of the lesser horseshoe bat's habitat in the cellars at the Czerna Monastery was given a rating of F2 (bad), with an indication that thermal conditions at the lowest level of the cellars should be improved.

In connection with the above, the Company has commissioned works aimed at ensuring optimal thermal conditions in the cellars of the monastery, involving installing of the heating panels in two existing shelters and in a new one planned for construction. It should be noted that the deterioration of the bats' habitats (roosts) did not occur as a result of the impacts of the Mine's operation, but the Company has taken action based on the recommendation of a specialist chiropterologist who performs annual monitoring.

The measures in question were also included in the Conservation Task Plan for the Czerna site.

In conclusion, due to its direct vicinity to the Czerna Monastery, the Company has engaged in the active protection of important bat roosts.

At the Church in Krzeszowice, despite the provision of the habitat conditions, no recolonization of the attic by the spotted (perched) nightjar and the greater nightjar has been observed. At the Church in Tenczynek, the size of the breeding colony of the spotted (perched) nightjar is gradually increasing (FV rating), the condition of the habitat was rated as F1 (an unsatisfactory mark). The bat trapping and field acoustic monitoring conducted indicate that in the areas where tree plantings have been carried out, the bat activity and their species richness are relatively high.

2. Ornithological monitoring – of the breeding birds in the protection zone

Comparing the results of the monitoring obtained in 2016 - 2022, it can be concluded that the changes of the species composition are relatively small from year to year, with the number of species associated mainly with open terrain and the areas covered with the lower bushy vegetation remaining within the 30 – 40 range. These species are characteristic of the fringes of the tree stands, logging, forest crops, and they include, among others, wood pipit, song thrush, primrose, hooded warbler, and of the fields with enclaves of higher greenery, and they include, among others, bumblebee, pot-bellied warbler, red-backed shrike, barred warbler and stickleback. In places with older trees and bordering woodlands, the forest (park) species, such as blackbird, chaffinch and woodpeckers also appear. It is expected that over the next few years, the bird species associated with older-aged trees will begin to dominate the wooded strip (zone) area, while the field species, including, among others, corncrake, will completely withdraw.

Looking at the number of pairs of individual species, the upward trend in the area of the wooded strip (zone) continues, with the rise most noticeable in the species associated with shrubbery and shelterbelts, which is related to the increasing density of the planted crops. This is clearly visible based on the case of the number of blackbirds.

Four species listed in Annex I of the Birds Directive were found, i.e.: red-backed shrike, barred warbler, corncrake and green-backed woodpecker.

The protection of birds is also carried out by TAURON Ekoenergia. Periodically, by way of the decision of the Regional Directorate for Environmental Protection (RDOS) in Szczecin, the Koszalin Branch, issued after the first year of the post-commissioning environmental (nature) monitoring conducted at the Marszewo Wind Farm, one

turbine - no. 6/4 - is turned off. The turbine is turned off during the period of the peak bat activity, i.e. from 25. 07 to 05.09 every year, from 20:00 to 5:00, at wind speeds below 6 m/s, regardless of the ambient air temperature and precipitation (the system cannot be made dependent on the latter two parameters, the turbine is turned off automatically, in accordance with the set settings)

Preventive measures with respect to protecting biodiversity

Each "new" or "restored" location (site) considered for the operations of the Group's subsidiaries, depending on the scale and location, is subject to analyses and environmental "screening" or a full environmental impact assessment, including with regard to the possibility of preserving the integrity of ecosystems.

TAURON Capital Group, when carrying out the RES development projects, always takes into account the requirements set forth in the decisions on environmental conditions in terms of the measures aimed at protecting biodiversity, in particular, it implements the following principles:

- site selection - selecting an adequate site for an investment project that will have the least negative impact on biodiversity,
- design - designing facilities so that they pose the least threat to the species living in the investment project's area,
- scheduling - sticking to the set incremental (gradual) plans for completing the works so as not to generate more days during which the construction works are conducted, which reduces the threat to animals.

Promoting conservation of nature, and in particular biodiversity

The principles and directions of actions, according to the Environmental Policy, include:

1. Promoting nature protection, and in particular the preservation of habitats, plant and animal species located within the key locations, in order to protect biodiversity and the functioning of ecosystems.
2. Taking into account the impacts of the key assets on biodiversity.

In 2022, the promotion of the conservation of nature, and in particular of biodiversity, was carried out by way of:

- conducting of a campaign entitled "Our Stork",
- implementing of the project "What to plant not to replant",
- cooperation as part of the product offering Electricity + Forest in which tree planting is carried out on behalf of customers together with the Lasy Państwowe (State Forests), or the holding of, for example, educational walks in the forest.

TAURON Group's approach to the biodiversity issue in the medium term takes on a new importance in connection with the potential decommissioning of the permanently retired generation assets and the assigning of the new functionalities to the post-industrial (brownfield) sites (including the ones associated with the developing of the zero-carbon assets).

Each "new" or "restored" location (site) considered for the operations of the Group's subsidiaries is subject to analyses and assessment with regard to the possibility of preserving the integrity of ecosystem and is subjected to a nature inventory taking (including a preliminary one without the long-term monitoring of nature), including with respect to biodiversity of the existing and the adjacent flora and fauna, along with the identification of the favorable conditions for its preservation and even growth.

The proposed photovoltaic farms are planned to be implemented while preserving the largest possible biologically active area as possible.

Elevated risk of a major industrial accident

The Group's subsidiaries are, on an ongoing basis, monitoring and analyzing factors, i.e. chemical substances and their quantities as well as the way they are stored, that may determine the occurrence of an elevated risk of a major industrial accident.

In 2022, only one of the Group's plants was classified as conducting such activities - Łagisza Power Plant in Będzin belonging to TAURON Wytwarzanie. As a consequence, a public disclosure on the procedure to be followed in case of an occurrence of an industrial accident is prepared and made available to the public on the website. In connection with the above, a document defining the rules of the functioning of the power plant in case of an emergency threat has been made available, along with a description of events and situations that may occur at the power plant's site.

The document includes: the characteristics of the stored hazardous substances that determine the plant's classification as a high-risk plant, including their names or categories and the hazards they pose, the information

on the ways the public should be warned and act in the event of an industrial accident's occurrence, agreed with the competent authorities of the State Fire Brigade Service, the way the public should act in the event of an industrial accident's occurrence.

Chemical substance management at TAURON Group

GRI 416-1

Substances produced by TAURON Group that are the by-products of combustion were subjected to detailed toxicological and ecotoxicological studies as part of which their impact on health, human life and the environment was analyzed. The assessment of their chemical safety was carried out during the registration process with the European Chemicals Agency in accordance with the requirements of the REACH regulation. Guidance on the use of individual substances was indicated in the chemical safety reports and information sheets compiled for these substances.

The Group's use of chemical substances is subject to supervision and monitoring. The way chemical substances are managed is subject to periodic external inspections and supervision by such authorities as the Epidemic and Sanitary Stations or the Environmental Protection Inspectorates. Surveillance is in place, as well as registers of chemical substances used at workplaces at individual generation units are maintained. The registers are subject to periodic reviews and additions. The handling of individual chemical substances is adapted to the guidelines provided in the substance safety data sheets. Employees who use chemical substances in their daily duties are trained and acquainted with the guidelines of the substance safety data sheets that contain the principles of handling chemical substances.

E 1.1.3. TAURON Group's Climate Policy

GRI 2-24, GRI 3-3

TAURON Group's pro-climate activities had begun before the announcement of the Communication 2019/C 209/01 and the attachments related thereto (the first documents announcing pro-climate legislation for enterprises in the European Union). The Group introduced the Update of the Strategic Directions in May 2019, as part of which the so-called Green Turn of TAURON is being implemented. With respect to the above, in November 2019, the Management Board of TAURON Polska Energia S.A. also adopted to be applied the document entitled: TAURON Group's Climate Policy, which is updated on an ongoing basis. Effectively counteracting the climate change and the adaptation thereto are the two main objectives of the Policy.

The goal of the Policy is to set the directions for counteracting climate change and the sustainable development of the Group's Lines of Business, through a just transition towards achieving climate neutrality in the future. The Policy constitutes the basis for TAURON Group to manage its operations in such a way so as to mitigate the risks associated with the climate, reduce the Group's negative impact on the climate and maximize the positive effects of the climate change throughout the entire value chain.

The pro-climate actions are an integral part of TAURON Group's Strategy published in 2022.

E 1.1.4. TAURON Group and climate and sustainable business development - operations, impact, trends, results

GRI 2-12, GRI 2-13, GRI 2-14, GRI 3-3

One of the most important commitments with respect to climate change is the declaration of support for the measures aimed at reducing the global warming by maintaining the rate of the temperature rise below 2 °C as well as striving to limit the temperature increase rate to not more than 1.5°C in relation to the pre-industrial levels.

TAURON Group's Climate Policy refers to all types of activities and operations carried out within TAURON Group's value chain, the effects of which have an impact upon climate change or constitute the implication thereof, including in particular:

- measures that enable reducing the global warming,
- measures with respect to TAURON Group's adaptation to the climate changes underway.

The Policy is applicable to all of the Group's subsidiaries, although each of the Group's subsidiaries has different detailed goals and tasks stemming from the Policy. Table 31 identifies and classifies the determining areas related to climate in TAURON Group's business operations, which are both positive (highlighted in green) and negative (highlighted in gray).

Table no. 31. Identification and classification of determining areas related to climate in TAURON Group's business operations in 2022

| Subsidiary | Aspect | Greenhouse gas emissions | RES Program *** | Greenhouse gas emissions reduction program *** | Customer Eco-Efficiency Programs | Verification by external entities | Risks associated with water shortages |
|---------------------------------------|--------|--------------------------|--------------------|--|----------------------------------|-----------------------------------|---------------------------------------|
| TAURON Wytwarzanie | | Important | - | - | - | 100 % direct emissions | Not very important |
| TAURON Ciepło | | Important | Not very important | Important | Important | Direct emissions | Not very important |
| TAURON Wydobycie | | Important | - | - | - | - | - |
| TAURON Inwestycje | | - | Important | - | - | - | - |
| TAURON Nowe Technologie | | Not very important | | Not very important | Important | - | - |
| TAURON Ekoenergia | | Important | Important | - | - | - | Important |
| Nowe aktywa "Zielony zwrot TAURONA" * | | Important | Important | - | - | - | - |
| Kopalnia Wapienia "Czatkowice" | | Not very important | - | Not very important | Not very important | - | - |
| Bioeko Grupa TAURON | | - | - | - | - | - | - |
| Energetyka Cieszyńska | | Important | - | Important | - | Direct emissions | Not very important |
| Marselwind | | - | - | - | - | - | - |
| TAURON Dystrybucja | | Important ** | Important | - | Important | - | - |
| TAURON Sprzedaż | | - | Not very important | Not very important | Important | - | - |
| TAURON Dystrybucja Pomiary | | - | - | - | - | - | - |

* TZE, TEC1 I-VI, TEC1 EW Goldap, TEC1 Ino1, Aval 1, Wind T1, Polpawer, Megawatt Wind T4, WindT30MW,FF Park PV1, Windpower Gamów

** Transmission Loss Rate

***RES development and emissions reduction is a direct result of TAURON Group's Strategy for the years 2022-2030 with an outlook until 2050, adopted in 2022

TAURON continued the voluntary reporting of climate and water management information in 2022, as part of an international study conducted by CDP. The CDP disclosure standard helps to fully track the progress in adapting operations to climate change in line with the concept of sustainable development and to improve reporting.

The publications in this format are a response to the expectations of stakeholders, especially investors for whom it is of growing importance to know whether the companies in which they want to invest are aware of the risks and opportunities related to the climate and manage their impact on its change and take adaptive measures. This international survey aims to ensure that companies transparently disclose information on climate and the impact on the changes thereof.

TAURON Group in 2022, while still in the first phase of the transition (the spin-off of the coal mines as of 2023 which has been carried out and the planned spin-off of the coal fired power plants during 2023), received the following ratings:

- D as part of questionnaires related to the climate change areas ("Climate Change"),
- C as part of questionnaires related to water management ("Water").

A comprehensive discussion of the climate related issues is particularly important due to the diversity of TAURON Group's generation sources (presented in tables no. 32 and 32-a, as well as 33 and 33-a).

Table no. 32. TAURON Capital Group's installed capacity, broken down into main types of the raw material (fuel) and the regulatory requirements in 2022 and 2021

| Installed capacity in MWs by the fuel type used | Total* | |
|---|------------------------|------------------------|
| | 2022 | 2021 |
| Hard coal | 4 432 MWe 1 560 MWt | 5 408 MWe 1 749 MWt |
| Natural gas and coke oven gas as well as other energy production related gases (gas from the Brzeszcze Coal Mine's de-methanization)* | 11 MWe 165 MWt | 11 MWe 165 MWt |
| Biomass | 90 MWe 161 MWt | 90 MWe 161 MWt |
| Heating oil | 269 MWt | 269 MWt |
| Wind based electricity | 417 MWe | 381 MWe |
| Hydro power | 133 MWe | 133 MWe |
| Solar energy | 19 MWe | 11 MWe |

* For 2022, license updates in accordance with ERO's methodology and deletions for non-operational generation units are included.

Table no. 32-a. TAURON Capital Group's installed capacity, broken down into main types of the raw material and the regulatory requirements, per subsidiary in 2022 and 2021

| Installed capacity in MWs by the fuel type used | TAURON Wytwarzanie***** | | TAURON Ciepło | | TAURON Ekoenergia | | NEW Assets "Green Turn of TAURON" | | TAURON Nowe Technologie | | Kopalnia Wapienia "Czatkowice" | | Energetyka Cieszyńska***** | | Total | |
|---|-------------------------|----------|---------------|---------|-------------------|---------|-----------------------------------|---------|-------------------------|--------|--------------------------------|-------|----------------------------|------|-----------|-----------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Hard coal* | 4120 MWe | 5101 MWe | 307 MWe | 307 MWe | - | - | - | - | - | - | - | - | 5 MWe | - | 4 432 MWe | 5 408 MWe |
| | 693 MWt | 953 MWt | 796 MWt | 796 MWt | - | - | - | - | - | - | - | - | 71 MWt | - | 1 560 MWt | 1 749 MWt |
| Natural gas and coke oven gas as well as other energy production related gases (gas from the Brzeszcze Coal Mine's de-methanization)* | - | - | 164 MWt | 164 MWt | - | - | - | - | 11 MWe | 11 MWe | 1 MWt | 1 MWt | - | - | 11 MWe | 11 MWe |
| | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 165 MWt | 165 MWt |
| Biomass* | 50 MWe | 50 MWe | 40 MWe | 40 MWe | - | - | - | - | - | - | - | - | - | - | 90 MWe | 90 MWe |
| | 91 MWt | 91 MWt | 70 MWt | 70 MWt | - | - | - | - | - | - | - | - | - | - | 161 MWt | 161 MWt |
| Heating oil** | 140 MWt | 140 MWt | 129 MWt | 129 MWt | - | - | - | - | - | - | - | - | - | - | 269 MWt | 269 MWt |
| Wind based electricity*** | - | - | - | - | 201 MWe | 201 MWe | 216 MWe | 180 MWe | - | - | - | - | - | - | 417 MWe | 381 MWe |
| Hydro power*** | - | - | - | - | 133 MWe | 133 MWe | - | - | - | - | - | - | - | - | 133 MWe | 133 MWe |
| Solar energy*** | - **** | - **** | - | - | - | - | 19 MWe | 11 MWe | - | - | - | - | - | - | 19 MWe | 11 MWe |

* Electric (MWe) and thermal (MWt) installed capacity.

** Thermal (MWt) installed capacity.

*** Electric (MWt) installed capacity

**** A new data presentation method has been introduced. The data on the installed capacity of the RES sources based on solar energy is presented as part of the data included in the column titled: NEW Assets "Green Turn of TAURON". The installed capacity of the Jaworzno PV project (5 MWe) has been transferred accordingly.

***** Data for TAURON Wytwarzanie as a result of the completed consolidation includes the Nowe Jaworzno TAURON Group division, which was a separate subsidiary of the Group in the previous reporting year. For 2022, license updates in accordance with ERO's methodology and deletions for non-operational generation units are included.

***** The installed capacity of the Energetyka Cieszyńska company acquired in 2022 (as of the end of 31/12/2022). The company also has a micro heat generation plant based on the solar heat collectors with a capacity of 60 kW. The company was outside the Group in 2021.

Table no. 33. TAURON Capital Group's installed capacity, broken down into types of generation units in 2022 and 2021

| Installed capacity by the type of generation unit: | Total* | |
|--|--------|-------|
| | 2022 | 2021 |
| Power plants (MWe)** | 4 750 | 5 687 |
| Power Plants (MWt)*** | 924 | 1 184 |
| Combined Heat and Power Plants (MWe)** | 352 | 347 |
| Combined Heat and Power Plants (MWt)*** | 1 085 | 1 014 |
| Heat plants (MWt)*** | 146 | 146 |

* For 2022, license updates in accordance with ERO's methodology and deletions for non-operational generation units are included. For 2021.

** Thermal (MWt) installed capacity.

*** Electric (MWt) installed capacity

Table no. 33-a. TAURON Capital Group's installed capacity, broken down into types of generation units, per subsidiary in 2022 and 2021

| Installed capacity by the type of generation unit: | TAURON Wytwarzanie*** | | TAURON Ciepło | | TAURON Ekoenergia | | NEW Assets "Green Turn of TAURON" | | TAURON Nowe Technologie | | Kopalnia Wapienia "Czatkowice" | | Energetyka Cieszyńska**** | | Total | |
|--|-----------------------|-------|---------------|-------|-------------------|------|-----------------------------------|------|-------------------------|------|--------------------------------|------|---------------------------|------|-------|-------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Power plants (MWe)* | 4 170 | 5 151 | - | - | 334 | 334 | 235 | 191 | 10.8 | 10.8 | - | - | - | - | 4 750 | 5 687 |
| Power Plants (MWt) | 924 | 1 184 | - | - | - | - | - | - | - | - | - | - | - | - | 924 | 1 184 |
| Combined Heat and Power Plants (MWe) | - | - | 347 | 347 | - | - | - | - | - | - | - | - | 5 | - | 352 | 347 |
| Combined Heat and Power Plants (MWt) | - | - | 1 014 | 1 014 | - | - | - | - | - | - | - | - | 71 | - | 1 085 | 1 014 |
| Heat plants (MWt) | - | - | 145 | 145 | - | - | - | - | - | - | 1** | 1** | - | - | 146 | 146 |

* Power plants (MWe) total includes photovoltaic farms' and gas engines' generation (TAURON Nowe Technologie).

** Kopalnia Wapienia "Czatkowice" boiler house / heat (thermal) plant

*** Data for TAURON Wytwarzanie as a result of the completed consolidation includes the Nowe Jaworzno TAURON Group division, which was a separate subsidiary of the Group in the previous reporting year. For 2022, license updates in accordance with ERO's methodology and deletions for non-operational generation units are included

**** As part of the Energetyka Cieszyńska company acquired in 2022 (as of the end of 31/12/2022). The company was outside the Group in 2021.

Due diligence procedures and internal regulations

TAURON's Climate Policy is in accordance with the provisions of the EC Communication 2019/C209/01 and the TCFD Report for the energy sector appended thereto and fulfills the provisions thereof.

The due diligence procedures that accommodate the climate sensitive issues, implemented gradually since 2020, have been included in:

1. Risk management - process based management of climate risk in the short, medium and long term (for 2020, 2025 and 2030) has been implemented starting from 2020.
2. Asset management - adaptation to the climate change, aimed at reducing the impact of the physical risks related to the climate, has been included in TAURON Group's asset management policy since 2020.
3. Human capital, employee training and recruitment management - a number of initiatives aimed at raising the employees' awareness of climate change and promoting environmentally friendly attitudes among them are implemented steadfastly. In addition, one of the goals of the Human Capital Management Policy is to build relationships with customers and strengthen the awareness of environmental protection and climate change, as well as to promote the Green Turn of TAURON. The involvement of TAURON Group's internal experts as part of the Academy of Internal Trainers program, allows for conducting successive trainings with respect to such topics, among others, as the renewable energy sources and the challenges related to striving to achieve climate neutrality. Competencies of the future are also diagnosed as part of the knowledge and age management process. The topic related to the competencies in the field of future energy was covered in parallel, as one of the activities included in the GrEnFin Project - Greening Energy Market and Finance (related to, among other things, the analysis of business solutions and energy challenges in terms of the competency needs for students and professionals in the field of renewable energy sources and the preparation of future professionals in the energy sector in the context of the EU2030 climate targets). Information campaigns are also carried out periodically, introducing TAURON Group's strategic goals related to the Green Turn of TAURON.

Due to the fact that three subsidiaries, TAURON Wytwarzanie, TAURON Ciepło and Nowe Jaworzno Grupa TAURON, are covered by the obligation to participate in the so-called European Emissions Trading System (ETS), the climate related issues are included in the operational decision making processes at such subsidiaries

Establishment of TAURON Group's ESG committee

At the end of 2021, an ESG Committee was established at TAURON Polska Energia, whose task and role is to coordinate the activities in the individual with respect to all issues related to the impact of climate change in the TAURON Group's ongoing operations in conjunction with the set Strategic Objectives (in the medium and long term).

TAURON Group's main strategic objectives related to climate change have already been largely communicated as part of the Green Turn of TAURON (published in 2019) and as part of TAURON Group's Strategy for 2022-2030 with an outlook until 2050 (published in 2022). The most important goals include: a significant increase in the share of the low- and zero-carbon sources in TAURON Group's installed capacity by 2030 (an assumed more than fivefold increase in the RES installed capacity) and a decrease in carbon intensity (emissions) for power generation by nearly 80% and climate neutrality in 2050.

The chairperson of the ESG committee is a representative of TAURON Group's top level of management – the Vice President for Assets of TAURON Polska Energia, and the members of the ESG committee are also the representatives of middle and senior management responsible, among others, for strategy, communications, human resources and environmental protection. The top management, the Management Board and the key managers periodically study the ESG committee's activities, as well as the plans and results of the Group's ESG activities.

The role of the ESG Committee is in particular:

- adopting directions of ESG activities and metrics for TAURON Group's Strategy,
- providing feedback on/recommending/launching ESG initiatives at TAURON Group,
- accounting for the achievement of ESG goals (metrics),
- adopting the content of the annual report on the implementation of ESG objectives and issuing conclusions and recommendations in this regard for the Management Board of TAURON Polska Energia,
- reviewing the action plan in light of the changing global context and approving recommendations in this regard.

Thus, the up to now designation and adoption of ESG related directions and goals and reporting on the implementation thereof, which until 2021 had taken place within the individual operational divisions of TAURON Group, since 2022 has been implemented in a new, fully coordinated dimension.

In addition, in parallel to taking the decision to appoint the ESG Committee, the following areas for review and development in the coming years were identified, related to the impact of TAURON Group's activities with respect to climate change as well as the directions and goals resulting from the implementation of the Green Turn of TAURON:

- review of the options available to reduce the Scope 1 direct emissions in the conditions where it is necessary to provide services to the NPS,
- review of the options to further reduce the Scope 3 indirect emissions as part of activities related to the initiatives created throughout the value chain,
- review and revision of the short and medium term decarbonization targets related to the emissions reduction in the generation line of business (electricity and heat) for TAURON Group,
- defining indicators (metrics) and the monitoring thereof with respect to increasing the share of EBITDA from sustainable activities in the entire value chain,
- defining indicators (metrics) and the monitoring thereof with respect to the growth of the capital expenditures / CAPEX for sustainable activities throughout the value chain,
- integration of the Group's of activities with respect to the "Crisis Response Program",
- developing initiatives for more efficient use of natural resources,
- integration at the Group level of the superior environmental efficiency monitoring system and implementation of universal indicators (metrics) for monitoring,
- development of the environmental guidelines for liquidated (decommissioned) activities and for the use of industrial sites for new functionalities,
- development of sustainable products and services.

Adaptation to climate change

GRI 201-2, GRI 305-5

TAURON Group's Climate Policy defines the basic priorities with respect to the adaptation to the climate change. The gradual adaptation of the production assets to the consequences of extreme weather occurrences and volatility of weather conditions, in particular in case of the Lines of Business sensitive to the volatility of temperature, rainfall and wind strength, is implemented as part of the system-wide approach to Asset Management.

Also with respect to the new operations or investment projects, the risks associated with the climate change are taken into account, as an additional criterion for the assessment thereof, in particular the physical risks, when placing (siting) new investment projects.

Based on the document *Poland's Environmental (Ecological) Policy 2030* and the ISOK (National IT Protection System) portal, regions were identified that were more exposed to the physical risk related to climate. Priorities for actions with respect to the assets have been worked out in terms of the adaptation of the assets to climate change in the regions potentially more exposed to acute or long-term physical risk related to climate. The Group's assets are mostly located in southern Poland, which, according to the data disclosed in Poland's Environmental (Ecological) Policy 2030 and in the ISOK system, is less exposed to desertification than the areas of central Poland. Due to their location, the Group's assets are also outside the area that may be transforming due to the forecast sea level rise.

Due to the cooling systems used, TAURON Group's conventional power plants are much less exposed to the need to reduce production due to the shortage of water than the power plants with the so-called open cooling systems. The above factor puts TAURON at an advantage as compared to the other energy groups operating in Poland and in Europe.

The consequences of the extreme weather conditions are most strongly felt by the TAURON Ekoenergia and TAURON Dystrybucja subsidiaries.

At TAURON Ekoenergia, the hydrological drought and uneven precipitation, resulting in longer periods with no rainfall, intermittent abrupt precipitation (torrential rains) periodically lead to the inability to generate electricity. For these reasons, the integration of water scarcity into regular risk assessments and the detailed reporting of risks arising from water scarcity or lack thereof has become a necessity for a company like TAURON Ekoenergia, whose model is based largely on hydro power generation. However, due to the fact that it has reservoir based hydro power plants and not just the run-of-river hydro plants, TAURON Ekoenergia is not critically exposed to the water shortage risks. The number of days on which the electricity production at TAURON Ekoenergia did not take place due to the too low or too high water level in the rivers, is presented in Table no. 34.

Table no. 34. GRI 201-2 The number of days on which the electricity production at TAURON Ekoenergia did not take place in 2022 due to the low water levels in the rivers

| River | Power plant | The number of days in the month with no production | | | | | | | | | | | | Total |
|--------------|---------------------|--|----------|-------|-------|-----|------|------|--------|-----------|---------|----------|----------|-------|
| | | January | February | March | April | May | June | July | August | September | October | November | December | |
| Odra | Brzeg | | | | 3 | | 4 | 31 | 24 | | 1 | | 3 | 66 |
| | Kopin | | | 2 | | | | 8 | | | | | | 10 |
| Bóbr | Bobrowice II | | | | | | 19 | 21 | 18 | | | 24 | 13 | 95 |
| | Bobrowice IV | | | | | | 4 | 16 | 13 | | | | | 33 |
| Nysa Kłodzka | Bystrzyca | | | | | | | | | | 10 | | 4 | 14 |
| Kamienna | Szklarska Poręba II | | | | | | | 16 | 16 | | 1 | 3 | | 36 |
| Wisła | Dąbie | | | | | | | | | | | | | 0 |
| | Przewóz | | | | | | | | | | | | | 0 |
| Potok Bystre | Kuźnice | | | 31 | 13 | | | | | | | | | 44 |

At TAURON Dystrybucja, an increase in the frequency and intensity of hurricanes and strong winds, incidentally accompanied by whirlwinds and lightnings can, in extreme cases, result in mass failures, and as a consequence, breaking of the power lines, as well as periodic and local flooding. The percentage of this type of failures at TAURON Dystrybucja in 2022 is illustrated in Table no. 35.

Table no. 35. Share of mass failures in total failures at TAURON Dystrybucja in 2022

| Share of mass failures in total failures | Number of mass failures |
|--|-------------------------|
| 16.2% | 3 |

Failures often result in interruptions in the supply of electricity, the frequency and duration of which are illustrated in tables no. 36 and 37.

Table no. 36. Frequency of the interruptions in the supply of electricity to the consumers of TAURON Dystrybucja in 2022

| Interruption type | CP * (number of interruptions / consumer / year) |
|---|--|
| CPmd - regulatory interruption frequency indicator in the area: large cities | 0.49 |
| CPmp - regulatory interruption frequency indicator in the area: cities with county rights | 1.12 |
| CPm - regulatory interruption frequency indicator in the area: cities | 1.55 |
| CPw - regulatory interruption frequency indicator in the area: large villages | 3.74 |

* Formerly SAIFI (System Average Interruption Frequency Index), replaced with the area related indicators: CPmd, CPmp, CPm, CPw. The methodology used to calculate the CPmd, CPmp, CPm, CPw indices is the same as the methodology used to calculate the SAIFI index. SAIFI (System Average Interruption Frequency Index) - indicator of the average system frequency of long and very long interruptions, representing the number of consumers exposed to the effects of all these interruptions during the year divided by the total number of consumers served

Table no. 37. Average duration of the interruptions in the supply of electricity distributed by TAURON Dystrybucja in 2022

| Interruption type | CTP * (minutes / consumer / year) |
|---|-----------------------------------|
| CTPmd - regulatory interruption duration indicator in the area: large cities | 16.71 |
| CTPmp - regulatory interruption duration indicator in the area: cities with county rights | 64.31 |
| CTPm - regulatory interruption duration indicator in the area: cities | 80.75 |
| CTPw - regulatory interruption duration indicator in the area: large villages | 198.13 |

* Formerly SAIDI, replaced with the area related indicators: CTPmd, CTPmp, CTPm, CTPw. The methodology used to calculate the CTPmd, CTPmp, CTPm, CTPw indices is the same as the methodology used to calculate the SAIDI index. SAIDI (System Average Interruption Duration Index) - the indicator of the average system duration of a long and very long interruption, expressed in minutes per consumer per year, which is the sum of the products of its duration multiplied by the number of consumers exposed to the effects of this interruption during the year divided by the total number of consumers served

Overhead infrastructure is also disadvantaged by the more frequent occurrence of temperatures oscillating around zero degrees Celsius (for overhead lines, in these conditions such occurrences as wet snow deposition or icing become more intense and frequent, and thus lead to a potential increase in the frequency of failures) and the weakening of the stands of trees, making trees more susceptible to the damage caused by the wind. This is mitigated by the steps taken, inter alia, aimed at increasing the share of the cable lines as compared to the overhead ones (illustrated in Table no. 38).

Table no. 38. Targets and implementations regarding the adaptation of the distribution assets to climate change by increasing the share of MV cable lines in relation to the total length of the MV lines (%), cables / overhead lines

| Target measure (metric) | MV cable length share in relation to the total length of the MV lines (%), unit | |
|-------------------------|---|-------------|
| Rok | Target | Performance |
| 2019 | - | 38.4% |
| 2020 | 38.65%* | 38.73% |
| 2021 | | 39.71% |
| 2022 | | 40.06% |
| 2025 | 41.00%* | - |
| 2030 | 45.00% | - |

* Targets for 2020 and 2025 have been recalculated taking into account the specifics of new connections to the MV grid and the pace of the RES development, and in accordance with the forecast of the specifics of the grid load

The consequences of the more frequent temperature extremes and the occurrence of milder winters are also felt by TAURON Ciepło, however these are not only the adverse effects.

According to the data and analyses, winters have been much milder in the area served by TAURON Ciepło (Silesia-Dąbrowa metropolitan area, as well as Zawiercie and Olkusz) over the last few years. This fact, of course, translates into a reduction in the demand for heat supply for the purpose of heating apartments and buildings.-

An additional factor is the modernization the thermal insulation of buildings, which also has an impact on reducing heat demand. The trends of changes during the heating season are shown in Figures no. 29 and 30

Season's Weighted Average Temperature

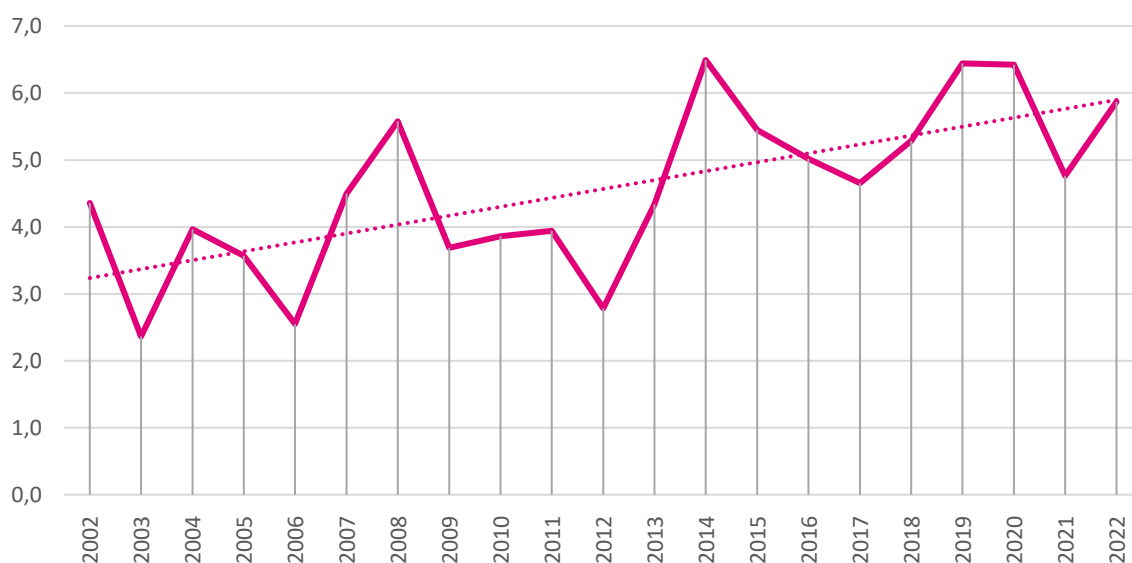


Figure no. 29. Chart of the weighted average air temperature in Poland during the heating season - trend of changes in 2011-2022 [°C].

In the same period of 2020 to 2022, the length of the heating season got extended by 32 days (the trend line in Figure no. 30), which to a certain degree mitigated the difference resulting from an increase in the season temperature. However, this does not make up for an increase in outdoor temperatures.

Number of days in a season

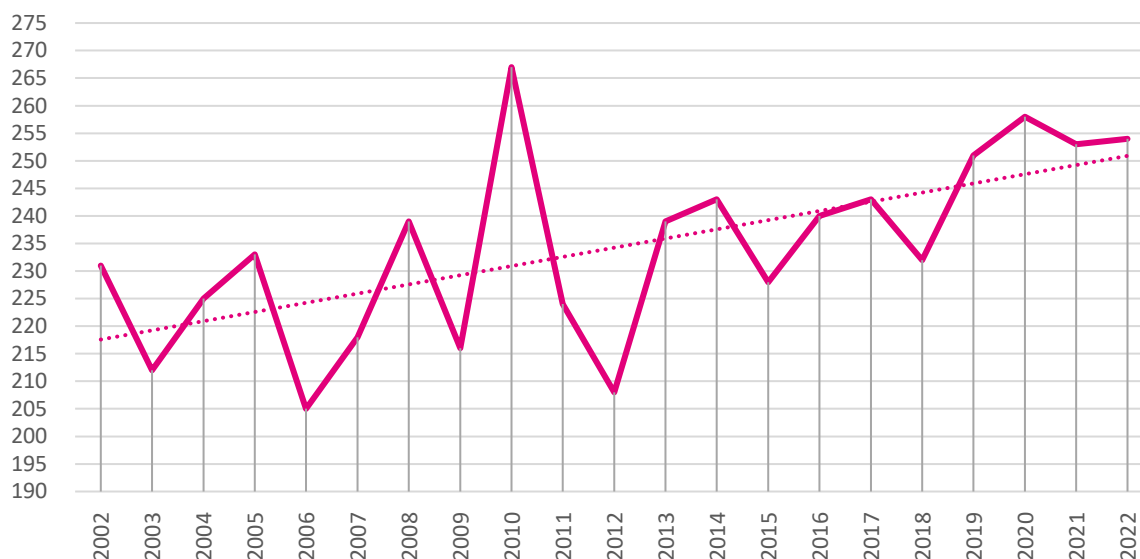


Figure no. 30. Length of the heating season in the years 2002 - 2022. The data is applicable to PEC Katowice in the years 2002-2011 and TAURON Ciepło in the years 2011-2022 [days].

Comparing the 2022 data to the 2021 data, the heat production as well as the demand for heat supply at TAURON Ciepło, during the heating period were at a much lower level, with a difference in heat production (decrease) coming in at approximately 20%. This was a consequence of a number of factors: length of the season (a similar number of the heating days) and the average temperature of the heating season in 2022 (higher than in 2021).

The impact of the situation related to the war in Ukraine (the armed invasion of Ukraine by the Russian Federation) and the resulting short term shortages and disruptions in the fuel supplies (breaking and rebuilding of the supply chains mainly for the residential customers), numerous appeals by the influential representatives, such as the EU countries' ministers of the environment asking for energy conservation and efficient use of energy, from the point of view of the behavior of the district heating consumers contributed to the occurrence of a general trend in energy conservation (among other things, setting a lower indoor temperature without compromising the comfort for users), which has translated into the lower demand and lower heat production.

In addition to the long term reduction plans related to the ultimate change in the Group's fuel mix, the reduction of the greenhouse gas emissions is also achieved through smaller ongoing reduction measures, adequate to the line of business, and such reductions made in 2022 are reflected in Table no. 39.

Table no. 39. GRI 305-5. Reduction of the greenhouse gas emissions by TAURON Capital Group in 2022

| | Initiative | Nature of the initiative mandatory (stemming from legal provisions) / voluntary | Reduction of greenhouse gas emissions [tCO ₂] |
|-------------------------|--|---|---|
| TAURON Wytwarzanie | Change of types of fuels used - conversion of a boiler to a biomass-only boiler (Jaworzno II) | voluntary | 146 041 |
| TAURON Ciepło | Change in the type of fuels used | voluntary | 275 292 |
| TAURON Nowe Technologie | Burning of methane (coal mine de-methanization) in cogeneration engines | voluntary | 33 271* |
| KW "Czatkowice" | Modernization of the plant's technological process system and liquidation of the 6 MWt coal fired boiler house | voluntary | 2116 |
| TAURON Dystrybucja | Jelenia Góra Branch carried out an investment project at ul. W. Pola 47, consisting in the construction of renewable energy sources in the form of ground source heat pumps interworking with the lower source in the form of vertical wells. In connection with the implementation of the above investment project, the existing boiler house was shut down | voluntary | 248.2 |

| | | | |
|-------------------------|---|-----------|----------------|
| TAURON Dystrybucja | Modernization of the thermal insulation was implemented at 5 locations (Opole Branch - 3, Częstochowa Branch - 1 and Jelenia Góra Branch - 1). The coal-fired boiler house in Opole was decommissioned. | voluntary | 123.7** |
| TAURON Dystrybucja | "Modernization of GPZ (Transformer/Switching Station) Wadowice" including modernization of the thermal insulation of the station | voluntary | 22.1 |
| TOTAL REDUCTIONS | | | 457 114 |

* Calculated as the difference in the GHG emissions for producing the same volume of electricity in a modern coal fired power plant and in gas engines.

** Due to the change of the boiler room and the transfer of the heat supply service, the GHG Scope 1 emissions became Scope 3 emissions. No change from 2021 is demonstrated, and the effects of the initiated modernization of the thermal insulation of the utility buildings at the TAURON Dystrybucja subsidiary will be included in the 2023 reporting year.

TAURON Group's greenhouse gas emission reductions achieved in 2022, presented above, do not include emissions avoided as a result of the direct production increases from the RES sources, as they are not built directly to replace specific fossil fuel based sources, but the balance of production enables demonstrating such emissions.

Table no. 39-a. GRI 305-5. TAURON Capital Group's greenhouse gas emission reduction achieved in 2022 as avoided emissions

| | Production from new RES sources commissioned in 2022 MWh* | Greenhouse gas reduction through avoided emissions [t eqCO ₂] |
|--------------------|---|---|
| Photovoltaic farms | 2 833 | 2 096 |
| Wind farms | 39 864 | 29 499 |

* calculated based on the average emission factor for the electricity production in a modern coal fired power plant (0.740 Mg CO₂ / MWh).

Actions taken and results achieved

Cooperation with partners to counter climate change

TAURON Group engages in the public discussion on the energy transition concerning climate related issues on an ongoing basis.

Matters related to the energy transition were discussed on an ongoing basis during meetings of such working groups as the Regional Energy Council at the Silesian Union of Municipalities and Counties or the Regional Team for the Initiative of Mining Regions at the Office of the Marshal of the Silesia Province. In 2022, TAURON continued its operational cooperation with the Local Government Units (JST - Jednostki Samorządu Terytorialnego) with respect to the National and Regional Just Transition Plans.

Through this cooperation and dialogue, the Group has an opportunity to co-create strategic documents for the benefit of the regions most vulnerable to the transition, whose goals include:

- greater opportunities in terms of employment in new and transitioning sectors,
- opportunities for skills transition,
- improving the energy efficiency of buildings,
- investing in the fight against energy poverty,
- better access to clean, affordable and secure energy,
- supporting the transition to the low carbon technologies and economic diversification based on the climate-resilient investments and jobs,
- creating attractive conditions for public and private investors,
- providing easier access to credit and loans as well as financial support,
- investing in the creation of new companies, SMEs and start-ups,
- investing in scientific research and innovation,
- investing in public, sustainable transportation,
- investing in renewable energy sources,
- improving digital connectivity networks,
- providing loans on preferential terms to public bodies at the local level,
- improving energy infrastructure, district heating systems and transportation networks.

TAURON Group's impact on climate change

GRI 305-1, GRI 305-2, GRI 305-3

TAURON Group's business model has both a positive as well as a negative impact on the climate. The operations related to the burning of fossil fuels, which are the core business operations of TAURON Wytwarzanie and TAURON Ciepło, as well as unorganized (scattered) emissions of methane into the atmosphere from Zakład Górniczy Brzeszcze (Brzeszcze Coal Mine), owned by TAURON Wydobycie, are important sources of greenhouse gas emissions.

Direct greenhouse gas emissions by TAURON Capital Group in 2022 are presented in tables 40 and 40-a.

With regard to the final consumer, TAURON Group, by offering and selling products within its value chain (mainly electricity and gas fuels), causes greenhouse gas emissions accounted for as Scope 3 indirect emissions. Scope 3 indirect emissions also include GHG emissions from the transportation of fuels, materials and products (the Group's subsidiaries and intermediaries) as well as GHG emissions from business trips. In 2022, it was respectively:

- approx. 19.9 million tCO₂e (Scope 3) related to the consumption of electricity sold to the final consumers,
- approx. 0.8 million tCO₂e (Scope 3) related to the consumption of the sold natural gas and from the Brzeszcze Coal Mine de-methanization,
- approx. 0.099 million tCO₂e (Scope 3) related to the transportation of fuels, materials and products as well as business trips and the commuting of the employees to the work place.

Scope 2 and Scope 3 indirect greenhouse gas emissions are presented in tables 40-b and 40-c. The methodology used to determine indirect emissions and factors used to calculate indirect GHG emissions (Scope 2 and 3) are presented directly under tables 40-b and 40-c. A summary of the carbon footprint for TAURON Capital Group for 2022 is presented in Table 40-d.

Table no. 40. GRI 305-1. Direct greenhouse gas emissions [tCO₂e] by TAURON Capital Group in 2022 and 2021 (Scope 1)

| | Total | |
|---|-------------------|-------------------|
| | 2022 | 2021 |
| Emissions related to electricity generation | 11 939 028 | 11 837 461 |
| Emissions related to heat generation | 1 049 115 | 1 169 995 |
| Emissions from gas leaks, including those associated with accidents and direct emissions accompanying coal mining | 767 696 | 678 537 |
| Emissions related to the transportation of materials, products and waste | 17 863 | 16 832 |
| Total direct emissions | 13 773 702 | 13 702 825 |
| Biogenic emission | 421 333 | 646 531 |

Table no. 40-a. GRI 305-1. Direct greenhouse gas emissions by TAURON Capital Group in 2022 and 2021, per subsidiary (Scope 1)

| | Greenhouse gas emissions [t CO ₂ e] | | | | | | | | | | | | | | | |
|---|---|-------------------|------------------|------------------|-------------------|----------------|-----------------------------------|---------------|-----------------------|---------------|----------------------------|---------------|-----------------------------|----------|-------------------|-------------------|
| | TAURON Wytwarzanie** | | TAURON Ciepło | | TAURON Wydobycie* | | Kopalnia Wapienia "Czatkowice" | | TAURON Dystrybucja | | TAURON Nowe Technologie | | Energetyka Cieszyńska*** | | Total | |
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Emissions related to electricity generation | 11 213 700 | 10 907 441 | 690 038 | 909 119 | - | - | - | - | - | - | 32 063 | 20 901 | 3 227 | - | 11 939 028 | 11 837 461 |
| Emissions related to heat generation | 332 598 | 331 916 | 691 689 | 830 048 | - | - | 8 700 | 7 394 | 564 | 637 | 0 | 0 | 15 563 | - | 1 049 115 | 1 169 995 |
| Emissions from gas leaks, including those associated with accidents and direct emissions accompanying hard coal extractions | 472 | 533 | 0 | 0 | 764 779 | 675 537 | 0 | 0 | 2 445 | 2 467 | 0 | 0 | 0 | - | 767 696 | 678 537 |
| Emissions related to the transportation of materials, products and waste | 1 665 | 1 284 | 962 | 843 | 605 | 365 | 4 349 | 4 253 | 10 144 | 9 951 | 134 | 136 | 4 | - | 17 863 | 16 832 |
| Total direct emissions | 11 548 435 | 11 241 174 | 1 382 689 | 1 740 010 | 765 384 | 675 902 | 13 049 | 11 647 | 13 153 | 13 055 | 32 197 | 21 037 | 18 794 | - | 13 773 702 | 13 702 825 |
| Biogenic emissions | 146 041 | 344 440 | 275 292 | 302 091 | - | - | - | - | - | - | - | - | - | - | 421 333 | 646 531 |

* Methane emissions from the coal mine ventilation system, the purpose of which is to ensure the safety of the workforce, are not limited in a technically justified manner due to climate protection and they are the so-called off-balance sheet methane emissions. They are calculated and taken into account in order to pay the fees due for the economic use of the environment. According to the GHG Protocol reporting standard, methane emissions are included in Scope 1 direct emissions and this is where they have been assigned as of 2021, CO₂ equivalent emissions for methane calculated on the basis of the greenhouse effect potential index according to GHG Protocol - AR5 (GWP-25 for CH₄ => CO₂e) accounted for approx. 5% of the total Scope 1 direct emissions in 2022 and for approx. 5% in 2020 and for approx. 7% in 2020.

Brzeszcze Coal Mine also has a mine methane drainage plant, in which in the entire 2022, 100% of methane was captured and used (sold) in the amount of approx. 50 million Nm³, so that the captured methane was not a source of direct emissions to the atmosphere, but was a primary energy source for the external recipients and for the TAURON Nowe Technologie subsidiary. In 2021, TAURON Nowe Technologie launched cogeneration systems (CHP) based on four gas engines with a total capacity of 10.8 MWe, located near the Brzeszcze Coal Mine and in nearby Brzeszcze-Jawiszowice.

** Data for TAURON Wytwarzanie as a result of the completed consolidation includes the Nowe Jaworzno TAURON Group division, which was a separate subsidiary of the Group in the previous reporting year.

*** As part of the Energetyka Cieszyńska company acquired in 2022 (as of the end of 31/12/2022). Data includes incomplete 4th quarter of 2022. The company was outside the Group in 2021.

Table no. 40-b. GRI 305-2. Indirect greenhouse gas emissions (tCO_{2e}) by TAURON Capital Group in 2021 in connection with the operations conducted by the subsidiaries (Scope 2)

| Indirect greenhouse gas emissions [tCO _{2e}] | | |
|--|------------------|--|
| | 2022 | Explanatory notes |
| Indirect emissions related to the use of purchased electricity and losses (balancing difference) related to electricity distribution | | It includes all of the electricity purchased by the Group's subsidiaries and the amount of electricity related to the losses (balancing difference) in connection with the operations conducted by TAURON Dystrybucja S.A. |
| Market-based * | 1 552 932 | |
| Location-based ** | 1 655 163 | |
| Total indirect emissions (Scope 2) Market-based | 1 552 932 | |
| Total indirect emissions (Scope 2) Location-based | 1 655 163 | |

* (Scope 2) Market-based: indirect GHG emissions resulting from the consumption of purchased electricity and grid losses, calculated on the basis of the indicator published by the specific electricity supplier, TAURON Group supply subsidiaries

** (Scope 2) Location-based: indirect GHG emissions, resulting from the consumption of purchased electricity and grid losses, calculated on the basis of the average indicator for Poland. This indicator is published on the KOBIZE website as of the end of 2022, hence the indicator value projected for '22 value (0.680 Mg CO₂/MWh), calculated on the basis of PSE's data on the NPS electricity generation and the fuel mix structure in 2022, was used for the calculations.

Table no. 40-c. GRI 305-3. Indirect greenhouse gas emissions (tCO_{2e}) by TAURON Capital Group in 2022 in connection with the operations conducted by the subsidiaries (Scope 3)

| Indirect greenhouse gas emissions [tCO _{2e}] | | |
|---|-------------------|--|
| | 2022 | Explanatory notes |
| Indirect emissions related to the use of electricity sold by the final consumer (Category 3. Emissions related to electricity and fuels) | 19 860 940 | It includes all of the electricity sold by the Group's supply subsidiaries. ¹⁾ The supply volume to the final consumer that was generated from the sources of the Group's subsidiaries is not included. |
| Indirect emissions related to the use of the sold gas fuel by the final consumer (Category 3. Emissions related to electricity and fuels) | 824 467 | It includes the volume of the gas fuels sold by the Group's supply subsidiaries ¹⁾ the sales of the coal mine gas from the Brzeszcze Coal Mine de-methanization to the final consumers outside the Group ¹⁾ |
| Indirect emissions related to the transportation of fuels (including biomass) and from the services purchased with respect to the transportation of products and waste from major production processes (Category 4. Upstream – Transportation and Distribution) | 60 879 | It includes the transportation of coal and biomass to the subsidiaries ²⁾ : TAURON Wytwarzanie, TAURON Ciepło and Nowe Jaworzno Grupa TAURON ³⁾ and the transportation of products and waste from the main production processes carried out by external entities for a dedicated entity of the Bioeko Grupa TAURON subsidiary. |
| Indirect emissions from business trips (Category 6. Business trips) | 2 661 | It includes selected Group's subsidiaries. The calculations based on fuel consumption. |
| Indirect emissions from the commuting of the employees to the work place (Category 7. Commuting of the employees to the work place) | 35 062 | Calculations based on the number of employees and the distance index for the commuting to the work place |
| Total indirect emissions (Scope 3) | 20 784 008 | - |

¹⁾ The indicator (metric) used to calculate indirect GHG emissions related to the use of the electricity purchased based on the underlying data of TAURON Group's supply subsidiaries. For the gas fuel and the coal mine gas from the Brzeszcze Coal Mine's de-methanization the indicator (metric) for the calculation of indirect GHG emissions was adopted based on the KOB and ZE underlying data for the settlement of the GHG emissions for 2022 in the EU ETS trading system.

²⁾ The indicators (metrics) used to calculate the indirect GHG emissions related to the transportation of materials are assumed in accordance with the underlying data: "Guidelines for Measuring and Managing CO₂ Emission from Freight Transport Operations. A. McKinnon (UK)" respectively:

- transportation by trucks on the roads - 62 g CO_{2e} / ton-km (the mean value for two data sources) and 239 396 576 tkm as the total number of ton kilometers calculated based of the actual weights of fuel and product loads as well as the average length of the road routes,
- transportation by rail - 22 g CO_{2e}/ton-km and the total number of ton-kilometers calculated on the basis of the actual weights of the fuel and product loads as well as the average length of the railway routes.

Ton-kilometers take into account the weight of the materials transported from the place of initial fuel loading to the destination (the Group's subsidiaries), including the imports. For the fuel imports, the sea freight and a rate to calculate the indirect GHG emissions of 7 g CO₂e / ton-km were assumed.

Ton-kilometers for the transportation of biomass take into account the averaged distance for the entire volume of biomass from the producer to the destination.

Transports commenced at the end of 2021 were not taken into account.

³⁾ As part of the Energetyka Cieszyńska company acquired in 2022 (as of the end of 31/12/2022). The company was outside the Group in 2021.

Table no. 40-d. GRI 305-1, 305-2, 305-3. TAURON Capital Group's carbon footprint for 2022 due to its operations (Total GHG emissions in (tCO₂e) for Scope 1 - direct GHG emissions and for Scope 2 and 3 - indirect GHG emissions)

| TAURON Capital Group's carbon footprint for 2022 [tCO ₂ e] | |
|---|-------------------|
| Emissions related to electricity generation | 11 939 028 |
| Emissions related to heat generation | 1 049 115 |
| Emissions from gas leaks, including those associated with accidents and direct emissions accompanying coal mining | 767 696 |
| Emissions related to the transportation of materials, products and waste | 17 863 |
| Total direct emissions (Scope 1) | 13 773 702 |
| Indirect emissions related to the use of purchased electricity and losses (balancing difference) related to electricity distribution | |
| Total indirect emissions (Scope 2) Market-based * | 1 552 932 |
| Total indirect emissions (Scope 2) Location-based ** | 1 655 163 |
| Indirect emissions (Scope 3) related to the use of electricity sold by the final consumer (Category 3. Emissions related to electricity and fuels) | 19 860 940 |
| Indirect emissions (Scope 3) related to the use of the sold gas fuel by the final consumer (Category 3. Emissions related to electricity and fuels) | 824 467 |
| Indirect emissions (Scope 3) related to the transportation of fuels (including biomass) and from the services purchased with respect to the transportation of products and waste from major production processes (Category 4. Upstream – Transportation and Distribution) | 60 879 |
| Indirect emissions (Scope 3) from business trips (Category 6. Business trips) | 2 661 |
| Indirect emissions (Scope 3) from the commuting of the employees to the work place (Category 7. Commuting of the employees to the work place) | 35 062 |
| Total indirect emissions (Scope 3) | 20 784 008 |
| Aggregate (Scope 1+ Scope 2 + Scope 3) Market-based * | 36 110 642 |
| Aggregate (Scope 1+ Scope 2 + Scope 3) Location-based ** | 36 212 873 |
| Biogenic emissions | 421 333 |

* (Scope 2) Market-based: indirect GHG emissions resulting from the consumption of purchased electricity and grid losses, calculated on the basis of the indicator published by the specific electricity supplier, TAURON Group supply subsidiaries and the grid indicator (factor)

** (Scope 2) Location-based: indirect GHG emissions, resulting from the consumption of purchased electricity and grid losses, calculated on the basis of the average indicator for Poland. This indicator is published on the KOBiZE website as of the end of 2022, hence the indicator value projected for '22 value (0.680 Mg CO₂/MWh), calculated on the basis of PSE's data on the NPS electricity generation and the fuel mix structure in 2022, was used for the calculations.

Improving efficiency throughout the value chain

Actions taken for the climate are also reflected in various types of investment projects carried out by TAURON Group's subsidiaries in 2022 and in the previous years, which have a direct and indirect impact on reducing specific (unit) fuel and energy consumption as well as reducing or avoiding gas emissions to the atmosphere.

The Group's subsidiaries are undertaking a number of activities aimed at improving energy efficiency, which is reflected in the implementation, at the operational level of asset management, of measures aimed at supporting a preliminary energy efficiency audit for the planned initiatives related to the modernization or replacement of the production assets. As a result of these activities, investment tasks will be evaluated with respect to their estimated potential for acquiring property rights, the so-called "white certificates," in the aggregate amount of min. 10 toe. The Group's subsidiaries with the highest primary energy savings potential are getting ready to implement an energy management system.

The number of electric vehicle charging stations connected to the power grid of the Group's subsidiary went up by another 72 stations in 2022.

TAURON Nowe Technologie, a subsidiary dedicated to the operation and maintenance of street lighting in the area of the Group's operations, continued in 2022 the program of replacing the street lights with the energy saving lighting (approx. 32.6 thousand units), which will allow for the annual savings in the final electricity consumption by the consumers (more than 20 municipalities) in the estimated amount of approx. 9.5 thousand MWh/year.

The effects from the production of the new photovoltaic farms and wind farms are taken into account in 2022:

- a photovoltaic farm in Jaworzno (5 MWe), commissioned at the end of 2020 by TAURON Wytwarzanie and currently managed by the Group subsidiary (TAURON Inwestycje),
- a photovoltaic farm in Choszczno I (6 MWe), commissioned at the end of 2020 and operationally managed by TAURON Ekoenergia,
- a photovoltaic farm in Choszczno II (8 MWe), commissioned at the end of 2022 and operationally managed by TAURON Ekoenergia,
- a wind farm in Majewo (6 MWe), commissioned at the end of 2022 and operationally managed by TAURON Ekoenergia,
- a wind farm in Piotrków Trybunalski (30 MWe), commissioned at the end of 2022 and operationally managed by TAURON Ekoenergia.

TAURON Dystrybucja is implementing a long term program of replacing electricity meters with a new type of "smart-metering". In 2022, the number of the "smart-metering" type meters stood at approx. 1 million units.

Preparation and adaptation of the infrastructure taking into account the need to adapt to climate change is one of the significant items of TAURON Capital Group's capital expenditures. As part of these activities, among others, the alteration and replacement of the grid (including adaptation to the RES grid connections), modernization of substations in order to increase their efficiency, replacement of lighting with the energy saving solutions, construction of "e-mobility" and smart distribution infrastructure were carried out. The expenditures on the projects related to climate change adaptation are presented in Table no. 57-b (capital expenditures in line with the EU Environmental Taxonomy).

TAURON Ekoenergia's operations (along with the operations of the companies it is managing or its subsidiaries), which are based entirely on the production of electricity from the renewable sources, have a positive impact on the climate. As a result of the optimization of the wind farms related production assets and the favorable conditions at the sites where the wind farms are located, very good results have been achieved, both in the form of a significant reduction in the rate of in-house needs (efficiency), as well as in an increase of the renewable energy produced. Tables 41 and 41-a show the volume of electricity produced by TAURON Group's units in 2022, broken down by its main sources.

Table no. 41. Net electricity and heat volume generated by TAURON Capital Group, broken down into main energy sources in 2022 and 2021

| | Electricity [GWh] | | Heat [GJ] | |
|--|-------------------|---------------|--------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| Hard coal | 12 360 | 12 248 | 8 428 | 9 643 |
| Sludge | 177 | 187 | 464 | 450 |
| Liquid fuels | 118 | 94 | 422 | 475 |
| Natural gas and coke oven gas as well as other energy production related gases (gas from the Brzeszcze Coal Mine's de-methanization) | 82,9 | 50 | 59 | 148 |
| Biomass | 340 | 434 | 452 | 547 |
| Wind energy | 854 | 831 | 0 | 0 |
| Hydro power | 317 | 402 | 0 | 0 |
| Solar energy | 15 | 11 | 0 | 0 |
| TOTAL | 14 264 | 14 257 | 9 825 | 11 263 |

Table no. 41-a. Net electricity [GWh] and net heat [TJ] volumes generated by TAURON Capital Group, broken down into main energy sources, per subsidiary in 2022 and 2021

| | TAURON Wytwarzanie* | | | | TAURON Ciepło | | | | TAURON Ekoenergia | | | | NEW Assets "Green Turn of TAURON" | | | | TAURON Nowe Technologie | | | | Energetyka Cieszyńska** | | | | Total | | | |
|---|---------------------|---------------|--------------|--------------|-------------------|--------------|--------------|--------------|-------------------|------------|-----------|----------|-----------------------------------|------------|-----------|----------|-------------------------|-----------|-----------|----------|-------------------------|----------|------------|----------|-------------------|---------------|--------------|---------------|
| | Electricity [GWh] | | Heat [TJ] | | Electricity [GWh] | | Heat [TJ] | | Electricity [GWh] | | Heat [TJ] | | Electricity [GWh] | | Heat [TJ] | | Electricity [GWh] | | Heat [TJ] | | Electricity [GWh] | | Heat [TJ] | | Electricity [GWh] | | Heat [TJ] | |
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Hard coal | 11 373 | 11 063 | 2 492 | 2 588 | 979 | 1 186 | 5 783 | 7 055 | - | - | - | - | - | - | - | - | - | - | - | - | 8 | - | 153 | - | 12 360 | 12 248 | 8 428 | 9 643 |
| Sludge | 100 | 101 | 149 | 137 | 77 | 85 | 315 | 313 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 177 | 187 | 464 | 450 |
| Liquid fuels | 116 | 93 | 317 | 385 | 2 | 1 | 104 | 90 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 118 | 94 | 422 | 475 |
| Natural gas and coke oven gas as well as other energy production related gases (gas from the Brzeszcze Coal Mine's demethanization) | 0 | 1 | 0 | 0 | 0 | 0 | 59 | 148 | - | - | - | - | - | - | - | - | 83 | 50 | 0 | 0 | - | - | - | - | 83 | 50 | 59 | 148 |
| Biomass | 145 | 216 | 79 | 174 | 195 | 218 | 373 | 373 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 340 | 434 | 452 | 547 |
| Wind energy | - | - | - | - | - | - | - | - | 412 | 402 | - | - | 442 | 414 | - | - | - | - | - | - | - | - | - | - | 854 | 831 | 0 | 0 |
| Hydro power | - | - | - | - | - | - | - | - | 317 | 417 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 317 | 402 | 0 | 0 |
| Solar energy | - | - | - | - | - | - | - | - | 0 | 0 | - | - | 15 | 11 | - | - | - | - | - | - | - | - | - | - | 15 | 11 | 0 | 0 |
| Total | 11 733 | 11 473 | 3 038 | 3 284 | 1 254 | 1 491 | 6 634 | 7 979 | 729 | 825 | - | - | 457 | 414 | - | - | 83 | 50 | - | - | 8 | - | 153 | - | 14 264 | 14 257 | 9 825 | 11 263 |

* Data for TAURON Wytwarzanie as a result of the completed consolidation includes the Nowe Jaworzno TAURON Group division, which was a separate subsidiary of the Group in the previous reporting year.

** As part of the Energetyka Cieszyńska company acquired in 2022 (as of the end of 31/12/2022). Data includes incomplete 4th quarter of 2022. The company was outside the Group in 2021.

TAURON Capital Group's approach to sustainable development

Implementing the vision of a sustainable development, TAURON Group continued its efforts in 2022 with aimed at increasing the installed capacity of the low- and zero-emission generation sources. As a result, TAURON Group will be creating added value for all stakeholders in the coming years, while at the same time benefiting from the chosen direction of the energy transition of its assets and curbing the related risks (transition risks).

In 2022, TAURON joined the United Nations Global Compact (UN Global Compact), the UN's largest sustainable business initiative. The UN Global Compact is an integral part of the UN system, headquartered in New York City and operating in more than 160 countries. It is the world's largest initiative bringing together business working for the sustainable development, inaugurated by the UN Secretary-General in 2000. It brings together firms that cooperate with the UN and develop strategies and actions based on the UN policies, in particular the Sustainable Development Goals and the 10 Principles of the United Nations Global Compact related to four areas: human rights, labor standards, environment protection, anti-corruption.

UN Global Compact Network Poland is the country office as well as a local contact and information point for the Polish members of the UN Global Compact. It carries out its mission through activities in four umbrella programs: *Climate Positive*, *Business and Human Rights*, *Anticorruption Program* and *United Business for Ukraine*. The country office also coordinates the cooperation with the Polish government, local government representatives and other UN agencies and programs operating in Poland or on the territory of Poland, supporting the efforts of the UN Global Compact headquarters to achieve the UN Sustainable Development Goals.

TAURON Group places its commitment to achieving the Sustainable Development Goals - SDG 13 "*Action on Climate Change*" - at the center. TAURON is seeking to be one of the leaders of the energy transition in Poland and therefore in 2021 it revised its long term investment plan to increase and provide adequate funds to continuously develop renewable energy (SDG 7). In 2021, the Photovoltaics Development Program was modified with a view to use the Company's own industrial sites and convert such land to perform a new functionality.

In addition, in line with SDG 9 "*Industry, innovation and infrastructure*" and SDG 11 "*Sustainable cities and municipalities*", the Group intends to promote electrification and an increase in the consumption of electricity from renewable energy sources (RES) as well as the development of new services for the final consumers, focusing on providing adequate infrastructure.

The main goal of TAURON Group in the medium term is to speed up the decarbonization process – to change the fuel mix of its electricity generation segment (an acceleration of the activities related to the construction of the new RES sources) and promote electrification – the consumption of electricity from renewable energy sources (RES), thus enabling stopping of the global warming and achieving the targets to be accomplished in accordance with the Paris Agreement.

The Green Turn of TAURON, constituting a kind of a sustainable development plan, takes into account the results of the materiality analysis and the synergies with the directions of the Strategy. TAURON Group defined the directions of activities related to the sustainable development and identified, as part thereof, the specific goals to be implemented in the 2021-2025 time frame. Every year, these goals will be updated and new goals will be set to ensure compliance with the business strategy and the results achieved thus far, to increasingly integrate the sustainable development throughout the value chain. Anticipating the global trends, TAURON Group tries to identify such business opportunities that provide an advantage, keeping up with the changes in the energy sector towards sustainable development based on the change of the mix to low and zero emission.

The Sustainable Development Plan, predicated on clear and ambitious goals, reaffirms the leading role of TAURON Group in promoting and accelerating the energy transition, creating long term added value for all stakeholders.

Medium and long term goals - TAURON Group's sustainable development

Both assuming a warming at the level of at most 2 °C, as well as seeking not to cause a warming by more than 1.5 °C, will translate into TAURON Group's business model and strategy. However, their expected consequences may be different over time. The so-called electricity generation mix will have to undergo a gradual change. The Sustainable Development Indices that will reflect the transition process include: the RES Capacity Growth Index (shown in Table no. 42) and the Emissions Reduction Index (shown in Table no. 43).

Table no. 42. Targets for the minimum declared average annual increase in RES capacity planned by TAURON Capital Group in 2020-2030 (third party audit)

| Sustainable Development Index in the given calendar year | | | | | | |
|--|-------------|------|------|-------------|-------------|-------------|
| Sustainable Development Index | 2020 target | | | 2025 target | 2027 target | 2030 target |
| RES Capacity Growth Index | 8% | | | 8% | 8% | 8% |
| Result achieved | 2020 | 2021 | 2022 | - | - | - |
| | 27% | 19% | 18% | | | |

RES Capacity Growth Index denotes the index of the average annual increase of installed capacity in RES, calculated as follows:

$$JWZM_{OZE_r} = \frac{WM_{OZE_r}}{(r - 2018)}$$

where:

$JWZM_{OZE_r}$ [%] denotes the unit index of increasing RES capacity in year r,

WM_{OZE_r} [%] denotes the installed capacity change index,

r denotes a calendar year,

2018 is the base year (the calculation was adopted following the adoption of the Climate Policy in November 2019, i.e. before the settlement of the year 2019 as defined by the emissions trading scheme).

The installed capacity change index is calculated as follows:

$$WM_{OZE_r} = \frac{M_{OZE_r} - M_{OZE_{2018}}}{M_{OZE_{2018}}}$$

where:

WM_{OZE_r} [%] denotes the installed capacity change index,

M_{OZE_r} [MW_e] denotes the installed capacity of RES units in year r, excluding biomass fired units, and the units of TAURON Ciepło Sp. z o.o.,

$M_{OZE_{2018}}$ [MW_e] denotes the installed capacity of RES units in the base year, excluding biomass fired units and the units of TAURON Ciepło Sp. z o.o.

Table no. 43. The minimum declared CO₂ emission reduction rate for gross electricity production planned by TAURON Capital Group in 2018-2030 [Mg CO₂/MWh] (third party audit)

| Sustainable Development Index in the given calendar year | | | | |
|--|-------------|-------------|-------------|------|
| Sustainable Development Index | 2020 | 2025 | 2027 | 2030 |
| Emission Reduction Index | 2% | 2% | 2% | 2% |
| | 2020 | 2021 | 2022 | |
| Result achieved | 6% | 3% | 2% | |

Emissions Reduction Index denotes the average annual CO₂ emissions reduction index for gross electricity production, calculated as follows (excluding the units of TAURON Ciepło)::

$$JWRE_r = \frac{WE_{CO_2,2018} - WE_{CO_2,r}}{WE_{CO_2,2018} \times (r - 2018)}$$

where:

JWRE_r [%] denotes the average annual CO₂ emission reduction index in year r,

WE_{CO₂,r} [MgCO₂/MWh] denotes the CO₂ emission index (carbon intensity factor) in year r, accounted for under the Community Emissions Trading Scheme,

WE_{CO₂,2018} [MgCO₂/MWh] denotes the CO₂ emission index (carbon intensity factor) in year r, accounted for under the Community Emissions Trading Scheme,

r denotes a calendar year r,

2018 is the base year (the calculation was adopted following the adoption of the Climate Policy in November 2019, i.e. before the settlement of 2019 as defined by the emissions trading scheme)

The CO₂ emissions index is calculated as follows:

$$WE_{CO_2,r} = \frac{E_{CO_2(ee)r}}{P_{ee(brutto)r}}$$

where:

WE_{CO₂,r} [MgCO₂/MWh] denotes the CO₂ emission index (carbon intensity factor) for gross electricity production

E_{CO₂(ee)r} [MgCO₂] denotes the CO₂ emissions in year r for gross electricity production from fossil fuels and biomass as well as RES in year r

P_{ee(brutto)r} [MWh] denotes the CO₂ emissions in year r for gross electricity production from fossil fuels and biomass as well as RES in year r.

TAURON Group's long term goals with respect to sustainable development are also presented in section E 2.1. Climate Neutrality 2050.

Use of natural capital, implementation of the goals, outcomes and results in 2022

GRI 301-1, GRI 302-1, 302-3

The Group's dependence on the natural capital varies in different lines of business. Mining, Generation and Heat Lines of Business depend on the fossil fuel resources, which are not very sensitive to the climate change. As their physical availability is not dependent on the pace of the global warming.

Natural capitals defined by TAURON Group, which are used and impacted thereby - minerals (hard coal, gas, limestone), air, water, solar energy, biomass - are used throughout the entire business chain.

TAURON Group's dependence on the individual types of the natural capital in the years 2020-2022 is presented in Table no. 44 and in the years 2021-2022 is presented in Tables no. 45-49

Table no 44. GRI 301-1. Raw materials used by TAURON Capital Group in 2020-2022

| Total | 2022 | 2021 | 2020 |
|----------------------------------|------------|------------|------------|
| NON-RENEWABLE RESOURCES * | | | |
| Net coal [tons] | 6 518 851 | 6 419 493 | 4 888 015 |
| Net coal production [tons] | 5 007 348 | 5 146 853 | 4 541 216 |
| Sludge [tons] | 203 775 | 248 142 | 249 980 |
| Natural gas [m ³] | 41 940 767 | 30 057 357 | 12 067 032 |
| Heating oil [tons] | 40 924 | 40 340 | 26 324 |
| Diesel oil [m3] | 7 105 | 6 796 | 6 289 |
| Limestone [tons] | 266 639 | 269 563 | 197 288 |
| Limestone production [tons] | 2 108 880 | 2 011 529 | 1 722 376 |
| RENEWABLE RESOURCES | | | |
| Agro biomass [tons] | 58 946 | 82 283 | 124 203 |
| Forest biomass [tons] | 356 885 | 435 137 | 553 537 |

* Includes the consumption and production by the Group's subsidiaries.

Table no. 45 GRI 302-1. Total consumption of energy from non-renewable sources (in-house and acquired) in GJ (gross chemical energy of fuels) at TAURON Capital Group in 2022 and 2021

| [GJ] | TAURON Wytwarzanie* | | TAURON Ciepło | | Tauron Wydobycie | | TAURON Ekoenergia + "Green Turn of TAURON" | | Kopalnia Wapienia "Czatkowice" | | TAURON Nowe Technologie | | Energetyka Cieszyńska** | | Total | | | |
|-------------------------------|---------------------|--------------------|-------------------|------------------|------------------|---------------|--|--------------|--------------------------------|----------------|-------------------------|----------------|-------------------------|----------|----------|----------|--------------------|--------------------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | | |
| hard coal | 117 937 237 | 114 853 757 | 13 384 332 | 17 052 882 | - | - | - | - | - | - | - | - | - | - | 218 840 | - | 131 540 409 | 131 906 639 |
| natural gas and coke oven gas | 0 | 5 636 | 91 481 | 171 197 | - | - | - | - | 70 769 | 71 858 | 736 897 | 377 146 | - | - | - | - | 899 147 | 625 837 |
| sludge | 1 200 174 | 1 231 319 | 837 442 | 1 007 697 | - | - | - | - | - | - | - | - | - | - | - | - | 2 037 616 | 2 239 016 |
| heating oil | 1 583 158 | 1 573 022 | 135 780 | 118 006 | - | - | - | - | - | - | - | - | - | - | - | - | 1 718 938 | 1 691 027 |
| liquid fuels | 22 467 | 17 322 | 12 981 | 11 373 | 24 523 | 15 706 | 1 846 | 1 716 | 58 695 | 57 395 | - | - | - | - | - | - | 120 512 | 103 512 |
| TOTAL | 120 743 035 | 117 681 056 | 14 462 016 | 1 125 703 | 24 523 | 15 706 | 1 846 | 1 716 | 129 464 | 129 253 | 736 897 | 377 146 | 218 840 | - | - | - | 136 316 621 | 136 566 032 |

* Data for TAURON Wytwarzanie as a result of the completed consolidation includes the Nowe Jaworzno TAURON Group division, which was a separate subsidiary of the Group in the previous reporting year.

** As part of the Energetyka Cieszyńska company acquired in 2022 (as of the end of 31/12/2022). Data includes incomplete 4th quarter of 2022. The company was outside the Group in 2021.

Table no. 46. GRI 302-1. Total consumption of energy from renewable sources in GJ (gross chemical energy of fuels) at TAURON Capital Group in 2022 and 2021, per subsidiary

| [GJ] | TAURON Wytwarzanie* | | TAURON Ciepło | | Tauron Wydobycie | | TAURON Ekoenergia + "Green Turn of TAURON" | | Kopalnia Wapienia "Czatkowice" | | TAURON Nowe Technologie | | Energetyka Cieszyńska** | | Total | |
|--------------|---------------------|------------------|------------------|------------------|------------------|----------|--|----------------|--------------------------------|----------|-------------------------|----------|-------------------------|----------|------------------|------------------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| biomass | 1 566 681 | 2 469 496 | 2 559 783 | 2 846 271 | - | - | - | - | 0 | 0 | - | - | - | - | 4 126 464 | 5 315 766 |
| wind energy | - | - | - | - | - | - | 122 661 | 116 135 | 0 | 0 | - | - | - | - | 122 661 | 116 135 |
| hydro power | - | - | - | - | - | - | 16 709 | 20 920 | 0 | 0 | - | - | - | - | 16 709 | 20 920 |
| solar energy | - | - | - | - | - | - | 52 911 | 40 331 | - | - | - | - | - | - | 52 911 | 40 331 |
| TOTAL | 1 566 681 | 2 469 496 | 2 559 783 | 2 846 271 | - | - | 192 281 | 177 386 | 0 | 0 | - | - | - | - | 4 318 745 | 5 493 152 |

* Data for TAURON Wytwarzanie as a result of the completed consolidation includes the Nowe Jaworzno TAURON Group division, which was a separate subsidiary of the Group in the previous reporting year.

** As part of the Energetyka Cieszyńska company acquired in 2022 (as of the end of 31/12/2022). Data includes incomplete 4th quarter of 2022. The company was outside the Group in 2021.

Table no. 47. GRI 302-1. Total energy consumption (purchased and in-house) by type in GJ (Electricity purchased and generated, used for the needs of the organization - heating, cooling, electricity, steam) at TAURON Capital Group in 2022 and 2021, per subsidiary

| [GJ] | TAURON Wytwarzanie* | | TAURON Ciepło | | TAURON Wydobywanie | | TAURON Ekoenergia + "Green Turn of TAURON" | | Kopalnia Wapienia "Czatkowice" | | TAURON Nowe Technologie | | Energetyka Cieszyńska** | | Total | |
|-----------------------|---------------------|------------------|------------------|------------------|--------------------|------------------|--|----------------|--------------------------------|---------------|-------------------------|--------------|-------------------------|----------|------------------|------------------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| electricity | 4 631 200 | 4 627 467 | 784 376 | 920 715 | 980 078 | 995 141 | 150 798 | 142 081 | 90 422 | 84 012 | 4 773 | 2 875 | 4 807 | - | 6 646 455 | 6 772 290 |
| thermal energy (heat) | 695 060 | 801 089 | 229 954 | 249 281 | 167 723 | 183 672 | 996 | 1 124 | 5 384 | 6 755 | - | - | 3 746 | - | 1 102 863 | 1 241 921 |
| TOTAL | 5 326 260 | 5 428 556 | 1 014 330 | 1 169 996 | 1 147 801 | 1 178 813 | 151 794 | 143 205 | 95 806 | 90 767 | 4 773 | 2 875 | 8 553 | - | 7 749 318 | 8 014 211 |

* Data for TAURON Wytwarzanie as a result of the completed consolidation includes the Nowe Jaworzno TAURON Group division, which was a separate subsidiary of the Group in the previous reporting year.

** As part of the Energetyka Cieszyńska company acquired in 2022 (as of the end of 31/12/2022). Data includes incomplete 4th quarter of 2022. The company was outside the Group in 2021.

Table no. 48. GRI 302-1. Energy supply in GJ (net less in-house needs) at TAURON Capital Group in 2022 and 2021, per subsidiary

| [GJ] | TAURON Wytwarzanie* | | TAURON Ciepło | | TAURON Wydobywanie | | TAURON Ekoenergia + "Green Turn of TAURON" | | Kopalnia Wapienia "Czatkowice" | | TAURON Nowe Technologie | | Energetyka Cieszyńska** | | Total | |
|-----------------------|---------------------|-------------------|-------------------|-------------------|--------------------|----------|--|------------------|--------------------------------|----------|-------------------------|----------------|-------------------------|----------|-------------------|-------------------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| electricity | 41 588 734 | 40 710 727 | 4 515 880 | 5 366 004 | - | - | 4 251 498 | 2 946 901 | 0 | 0 | 298 337 | 179 115 | 24 186 | - | 50 678 635 | 49 202 747 |
| thermal energy (heat) | 3 038 459 | 3 283 555 | 6 634 071 | 7 979 075 | - | - | - | - | 0 | 0 | - | - | 130 282 | - | 9 802 812 | 11 262 629 |
| TOTAL | 44 627 193 | 43 994 282 | 11 149 951 | 13 345 078 | 0 | 0 | 4 251 498 | 2 946 901 | 0 | 0 | 298 337 | 179 115 | 154 468 | - | 60 481 447 | 60 465 376 |

* Data for TAURON Wytwarzanie as a result of the completed consolidation includes the Nowe Jaworzno TAURON Group division, which was a separate subsidiary of the Group in the previous reporting year.

** As part of the Energetyka Cieszyńska company acquired in 2022 (as of the end of 31/12/2022). Data includes incomplete 4th quarter of 2022. The company was outside the Group in 2021.

Table no. 49. GRI 302-1. Total energy consumption in GJ at TAURON Capital Group in 2022 and 2021, per subsidiary

| [GJ] | TAURON Wytwarzanie* | | TAURON Ciepło | | TAURON Wydobywanie | | TAURON Ekoenergia + "Green Turn of TAURON" | | Kopalnia Wapienia "Czatkowice" | | TAURON Nowe Technologie | | Energetyka Cieszyńska** | | Total | |
|--|---------------------|------------|---------------|-----------|--------------------|-----------|--|------------|-----------------------------------|---------|----------------------------|---------|----------------------------|------|------------|------------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| total energy consumption by the organization | 82 986 317 | 81 584 826 | 6 886 178 | 9 032 343 | 1 172 324 | 1 609 637 | -3 905 576 | -2 624 594 | 225 270 | 220 020 | 443 333 | 200 905 | 72 925 | - | 87 880 770 | 89 955 315 |

* Data for TAURON Wytwarzanie as a result of the completed consolidation includes the Nowe Jaworzno TAURON Group division, which was a separate subsidiary of the Group in the previous reporting year.

** As part of the Energetyka Cieszyńska company acquired in 2022 (as of the end of 31/12/2022). Data includes incomplete 4th quarter of 2022. The company was outside the Group in 2021.

Due to generating electricity in hydro power plants, the RES Line of Business is highly exposed to the risk of outages or reduction of production as a result of prolonged droughts, which translate into shrinking of the surface water resources in river basins, where hydro power plants are located. TAURON Ekoenergia is monitoring such developments on an ongoing basis and has an inventory listing of assets most exposed to such restrictions.

The Group is also monitoring the rate of energy consumption (intensity) related to its operations on an ongoing basis, as shown in the indices in Table no. 50.

Table no. 50. GRI 302-3. Energy consumption (intensity) at TAURON Capital Group in 2022 and 2021, per subsidiary

| | TAURON Wytwarzanie** | | TAURON Ciepło | | TAURON Ekoenergia | | TAURON Ekoenergia New Wind Assets | | Energetyka Cieszyńska*** | |
|---|----------------------|--------|---------------|---------|-------------------|-------|-----------------------------------|-------|--------------------------|------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Energy consumption rate [%] (energy consumption for in-house needs / gross energy production) | 10.67% | 11.03% | 8.62%* | 8.10% * | 5.02% | 4.64% | 0.83% | 0.81% | 4.74% | - |
| Energy consumption rate - electricity [%] (electricity consumption for in-house needs / gross electricity production) | 10.41% | 10.54% | 15.98% | 14.80% | 5.02% | 4.64% | 0.83% | 0.81% | 17.24% | - |
| Energy consumption rate - heat [%] (heat consumption for in-house needs / gross heat production) | 14.09% | 16.99% | 3.35%* | 3.03%* | - | - | - | - | 2.45% | - |

* It does not take into account the replenishment of the heat carrier losses in district heating networks.

** Data for TAURON Wytwarzanie as a result of the completed consolidation includes the Nowe Jaworzno TAURON Group division, which was a separate subsidiary of the Group in the previous reporting year.

*** As part of the Energetyka Cieszyńska company acquired in 2022 (as of the end of 31/12/2022). Data includes incomplete 4th quarter of 2022. The company was outside the Group in 2021.

TAURON Group has inventoried, during inventory energy audits, the potential tasks related to reducing energy consumption (intensity). The targets related to energy consumption were set based on such measures, as shown in Tables no. 51, 51-a and 51-b.

Table no. 51. GRI 302-3. Targets, and results achieved, with respect to energy consumption set to be achieved by TAURON Capital Group by 2030

| Subsidiary | Target | 2019 | 2020 | 2025 Target | 2030 Target |
|--------------------------------|---------------------------------------|------|-------------|-------------|-------------|
| Kopalnia Wapienia "Czatkowice" | Electricity consumption rate [kWh/t] | 22.7 | 22.7 | 21.1 | 20.0 |
| | Result achieved - 2022 * | | 23.6 | | |
| TAURON Wydobyćie | Electricity consumption rate* [kWh/t] | 70.9 | 60.0 | 50.8 | 48.3 |
| | Result achieved - 2022 ** | | 65.0 | | |

* Higher than assumed for 2022 value of the indicator due to different than assumed conditions of production of the ground sorbents (a significant increase in the production of sorbents for energy needs in relation to the production assumptions for 2022)

** Excluding the additional consumption due to the construction of the Grzegorz Shaft (investment project put "on ice"). Higher than assumed value of the indicator for 2022 due to different than assumed geological and mining conditions.

Table no. 51-a. GRI 302-3. Targets, and results achieved, with respect to energy consumption set to be achieved by TAURON Capital Group by 2030, per subsidiary

| | TAURON Wytwarzanie | | | TAURON Ciepło | | |
|---|--------------------|-------|-------|---------------|--------|--------|
| | 2020 | 2025 | 2030 | 2020 | 2025 | 2030 |
| Energy consumption rate [%] (energy consumption for in-house needs / gross energy production) | 10.9% | 11.1% | 9.1% | 8.88%* | 8.44%* | 8.73%* |
| Result achieved – 2022 | 10.67% | | | 8.62%* | | |
| Energy consumption rate - electricity [%] (electricity consumption for in-house needs / gross electricity production) | 10.7% | 10.8% | 10.5% | 15.61% | 17.09% | 15.05% |
| Result achieved - 2022 | 10.41% | | | 15.98% | | |
| Energy consumption rate - heat [%] (heat consumption for in-house needs / gross heat production) | 12.6% | 13.9% | 9.2% | 2.98%* | 2.89%* | 2.77% |
| Result achieved – 2022 | 14.09% | | | 3.35%* | | |

* It does not take into account the replenishment of the heat carrier losses in district heating networks. The fluctuations of the rate for TAURON Ciepło in the 2025 and 2030 time frame result from a change in: planned increase in heat demand by approx. 1.6 TJ and commissioning of the new gas fired heat generation sources that will complement the existing infrastructure of high-efficiency coal fired cogeneration (unit emission indices will be reduced).

** The target set assuming the average annual load of the generating unit above 70% of the nominal rated power. Targets for 2025 and 2030 will be revised in the next reporting year.

The energy consumption rates for the TAURON Wytwarzanie and TAURON Ciepło subsidiaries in 2022 reached values that were higher than those assumed on the path to reaching the set targets (2020 targets) in terms of energy consumption for electricity production. The reasons for this can be as follows:

- need to operate TAURON Wytwarzanie units as centrally controlled (dispatched) generation units that stabilized the power system in the south of Poland in highly volatile energy flow conditions, also with respect to international trade (imports/exports). This resulted in the operation of the units at sub-optimal operating points (high volatility of the efficiency of the individual generating units),
- much more frequent than assumed number of start-ups and shutdowns of TAURON Wytwarzanie's generation units,
- high heat production combined with the reduction of the operation in the condensation mode at TAURON Ciepło translated into a slightly better result of the energy consumption rate for heat production and worse than assumed for electricity production.

Table no. 51-b. Target, and result achieved, for transmission losses set to be achieved by TAURON Dystrybucja in 2022

| Subsidiary | Index name | 2020 Target | 2025 Target | 2030 Target |
|--------------------|-------------------------------------|--------------|-------------|-------------|
| TAURON Dystrybucja | Value of the balancing difference * | 4.14 % | 3.96 % | 3.90 % |
| | Result achieved (in 2022 r.) | 3.52% | | |

* Index calculated as of 31.12 for the last 12 months, as the quotient of energy lost in the grid to the value of energy fed into the grid.

Climate related opportunities

The Group can turn the climate related risk into opportunities by offering products and services that contribute to mitigating climate change or adapting thereto. TAURON Group is observing a clear trend underway that involves a redirection of the consumers' and business customers' choices towards products and services that are less harmful to the climate. This is a key factor leading to the development of the so-called ECO line. Such an offering increases the resilience of the product portfolio against climate change. In addition, as part of the sales of certified products, the so-called EKO Product Line, including contracting the sale of the electricity "certified based on its origin" to business customers, a total of approx. 794 GWh of green energy coming from TAURON Group's in-house sources was contracted.

EKO product lines (for business and individual customers) are products that allow, among others, for the conscious purchase, by the Group's customers, of electricity produced by renewable energy installations or by low-emission generation sources and confirmed by the applicable certificates from independent institutions (Polish Energy Certification Society, TUV Sud). The EKO products sales' results are presented in Table no. 52.

Table no. 52. Percentage change in 2022 vs. 2021 of the sales of TAURON Capital Group's products aimed at achieving the climate neutrality target

| Sales of selected EKO Line Products and Services | Metric type | Percentage change (+/-) |
|---|--|-----------------------------|
| EKO Premium | Change in the volume of Guarantees (Certificates) of Origin issued - y/y | 37.0% |
| EKO Biznes | | |
| EKO Standard | | |
| EKO electricity for an individual customer | Change in the number of customers choosing the product at the end of the period - y/y | 44.3% |
| Photovoltaics | Change in the quantity of installations sold | -30.6% |
| Passive Power Compensation | Change in the quantity of services sold at the end of the period (incrementally) – y/y | 51.5% |
| Enterprise Energy Audit | Change in the quantity of services sold at the end of the period (incrementally) – y/y | 27.4% |
| Implementation of the replacement of street lighting with low-energy lighting | pcs. | 32 611 pcs. vs. 15 682 pcs. |

Customer Eco-Efficiency Programs

A wide range of energy efficiency program activities are being implemented through the energy programs conducted by TAURON Group's subsidiaries. These programs are targeted at a number of customer segments, including residential customers, industry, and local governments. These include:

- educational campaigns and IT tools to promote energy efficiency at TAURON Sprzedaż, TAURON Dystrybucja and TAURON Ciepło,
- Energy Audit of Enterprises,
- implementation of the replacement of street lighting with energy efficient lighting, also providing the possibility of controlling the intensity of the light stream.

TAURON Group has been implementing an energy efficiency improvement program for several years, which includes, among other things, the implementation of a certified energy management system (based on the highest standards or norms) in the near future, an efficient approach to estimating the potential for primary energy savings (the so-called "white certificates") related to the modernization of generation assets as well as district heating and power distribution systems, and the sale of goods and services aimed at promoting energy savings to customers.

One of the absolute targets is the mandatory verification of conditions for each modernization initiative with estimated primary energy savings of more than 10 toe (also an aggregation of projects and tasks), and an intermediate target has been set to acquire energy efficiency property rights annually in order to cover the Group's own obligations in this regard.

Examples of the programs implemented by TAURON Group in the field of energy efficiency include:

“Ogrzej się z TAURONEM” (Heat yourself with TAURON)

Under the program, building owners can apply for a subsidy for the elimination of an old solid fuel boiler and its replacement with a heat pump. It is addressed to the residents of the Lower Silesian, Opole, Silesian and Małopolska provinces.

“Bezpieczniki TAURONA” (TAURON fuses)

An educational and informational program that targets different audiences (children and youth, adults, seniors as well as renovation and construction companies). The program covers topics related to, among others, the transition and is implemented through:

- Scenarios of lessons, the subjects of which are related to energy conservation as well as rational energy use and the formation of user and consumer awareness. They included the following topics: "Eco-methods for saving electricity", "Energy labels and electro-waste", "We are the guardians of energy", "Renewable - life-giving", "Photovoltaic cell and light sources", "Green energy gives power", "Green energy and saving electricity", "Sources of electricity", or "Work and power of electricity. Electricity transformations."
- Guide texts for parents, covering the following topics: "How to use household appliances in an energy saving manner?", "Smart home or how to control the house?", "How to take care of the electrical system?", "Electrical installations in the house", "How to save electricity?", "Electro-waste? There will be a use for them," "Label matters," "How to become a prosumer?" or "How to calculate how much energy electrical appliances consume?"
- Online games e.g. "Throw away electro-waste", "Collect green energy", "Young eco-advisor (energy labels)", or "Electro-treasure (electro-waste) finders".
- Videos, for example, "Green electricity. How to produce it and save it?", "Sources of electricity", "How to read energy labels?", "Where to trash electro-waste?", "Energy from the sun", "Fuses", or "How much energy do household electrical appliances use?"



Eco-efficiency program for customers in agriculture

Kopalnia Wapienia "Czatkowice", together with the Małopolska Agricultural Advisory Center in Karniowice, was the organizer of educational meetings/training sessions for farmers. The training meetings were addressed mainly to the farming community from the Małopolska, Silesia and Podkarpackie provinces. The main message of the trainings was to promote knowledge of effective and natural solutions to the problems of soil acidification in Poland, the effects of proper liming of soils, as well as the impact of liming on the crop yields in the changing climatic conditions. The limestone mine's product, Gruntcal fertilizer lime, was also presented during the training sessions.

The customers interested in the subject can use a liming calculator available on the company's website to help solve lime dosage issues. After selecting the type and pH of the soil, the calculator determines the needed dosage of Gruntcal lime (number of tons/hectare).

Possibilities of financing the investments in the energy sector

As a principle, TAURON does not take on targeted financing, with funds dedicated directly to the given investment task, as it obtains funds that enable financing of TAURON Group's corporate and investment activities within its value chain. Pursuant to the terms of some of the agreements, TAURON is obliged to implement the indicated investment projects, comply with specific sustainable development indicators (metrics), as well as act in accordance with the principles of climate and social policy, the implementation of which is confirmed by relevant reports submitted to the financial institutions. In addition, in some financing agreements, TAURON undertakes not to allocate funds from the given financing to finance activities related to the operations of the generation (conventional sources) and mining lines of business.

Table no. 53 presents the allocation of funds from TAURON Group's individual sources of financing for investment purposes aimed at minimizing the negative impact of the Group's operations on the climate.

Table no. 53. Summary of financing obtained by TAURON Capital Group for pro-climate investment projects

| Financing entity | Financing Instrument | Loan amount under the contract | Debt as of 31.12.2022 | Purpose of financing |
|---|----------------------|--------------------------------|-----------------------|---|
| European Investment Bank | subordinate bonds | EUR 190 000 000.00 | EUR 190 000 000.00 | Financing of investment projects aimed at expanding and upgrading the power grid infrastructure in Poland in 2016-2020 in accordance with its strategic investment plan |
| European Investment Bank | subordinate bonds | PLN 350 000 000.00 | PLN 350 000 000.00 | Financing of investment projects in the electricity distribution grid in southern and southwestern Poland in 2018-2022. |
| European Investment Bank | subordinate bonds | PLN 400 000 000.00 | PLN 400 000 000.00 | Financing of investment projects in the electricity distribution grid in southern and southwestern Poland in 2018-2022. |
| European Investment Bank | loan | PLN 295 000 000.00 | PLN 132 750 000.00 | Financing of an investment project composed of two Components with respect to expanding the electricity distribution grid, implementing a smart metering program as well as modernization and repairs of the existing small hydro power plants. |
| European Investment Bank | loan | PLN 900 000 000.00 | PLN 143 181 818.35 | Financing of the implementation of a 5-year investment program (2011-2015), aimed at strengthening, modernizing and expanding the electrical grids of Tauron Dystrybucja S.A. |
| European Investment Bank | loan | PLN 2 800 000 000.00 | PLN 1 600 000 000.00 | Financing of the investment program with respect to electricity distribution grids in southern and south-western Poland in 2022-2026. |
| Intesa Sanpaolo S.P.A. operating via Intesa Sanpaolo S.P.A. Spółka Akcyjna Oddział w Polsce | loan | PLN 750 000 000.00 | PLN 750 000 000.00 | Covering the expenses related to the implementation of investment projects or groups of investment tasks of TAURON Group covering (i) broadly understood power generation based on renewable energy sources and (ii) distribution of electricity, among others the expansion and upgrade of the grid and connecting new customers, as well as refinancing of the existing Financial Debt. |
| A series bond issue (TPE1025) | bonds | PLN 1 000 000 000.00 | PLN 1 000 000 000.00 | The proceeds from the Bond issue may be used to: (i) finance the RES projects construction/acquisition costs, (ii) finance the Group's distribution operations as well as the general corporate activities related to RES or the zero-emission energy transition, and (iii) |

| | | | | | | | |
|--|-------------|------------------|-------------------|----------------------|--|--|--|
| | | | | | | refinance the Group's debt taken on to finance the above projects. The proceeds from the Bond issue cannot be used to finance new and existing coal-fired units, the operations of TAURON Wydobycie S.A. and the operations of TAURON Wytwarzanie S.A. (in case of projects other than those indicated in the paragraph above). | |
| Erste Group Bank AG | | Loan | | PLN 500 000 000.00 | | PLN 500 000 000.00 | Financing or refinancing development with respect to renewable energy sources, improving energy efficiency and expanding e-mobility infrastructure. The funding objectives must be in line with the criteria set out in the European Union taxonomy for determining whether and to what extent an economic activity qualifies as environmentally sustainable. |
| Consortium of banks: BHW, PKO, Pekao, CaixaBank, Erste, ICBC, Santander, CCB | | Loan | | PLN 4 000 000 000.00 | | PLN 2 750 000 000.00 | Funds obtained under the Loan may be used for: (i) refinancing of the Existing Syndicated Loan, (ii) financing of TAURON Group's capital expenditures, including in the RES segment, excluding the financing of any coal asset projects, or (iii) financing of TAURON Group's general corporate expenses, including the refinancing of TAURON Group's debt, excluding the expenditures related to the coal assets. |
| NFOŚiGW (National Protection and Water Management Fund) | Environment | Water Management | repayable funding | PLN 82 500 000.00 | | PLN 0.00 | Construction of a photovoltaic farm on the territory of the reclaimed landfill of the combustion waste from the Jaworzno III power plant in Myslowice-Dzieckowice, along with the construction of a 110kV cable line and a 110/20kV station |
| WFOŚiGW (Regional Protection and Water Management Fund) | Environment | Water Management | TW loan | PLN 40 000 000.00 | | PLN 0.00 | Construction of a RES Production Unit at PKE S.A. Jaworzno III Power Plant - Power Plant II |
| WFOŚiGW (Regional Protection and Water Management Fund) | Environment | Water Management | TW loan | PLN 11 318 300.00 | | PLN 8 260 000.00 | Construction of a photovoltaic farm in Jaworzno |
| WFOŚiGW (Regional Protection and Water Management Fund) | Environment | Water Management | KWC loan | PLN 292 955.60 | | PLN 53 688.60 | Thermo-modernization of the Car Service Station at Kopalnia Wapienia "Czatkowice" sp. z o.o. |

E 1.2. TAURON Capital Group's climate and environmental risks and opportunities

E 1.2.1. Threats and opportunities related to climate change

GRI 3-3

Effective fight against climate change and sustainable development are one of the main assumptions implemented as part of the Green Turn of TAURON concept. Taking the above into account and being aware of climate change underway, the risks associated with climate change have also been identified as part of the Risk Model. They include:

- physical risk - resulting from the physical effects of climate change adversely affecting the operations of TAURON Group's subsidiaries, in particular as a consequence of specific weather related events (storms, floods, heat waves), climate change leading to temperature changes or hydrological drought,
- risk related to the transition - including risks resulting from the transition to the low emission economy, resilient against climate change; for example, regulatory, financial, social, technological risks.

E 1.2.1.1. Physical Risk

Table no. 54 presents the Physical Risk related to climate change identified at TAURON Capital Group. In accordance with the Risk Model described in section G.4.4.6., the Physical Risk related to climate change is classified in the category: Operational Risk/Environment; Operational Risk/Technology and infrastructure; Operational Risk/ customers and contractors (counterparties); Trading (commercial) Risk/Trading.

Table no. 54. GRI 201-2. Physical Risk related to climate change identified at TAURON Capital

| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|---------------------------------------|--|----------------------------|--|
| 1. | Short-term physical risk (acute risk) | <p>The risk is related to:</p> <ol style="list-style-type: none"> 1. Frequent occurrence of extreme temperatures, greater rainfall intensity that can cause floods at any time of the year, uneven rainfall resulting in longer periods of no rainfall, intermittent abrupt rainfall (torrential rain), 2. Increase in the frequency and intensity of hurricanes, strong winds, incidentally accompanied by tornadoes and lightnings causing machinery and equipment failures, distribution grid failures (electricity, heat), more frequent drought occurrences and water restrictions related thereto, as well as an increased risk of fires. <p>The risk materialization also results in:</p> <ol style="list-style-type: none"> 1. Increased costs of maintaining transmission systems resulting from the costs of fixing failures, a decrease in the volume of electricity and heat supply, a decrease in the volume of production, a deterioration of the electricity distribution quality indicators affecting the regulated revenue 2. Sharp fluctuations of market prices due to the occurrence of extreme temperatures affecting the levels of demand and the ability to satisfy such demand by the supply side 3. The need to shut down individual power generating units due to the too low water level in rivers, the water from which is used to cool the units <p>The risk includes the risks identified and managed by TAURON Group: environmental risk (in the context of excessive impact on the climate), weather risk, company assets related risk and market risk.</p> | <p>→</p> <p>■</p> | <ol style="list-style-type: none"> 1. Applying TAURON Group's Climate Policy. 2. Planning and implementing projects that are aligned with the sustainable development activities. 3. Applying TAURON Group's Strategic Asset Management Plan 4. Supporting innovative technologies with the potential of significant energy savings. 5. Conducting business operations that affect the climate in accordance with the sustainable development principles. 6. Maintaining the required level of the pollution reduction devices' efficiency (performance). 7. Frequent assessment of compliance of the activities with the legal requirements regarding climate impact. 8. Active search for the technical and organizational solutions that would minimize the impact of TAURON Group's activities on climate change, gradual adaptation of the production assets to the consequences of extreme weather occurrences and the volatility of weather conditions, in particular in the Lines of Business sensitive to these factors. 9. Optimization of investment outlays allocated for asset replacement, active monitoring of the condition of the machinery, equipment and installations. 10. Raising the professional qualifications and work culture of employees by organizing courses and training sessions. 11. Responding to an emergency situation by the technical operational personnel and the automated protection systems. |

| | | | |
|----------------------------|---|---|--|
| | | | <p>12. Property insurance against fortuitous events (excluding the underground assets).</p> <p>13. Introduction of IT tools with respect to improving the monitoring and management of failure rates.</p> <p>14. Gradual adaptation of the production assets to the consequences of extreme weather occurrences and volatility of weather conditions, in particular in the Distribution Line of Business.</p> |
| 2. Long-term physical risk | <p>The risk is related to:</p> <ol style="list-style-type: none"> 1. Decrease in the volume of sales of the products offered by TAURON Group's subsidiaries, in particular as a result of a temperature deviation from the planned values, resulting primarily in a loss of revenues in the individual segments of TAURON Group's operations as a consequence of reduced demand. 2. Drop, especially in summer, of the water levels in rivers and water reservoirs, and an increase in their temperature, which generates a decrease in the efficiency of the generating units and a decline in the dispatchability of the units during the peak electricity demand periods. The above may lead to a blackout in an extreme scenario. 3. Change of the market conditions for the operations of TAURON Group's subsidiaries, in particular as a result of changes in the weather conditions resulting in a drop of the margin in the Generation Line of Business (CDS / volume) and, in general, an increase of the costs and a decrease of the revenues, 4. Increased failure rate of the machines and devices constituting the assets of TAURON Group's subsidiaries due to permanent climate changes - such as prolonged droughts, global warming, for example. <p>The risk includes risks identified and managed by TAURON Group: volume and margin risk, company assets related risk and market risk.</p> | → | <ol style="list-style-type: none"> 1. Ongoing offering updates, launching of the multi-packet type products for sale. 2. Conducting marketing activities, acquiring new customers. 3. Activities focused on retaining current customers and recovering the lost ones. 4. Daily measuring and reporting of the portfolio positions. 5. Optimization (streamlining) of investment outlays allocated for asset replacement, active monitoring of the condition of the machinery, equipment and installations. 6. Property (asset) insurance against fortuitous events (excluding the underground assets). 7. Introduction of IT tools with respect to improving the monitoring and management of failure rates. 8. Gradual adaptation of the production assets to the consequences of extreme weather occurrences and volatility of weather conditions, in particular in the Distribution Line of Business. |

E 1.2.1.2. Climate Risk related to the transition

In line with the definition of risk adopted at TAURON Group of risk (as discussed in Section G.4.3 of this Report), the climate change issues as well as the processes and behaviors related thereto observed in the environment and market trends, as well as the pursuit of the 2050 climate neutrality target, also create business opportunities for TAURON Group in the medium and long term. TAURON Group's strategic lines of business can be developed in a sustainable manner, in particular by pursuing the concept of the Green Turn of TAURON towards energy transition to the zero-carbon power generation in the long term. The goal of climate neutrality is also conducive to the creation of new dedicated products, and in the medium to long term may allow for generating revenue growth and added value creation across TAURON Group's entire business chain. Taking these factors into account, the description of the transition risks includes both the threats, as well as the opportunities identified by TAURON Capital Group in this regard.

Table no. 55 presents the Climate Risk related to the transition identified at TAURON Capital Group. In accordance with the Risk Model adopted at TAURON Capital Group, the Climate Risk related to the transition is classified in the category: Operational Risk/Environment; Regulatory Risk/Regulations; Operational Risk/Customers and Contractors (Counterparties); Trading (commercial) risk/Trading; Financial and Credit Risk/Finance and Credit.

Table no. 55. GRI 201-2. Risk and opportunities related to the transition identified at TAURON Capital Group

| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|--|--|----------------------------|---|
| 1. | Risk related to the transition (threats) | <p>Risk related to the tightening of the European Union's climate policy, the tightening of the environmental requirements resulting from the climate change, the growing awareness of the customers with respect to the climate change, the activities supporting energy efficiency (growth of prosumers, support for thermal insulation, construction of in-house electricity and heat sources, departure from the coal use as fuel), a change in the conditions of TAURON Group's operations (the need to adapt the company to the challenges of changes resulting from the climate change, including the technological adaptation to the global low-emission solutions).</p> <p>The consequences of the risk include the reputation, technology, policy and regulatory issues, as well as the market issues. In particular, the effects of the risk may include:</p> <ol style="list-style-type: none"> 1. Decrease in the volume of sales of the products offered by TAURON Group's subsidiaries, in particular as a result of the development of energy efficiency, insulation of buildings, growth of prosumers, resulting primarily in a loss of revenue in the individual segments of TAURON Group's business operations resulting from the reduced demand, 2. Change of the market conditions for the operations of TAURON Group's subsidiaries, in particular as a result of the tightening of the European Union's climate policy, the growing ecological awareness of the public, the activities supporting energy efficiency (departure from the use of coal as fuel, growth of prosumers, support for thermal insulation, construction of in-house electricity and heat sources) resulting in a drop of the margin in the Generation Line of Business (CDS/volume) and, in general, an increase of the costs and a decrease of the revenues, 3. Difficulties or an increase in the cost of raising capital to finance operations based on fossil fuels, 4. Loss of reputation due to involvement in fossil fuels, 5. The need to transform the assets and, as a consequence, the need to incur additional expenses as a result of the climate change, 6. Difficulty or an increase in the insurance costs for the assets based on fossil fuels, 7. An increase in the costs of the environmental fees and the need to incur additional investment outlays to adapt the assets to the environmental requirements, 8. An increase in the price of the CO₂ emission allowances and, as a consequence, a decrease in the margin in the conventional electricity segment, 9. A decrease in demand for electricity as a result of energy efficiency and growth of the prosumers segment, 10. A decrease of the demand for the products offered thus far by TAURON Group's subsidiaries, 11. Limiting or discontinuing the operations based on fossil fuels. | <p>↗</p> <p>■</p> | <ol style="list-style-type: none"> 1. Applying TAURON Group's Climate Policy. 2. Defining and updating as well as implementing of TAURON Group's Strategy. 3. Update of TAURON Group's Strategic Research Agenda. 4. Adaptation of TAURON Group's Investment Strategy to the guidelines stemming from the Climate Policy and the Investment Strategy. 5. Ongoing analysis of the draft ordinances (regulations) and acts. 6. Active participation in the work of teams providing opinions on projects and proposing optimal solutions. 7. Gradual adaptation of TAURON Group's production assets and energy mix to the production of renewable energy and zero and low-emission electricity generation technologies. 8. Gradual withdrawal of the anthropogenic sources of greenhouse gas emissions coming from fossil fuels through the development of renewable energy and zero and low-emission electricity generation technologies. 9. Active search for the technical and organizational solutions that would minimize the impact of TAURON Group's operations on the climate change. 10. Promoting eco-mobility or climate-neutral mobility. 11. Cooperation with business and social partners with respect to adaptation to climate change. |

| | | | |
|---|---|-------------------|--|
| | <p>12. The need to restructure employment resulting from a change in the business operations profile,</p> <p>13. Impediments to administrative procedures involving the public by non-government organizations,</p> <p>14. A decline in the company value,</p> <p>15. Inability to meet market expectations due to the lack of the expected products in the portfolio.</p> <p>The risk includes risks identified and managed by TAURON Group: climate change, reputation, regulatory, volume and margin, market, obtaining of the financing, company assets, human resources related risks.</p> | | |
| <p>2. Risk related to the transition</p> <p>(opportunities in the medium term and in the long term)</p> | <p>1. The demand for electricity is materially affected by the outdoor temperature, the fluctuations of which have a direct impact on TAURON Group's operations, including on the demand for electricity and heat, and as a consequence, on the amount of revenue.</p> <p>2. The intensification of the implemented Green Turn of TAURON Strategy and the transition to the low- and zero-emission economy in the medium term and long term – the expansion of investments and the expectations of the higher return on invested capital.</p> <p>3. Changes in the functioning of the energy market, and as a consequence, in the level and volatility of the prices on the commodity and financial markets.</p> <p>4. Evolution of the energy mix – increase in the share of the renewable energy sources, changes in the demand for electricity among the retail customers, the development of the electric vehicle market.</p> <p>5. The widespread electrification of industries providing opportunities for the development of the energy and energy-related products and services</p> <p>6. Greater investment opportunities with respect to the development of the new electric technologies dedicated to households and residential housing as well as to the electric transportation</p> | <p>↗</p> <p>■</p> | <p>1. Applying TAURON Group's Climate Policy.</p> <p>2. Technological diversification and the direction of the Group's development towards low and zero emission economy mean that the impact of changes (positive and negative) in the climate variable is positive / mitigated at the business level throughout the entire supply chain. To ensure that its operations always account for the weather and climate developments, the Group adopts a number of practices, such as for example weather forecasting, real time monitoring and long term climate scenarios.</p> <p>3. Planning and implementing projects that are aligned with the sustainable development activities.</p> <p>4. Conducting business operations that affect the climate in accordance with the sustainable development principles.</p> <p>5. Optimization and growth of investment outlays for sustainable operations and low and zero emission generation assets.</p> <p>6. Gradual adaptation of the production assets to the consequences of weather development and volatility of weather conditions, in particular in the Distribution Line of Business.</p> <p>7. Updating the number and range of the products offered to the customers by the Capital Group's subsidiaries.</p> <p>8. Looking for the opportunities and possibilities (options) through the steadfast development of the Group's strong position in the new businesses and the "smart" services.</p> <p>9. Taking into account the energy transition scenarios, the Group is evaluating the impact of the trends in the share of the renewable energy sources, electrification and the growth of the electric vehicle sales, etc. to estimate their potential impact on its future business operations.</p> |

E 1.2.2. Environmental Risk

GRI 3-3

Table no. 56 presents the Environmental Risk identified at TAURON Capital Group. In accordance with the Risk Model described in section G.4.4.6., the Environmental Risk is classified in the category: Operational Risk/Technology and infrastructure.

Table no. 56. GRI 201-2. Environmental Risk identified at TAURON Capital Group

| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|--------------------|---|----------------------------|---|
| 1. | Environmental risk | <p>Risk related to the impact of the business operations conducted on the natural environment and the use of its resources, including, in particular, the loss of control over the process that would make it impossible to prevent excessive (above the applicable standards) pollution, damage, disruptions or failures of installations or equipment that would have a negative impact on the environment.</p> <p>The risk also involves the possibility of:</p> <ol style="list-style-type: none"> 1. a lack of valid environmental decisions, 2. depositing waste in places not intended for this purpose or not in accordance with the operating conditions of the facilities designated for such purpose, 3. occurrence of a crisis situation: e.g. fire, displacement of earth masses, extreme weather events, 4. use of waste not in accordance with the authorized intended purpose, 5. a lack of adequate safeguards reducing the negative impact of TAURON Group's operations on the environment, 6. release of hazardous substances to the environment, 7. social protests (unrest). <p>The consequence of the materialization of the risk is the degradation of the natural environment and penalties for a failure to comply with the environmental requirements, the need to fix the deficiencies, curtailment of the production, delays in the implementation of the investment projects, pollution of water sources in a way that prevents their use, destruction of a valuable natural habitat, site or area - environmental (nature) compensation, restrictions on further business development, damage to TAURON Group's image, limitation of the use of financial assistance programs. The risk also includes an increase in the environmental requirements stemming from the tightening of the European Union's climate policy.</p> | <p>→</p> <p>■</p> | <ol style="list-style-type: none"> 1. Applying TAURON Group's Environmental Policy. 2. Conducting business operations that affect the environment in accordance with the sustainable development principles. 3. Conducting and intensifying activities aimed at increasing the utilization of the UPS/UPW waste. 4. Striving to maximize the management (utilization) of the post-production waste generated at all of TAURON Group's coal mines. 5. Striving for the optimum management of water resources. 6. Ongoing supervision over compliance with the conditions of the environmental decisions. 7. Maintaining the required level of the pollution reduction devices' efficiency (performance). 8. Frequent assessment of compliance of the activities with the legal requirements with respect to the environment protection 9. Implementation of the investment projects with respect to the environment protection in order to minimize the consequences of an adverse impact of mining and processing operations on the environment and climate. 10. Active search for the technical and organizational solutions that would minimize the impact of TAURON Group's operations on climate change |

E 2. Revenue from sustainable activities

Information on the eligibility of activities for the so-called Taxonomy (Regulation 2020/852)

By preparing its non-financial report for 2022 TAURON Group is implementing its obligation to make disclosures to what extent the Group's operations can be considered environmentally sustainable. Such a requirement stems from Regulation (EU) 2020/852 of the European Parliament and of the Council of June 18, 2020, on the establishment of a framework to facilitate sustainable investments and amending Regulation (EU) 2019/2088, as well as the regulations issued under the Delegated Acts on the establishment of a framework to facilitate sustainable investments (referred to as the "Taxonomy").

Pursuant to Commission Delegated Regulation (EU) 2021/2178 of July 6, 2021, supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by clarifying the content and presentation of the information on environmentally sustainable business activities to be disclosed by companies subject to Article 19a or 29a of Directive 2013/34/EU, and specifying the method for fulfilling this disclosure obligation - pursuant to Art. 10 of the aforementioned Delegated Act (EU), for the period from January 1, 2022 to December 31, 2022, non-financial companies shall only disclose the percentage proportions of systematic Taxonomy – eligible business activities and Taxonomy non-eligible business activities in the total Turnover (Revenue), Capital Expenditures (CapEx) and Operating Expenses (OpEx), as well as the necessary qualitative information. In addition, to assess whether the Group's activities, and in what proportion, are environmentally sustainable according to the Taxonomy, a classification of the activities against the Criteria for making a significant contribution to one or more environmental goals and against the Criteria for the "do no significant harm" (DNSH) principle is carried out.

For the preparation of the Taxonomy related disclosures for 2022, in all operating segments (lines of business) of TAURON Group's operations, as well as within the Group's subsidiaries, an analysis of the activities conducted by TAURON Group was carried out, as a result of which the activities that were eligible for the Taxonomy systematics were identified, in line with the description of activities according to the Commission Delegated Regulation (EU) 2021/2139 and shown in Annex I (Climate Change Mitigation) or Annex II (Climate Change Adaptation). TAURON Group has qualified its activities based on the description of activities included in Annex I and II for the Technical Qualification Criteria and, in a subsidiary manner, using the NACE codes included therein.

TAURON Group's activities with respect to eligibility for the Taxonomy

Step 1 – Division of activities carried out by TAURON Group's subsidiaries

The operations of TAURON Group's subsidiaries are organized within operating segments, in line with the consolidated breakdown in the financial reporting. TAURON Group's operations were organized in 2022 based on six operating segments: Mining (discontinued operations), Generation, Renewable Energy Sources, Distribution, Supply and Other (Other Operations).

Step 2 – Identification of economic activities included in Taxonomy

Pursuant to Annexes I and II, supplementary to Commission Delegated Regulation (EU) 2021/21392 of June 4, 2021, those activities carried out by TAURON Group's subsidiaries and entities that were eligible for the Taxonomy in 2022 were selected, and they were:

- 4.1. Electricity generation using photovoltaic technology,
- 4.3. Electricity generation from wind power,
- 4.5. Electricity generation from hydropower,
- 4.9. Transmission and distribution of electricity,
- 4.11. Storage of thermal energy,
- 4.15 District heating/cooling distribution (heating),
- 4.20. Cogeneration of heat/cool and power from bioenergy (biomass),
- 7.3. Installation, maintenance and repair of energy efficiency equipment.

The above classification above also takes into account the additional Delegated Commission Act (EU) 2022/1214 of March 9, 2022, amending Delegated Regulation (EU) 2021/2139 with regard to economic activities in certain energy sectors and Delegated Regulation (EU) 2021/2178 with regard to public disclosure of specific information with respect to these economic activities. This is a delegated act that includes gas and nuclear energy, among others, in the Taxonomy.

Step 3 – Determination of the indicators for the activities that qualify (are eligible) for the Taxonomy

In the next step, TAURON Group's individual operating segments were assigned to two categories:

- category I (A.1 + A.2) – grouping TAURON Group's activities eligible for the Taxonomy, (A.1 – systematics-eligible, taxonomy-aligned and A.2 – systematics-eligible, taxonomy not-aligned),
- category II (B.) – grouping TAURON Group's activities that are not eligible for the Taxonomy.

In cases where activities carried out as part of the operations of the given operating segment of TAURON Group included both, activities eligible for the Taxonomy (aligned and not-aligned with the systematics of the Environmental Taxonomy - category I), as well activities not eligible for the Taxonomy (not-eligible for the systematics of the Environmental Taxonomy - category II), an additional division inside the given operating segment was introduced, classifying the segment generically as having a partial eligibility for the Taxonomy.

Accounting principles

In order to calculate the proportions of the Turnover ("Revenue"), Capital Expenditures (CapEx) and Operating Expenses (OpEx) eligible for the Environmental Taxonomy systematics (classification), the same accounting principles that apply to the preparation of TAURON Group's consolidated annual financial statements were adopted. The flows occurring between the operating segments, used in the preparation of the financial statements, were taken into account.

The shares of Taxonomy eligible and Taxonomy non-eligible business activities in the total Turnover (Revenue), Capital Expenditures (CapEx) and Operating Expenses (OpEx) (OpEx acc. Taxonomy definition) for TAURON Group for 2022 (and for the previous year) is presented in the following tables (Table 57-a, 57-b and 57-c) and in Figure no. 31:

Table no. 57-a. EU environmental taxonomy. Disclosure regarding the percentage proportion of turnover (Revenue) from products or services related to business activities aligned for the taxonomy - disclosure is for 2022

| Business activities (Business Activity) | TAXONOMY – Code or codes | Turnover "Revenue" (absolute value) 2022 (1) | Proportion of turnover "Revenue" 2022 (2) | Criteria for substantial contribution | | | | | | | Criteria for "Do No Significant Harm" [DNSH] (4) | | | | | | | Minimum safeguards (5) | Percentage share aligned for the systematics (environmental Taxonomy) - 2022 | | Enabling activity ⁽¹⁾ (6) | Category ("transitional activities") (6) | | |
|--|--------------------------|--|---|---------------------------------------|---------------------------|----------------------------|------------------|-----------|-------------------------------------|---------------------------|--|----------------------------|------------------|-----------|-------------------------------------|----------|---|------------------------|--|---|--------------------------------------|--|---|--|
| | | | | Climate change mitigation (3) | Climate change adaptation | Water and marine resources | Circular economy | Pollution | Biological diversity and ecosystems | Climate change mitigation | Climate change adaptation | Water and marine resources | Circular economy | Pollution | Biological diversity and ecosystems | % | % | | E | T | | | | |
| A. ENVIRONMENTAL TAXONOMY SYSTEMATICS-ELIGIBLE ACTIVITY | | | | | | | | | | | | | | | | | | | | | | | | |
| A.1. Types of environmentally sustainable activities (aligned with the systematics) | | | | | | | | | | | | | | | | | | | | | | | | |
| Electricity generation using photovoltaic technology | 4.1 | 166 | 0.4 | 100 | - | - | - | - | - | - | - | - | - | - | - | - | Y | Y | Y | Y | 0.4 | 0.6 | | |
| Electricity generation from wind power | 4.3 | | | 100 | - | - | - | - | - | - | - | - | - | - | - | - | - | Y | Y | Y | | | Y | |
| Electricity generation from hydropower* | 4.5 | | | 100 | - | - | - | - | - | - | - | - | - | - | - | - | - | Y | Y | Y | | | Y | |
| Transmission and distribution of electricity | 4.9 | 3655 | 9.8 | 100 | - | - | - | - | - | - | - | - | - | - | - | - | Y | Y | Y | Y | 9.8 | 13.4 | E | |
| Storage of thermal energy | 4.11 | 0 | 0.0 | 100 | - | - | - | - | - | - | - | - | - | - | - | - | Y | Y | Y | Y | 0.0 | 0.0 | | |
| District heating/cooling distribution | 4.15 | 422 | 1.1 | 100 | - | - | - | - | - | - | - | - | - | - | - | - | Y | Y | Y | Y | 1.1 | 1.5 | | |
| Cogeneration of heat/cool and power from bioenergy (biomass) | 4.20 | 303 | 0.8 | 100 | - | - | - | - | - | - | - | - | - | - | - | - | Y | Y | Y | Y | 0.8 | 0.6 | | |
| Installation, maintenance and repair of energy efficiency equipment | 7.3 (d) | 4.7 | 0.01 | 100 | - | - | - | - | - | - | - | - | - | - | - | - | Y | Y | Y | Y | 0.01 | 0.01 | | |
| Turnover ("Revenue") from environmentally sustainable activities (aligned for the systematics) (A.1.). | | 4550 | 12.2 | 100 | - | - | - | - | - | - | - | - | - | - | - | - | | | | | 12.2 | 16.1 | | |
| A.2. Activities that are systematics-eligible, but are not environmentally sustainable (activities not aligned for the systematics) | | | | | | | | | | | | | | | | | | | | | | | | |
| Transmission and distribution of electricity | 4.9 | 11 | 0.03 | | | | | | | | | | | | | | | | | | | | | |
| Turnover ("Revenue") from activities that are systematics-eligible, but are not environmentally sustainable (activities not aligned for the systematics) (A.2.) | | 11 | 0.03 | | | | | | | | | | | | | | | | | | | | | |
| Total (A.1. + A.2.) | | 4561 | 12.2 | | | | | | | | | | | | | | | | | | | | | |
| B. NON-SYSTEMATICS-ELIGIBLE ACTIVITY | | | | | | | | | | | | | | | | | | | | | | | | |
| Turnover ("Revenue") from activities that are non-systematics-eligible (B.) | | 32 780 | 87.8 | | | | | | | | | | | | | | | | | | | | | |
| Total (A. + B.) | | 37 341 | 100.0 | | | | | | | | | | | | | | | | | | | | | |

Table no. 57-b. EU environmental taxonomy. Disclosure regarding the percentage proportion of capital expenditures (CapEx) due to products or services related to business activities aligned for the taxonomy – the disclosure is for 2022.

| Business activities (Business Activity) | TAXONOMY – Code or codes | Capital expenditures CapEx (absolute value) 2022 (1) PLN _m | Proportion of capital expenditures CapEx 2022 (2) % | Criteria for substantial contribution | | | | | | Criteria for "Do No Significant Harm" [DNSH] (4) | | | | | | Minimum safeguards (5) Y/N | Percentage share aligned for the systematics (environmental Taxonomy) 2022 % | Percentage share aligned for the systematics (environmental Taxonomy) 2021 % | Category ("enabling activity") (6) E | Category ("transitional activities") (6) T |
|--|--------------------------|---|---|--|---------------------------|----------------------------|------------------|-----------|-------------------------------------|---|---------------------------|----------------------------|------------------|-----------|-------------------------------------|----------------------------------|---|---|---|--|
| | | | | Climate change mitigation (3) | Climate change adaptation | Water and marine resources | Circular economy | Pollution | Biological diversity and ecosystems | Climate change mitigation | Climate change adaptation | Water and marine resources | Circular economy | Pollution | Biological diversity and ecosystems | | | | | |
| A. ENVIRONMENTAL TAXONOMY SYSTEMATICS-ELIGIBLE ACTIVITY | | | | | | | | | | | | | | | | | | | | |
| A.1. Types of environmentally sustainable activities (aligned with the systematics) | | | | | | | | | | | | | | | | | | | | |
| Electricity generation using photovoltaic technology | 4.1 | 459 | 11.6 | 100 | - | - | - | - | - | - | Y | | Y | | Y | Y | 11.6 | 3.1 | E | |
| Electricity generation from wind power | 4.3 | | | 100 | - | - | - | - | - | - | Y | | Y | | Y | Y | | | | |
| Electricity generation from hydropower* | 4.5 | | | 100 | - | - | - | - | - | - | Y | Y | | | Y | Y | | | | |
| Transmission and distribution of electricity | 4.9 | 2 137 | 53.9 | 100 | - | - | - | - | - | - | Y | | Y | Y | Y | Y | 53.9 | 69.7 | E | |
| Storage of thermal energy | 4.11 | 0 | 0.0 | 100 | - | - | - | - | - | - | Y | | Y | | Y | Y | 0.0 | 0.0 | | |
| District heating/cooling distribution | 4.15 | 12,2 | 0.3 | 100 | - | - | - | - | - | - | Y | Y | | Y | Y | Y | 0.3 | 0.3 | | |
| Cogeneration of heat/cool and power from bioenergy (biomass) | 4.20 | 2.1 | 0.1 | 100 | - | - | - | - | - | - | Y | Y | | Y | Y | Y | 0.1 | 0.1 | | |
| Installation, maintenance and repair of energy efficiency equipment | 7.3 (d) | 37 | 0.9 | 100 | - | - | - | - | - | - | Y | | | Y | | Y | 0.9 | 0.5 | | |
| Capital expenditures CapEx due to environmentally sustainable activities (aligned for the systematics) (A.1.). | | 2647 | 66.8 | 100 | - | - | - | - | - | - | | | | | | | 66.8 | 73.7 | | |
| A.2. Activities that are systematics-eligible, but are not environmentally sustainable (activities not aligned for the systematics) | | | | | | | | | | | | | | | | | | | | |
| Transmission and distribution of electricity | 4.9 | 0 | 0.00 | | | | | | | | | | | | | | | | | |
| Capital expenditures CapEx due to activities that are systematics-eligible, but are not environmentally sustainable (activities not aligned for the systematics) (A.2.) | | 0 | 0.00 | | | | | | | | | | | | | | | | | |
| Total (A.1. + A.2.) | | 2647 | 66.8 | | | | | | | | | | | | | | | | | |
| B. NON-SYSTEMATICS-ELIGIBLE ACTIVITY | | | | | | | | | | | | | | | | | | | | |
| Capital expenditures CapEx due to activities that are non-systematics-eligible (B.) | | 1 315 | 33.2 | | | | | | | | | | | | | | | | | |
| Total (A. + B.) | | 3 962 | 100.0 | | | | | | | | | | | | | | | | | |

Table no. 57-c. EU environmental taxonomy. Disclosure regarding the percentage proportion of operating expenses (OpEx) due to products or services related to business activities aligned for the taxonomy – the disclosure is for 2022

| Business activities (Business Activity) | TAXONOMY - Code or codes | Operating expenses OpEx absolute value 2022 (1) PLN m | Proportion of operating expenses OpEx 2022 (2) % | Criteria for substantial contribution | | | | | | Criteria for "Do No Significant Harm" [DNSH] (4) | | | | | | Minimum safeguards (5) Y/N | Percentage share aligned for the systematics (environmental Taxonomy) 2022 % | Percentage share aligned for the systematics (environmental Taxonomy) 2021 % | Category ("enabling activity") (6) E | Category ("transitional activities") (6) T |
|---|--------------------------|---|--|--|--------------------------------|---------------------------------|-----------------------|----------------|--|---|----------------------------------|-----------------------------------|-------------------------|------------------|--|-------------------------------|---|---|---|---|
| | | | | Climate change mitigation (3) % | Climate change adaptation % | Water and marine resources % | Circular economy % | Pollution % | Biological diversity and ecosystems % | Climate change mitigation Y/N | Climate change adaptation Y/N | Water and marine resources Y/N | Circular economy Y/N | Pollution Y/N | Biological diversity and ecosystems Y/N | | | | | |
| A. ENVIRONMENTAL TAXONOMY SYSTEMATICS ELIGIBLE ACTIVITY | | | | | | | | | | | | | | | | | | | | |
| A.1. Types of environmentally sustainable activities (aligned with the systematics) | | | | | | | | | | | | | | | | | | | | |
| Electricity generation using photovoltaic technology | 4.1 | 17 | 3.5 | 100 | - | - | - | - | - | - | Y | | Y | | Y | Y | 3.5 | | | |
| Electricity generation from wind power | 4.3 | | | 100 | - | - | - | - | - | - | - | Y | | Y | | Y | | | | Y |
| Electricity generation from hydropower* | 4.5 | | | 100 | - | - | - | - | - | - | - | Y | Y | | Y | Y | | | | |
| Transmission and distribution of electricity | 4.9 | 266 | 54.7 | 100 | - | - | - | - | - | - | Y | | Y | Y | Y | Y | 54.7 | | E | |
| Storage of thermal energy | 4.11 | 0.3 | 0.1 | 100 | - | - | - | - | - | - | Y | | Y | | Y | Y | 0.1 | | | |
| District heating/cooling distribution | 4.15 | 4.4 | 0.9 | 100 | - | - | - | - | - | - | Y | Y | | Y | Y | T | 0.9 | | | |
| Cogeneration of heat/cool and power from bioenergy (biomass) | 4.20 | 1.2 | 0.2 | 100 | - | - | - | - | - | - | Y | Y | | Y | Y | Y | 0.2 | | | |
| Installation, maintenance and repair of energy efficiency equipment | 7.3 (d) | 0.5 | 0.1 | 100 | - | - | - | - | - | - | Y | | | Y | | Y | 0.1 | | | |
| Operational expenses OpEx due to environmentally sustainable activities (aligned for the systematics) (A.1.). | | 290 | 59.5 | 100 | - | - | - | - | - | - | | | | | | | 59.5 | | | |
| A.2. Activities that are systematics-eligible, but are not environmentally sustainable (activities not aligned for the systematics) | | | | | | | | | | | | | | | | | | | | |
| Transmission and distribution of electricity | 4.9 | 0.1 | 0.02 | | | | | | | | | | | | | | | | | |
| Operational expenses OpEx due to activities that are systematics-eligible, but are not environmentally sustainable (activities not aligned for the systematics) (A.2.) | | 0.1 | 0.02 | | | | | | | | | | | | | | | | | |
| Total (A.1. + A.2.) | | 290 | 59.5 | | | | | | | | | | | | | | | | | |
| B. NON-SYSTEMATICS-ELIGIBLE ACTIVITY | | | | | | | | | | | | | | | | | | | | |
| Operational expenses OpEx due to activities that are non-systematics-eligible (B.) | | 197 | 40.5 | | | | | | | | | | | | | | | | | |
| Total (A. + B.) | | 487 | 100 | | | | | | | | | | | | | | | | | |

Footnotes to the Methodology from Table no. 57 a-c:

Table no. 57-a. Disclosure regarding the percentage share of turnover (Revenue) from products or services related to business activities aligned for the taxonomy - disclosure is for 2022

(1) Turnover "Revenue" (absolute value): revenue from each individual activity. If an activity is present in both A.1 and A.2 or B, the figure refers to the proportion of the activity that corresponds to A.1, A.2 or B. For activities carried out within the same operating segment of TAURON Group, the division of revenues among individual activities in accordance with the Group's consolidated revenue reporting rules.

A.2. this item represents new connections to the distribution grid of a Group company (period of the last five years) for which the GHG emission intensity exceeds the threshold of 100 gCO₂eq/kWh and were excluded from A.1.

The most significant assumptions made for the disclosure for 2022: 100% of the share of Taxonomy-aligned business was attributed to the operations of the TAURON Distribution and TAURON Ekoenergia (RES) subsidiaries. With regard to cogeneration of heat/cooling energy and electricity from bioenergy (biomass), a corresponding separation of the "Revenue" was made within the Generation operating segment. Similarly, a partial separation of the "Revenue" was made for TAURON Nowe Technologie with respect to the installation, maintenance and repair of energy efficiency equipment, and for TAURON Ciepło with respect to heat distribution (revenue for the contracted capacity). The revenues were not shown for activities involving thermal (heat) energy storage.

Sales between TAURON Group's individual operating segments were not taken into account in determining the total revenue for the Taxonomy.

(2) Proportions of Turnover "Revenue": percentage share of Revenue of each individual business activity to the Group's total revenue (A + B).

(3) Substantial contribution to climate change mitigation: refers to the share of revenue out of each individual economic activity (indicated in the column Revenue) that contributes to climate change mitigation. This is the only objective of the EU taxonomy regulation alignment analysis shown in the table, as it is considered more relevant compared to the climate change adaptation objective. The criteria for the 4 other environmental objectives are not yet available.

Table no. 57-b. EU environmental taxonomy. Disclosure regarding the percentage share of capital expenditures (CapEx) due to products or services related to business activities aligned for the taxonomy – the disclosure is for 2022

(1) Capital expenditures CapEx: CapEx for each individual activity. If an activity is present in both A.1 and A.2 or B, the figure refers to the proportion of the activity that corresponds to A.1, A.2 or B. The most significant assumptions used for the 2022 disclosure: 100% of CapEx expenditures in operations in the Distribution and RES operating segments were assigned as aligned for the Taxonomy.

A.2. this item represents new connections to the distribution grid of a Group company (period of the last five years) for which the GHG emission intensity exceeds the threshold of 100 gCO₂eq/kWh and were excluded from A.1.

(2) Proportion of capital expenditures CapEx: percentage share of CapEx of each individual business activity out of the Group's total capital expenditures.

(3) Substantial contribution to climate change mitigation: refers to the share of "capital expenditures" CAPEX for each individual economic activity (indicated in the column "capital expenditures") that contributes to climate change mitigation. This is the only objective of the EU taxonomy regulation alignment analysis shown in the table, as it is considered more relevant compared to the climate change adaptation objective. Although part of the cost is also related to the contribution to adaptation of the assets to climate change, it has not been identified as substantial.

The criteria for the other 4 environmental objectives are not yet available.

Table no. 57-c. EU environmental taxonomy. Disclosure regarding the percentage share of operating expenses (OpEx) due to products or services related to business activities aligned for the taxonomy – the disclosure is for 2022

(1) Absolute OpEx: OpEx for each individual activity. If an activity is present in both A.1 and A.2 or B, the figure refers to the proportion of the activity that corresponds to A.1, A.2 or B.

A.2. this item represents new connections to the distribution grid of a Group company (period of the last five years) for which the GHG emission intensity exceeds the threshold of 100 gCO₂eq/kWh and were excluded from A.1

(2) Proportion of OpEx: percentage impact of OpEx of each individual business activity out of the total ordinary operating expenses required by the taxonomy at Group level.

(3) Substantial contribution to climate change mitigation: refers to the share of ordinary OpEx for each individual economic activity (indicated in the column Absolute OpEx) that contributes to climate change mitigation. This is the only objective of the EU taxonomy regulation alignment analysis shown in the table, as it is considered more relevant compared to the climate change adaptation objective. Although part of the cost is also related to the contribution to adaptation of the assets to climate change, it has not been identified as substantial.

The criteria for the other 4 environmental objectives are not yet available.

OpEx as defined by Commission Delegated Regulation (EU) 2021/2178 as direct, direct non-capitalised costs that relate to research and development, building renovation measures, short-term lease, maintenance and repair, and any other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment by the undertaking or third party to whom activities are outsourced that are necessary to ensure the continued and effective functioning of such assets.

(4) DNSH: environmental objectives meeting the DNSH "do no significant harm criteria" are specified for each activity,

(5) Minimum safeguards: indicates whether the minimum safeguards, as per the Taxonomy, are respected for each individual activity listed in the table.

(6) Category: specifies whether the activity makes a direct contribution to climate mitigation or is an enabling or transitional activity.

* activity "Generation of electricity from hydropower" in terms of Technical Eligibility Criteria – a significant contribution to climate change mitigation meets one of the required criteria, with the criterion "the life-cycle GHG emissions from the generation of electricity from hydropower, are lower than 100 g CO₂ e/kWh." verified and met, if applicable, but without a third-party confirmation.

Revenue, CapEx and OpEx aligned for Taxonomy were not audited.

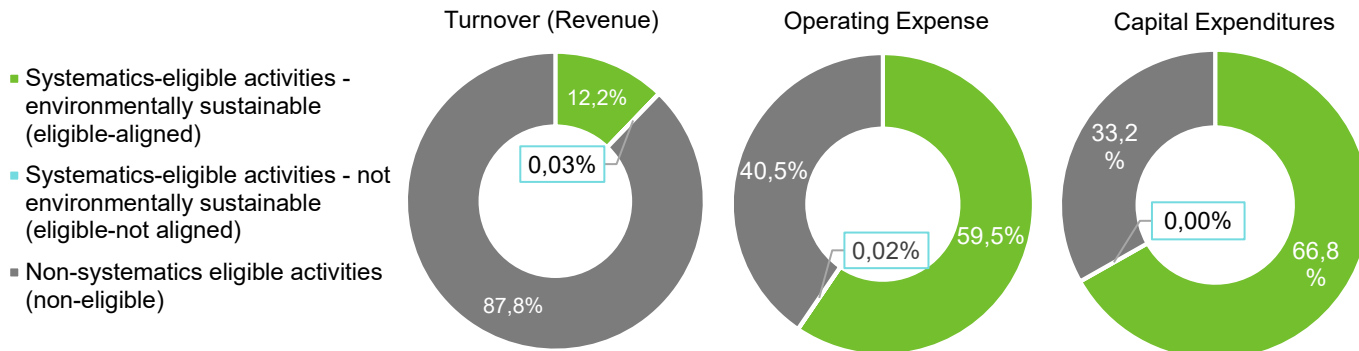






Figure no. 31. Share of TAURON Group's environmentally sustainable (eligible-aligned) and non-sustainable (eligible-not aligned), Taxonomy-systematics-eligible and Taxonomy-systematics non-eligible activities in turnover (revenue), operating expenses (OpEx) and capital expenditures (CapEx) in 2022.

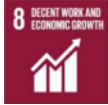
E 2.1. Climate neutrality 2050




The roadmap (presented in Table no. 58) of TAURON Group's decarbonization and the approach to the ESG management with respect to climate neutrality and the 2060 net-zero target:

- reduction of the installed capacity of the conventional electricity and heat generation sources with high emissions in the medium term and the change of the fuel mix by increasing the share of the zero-emission and low-emission sources.
- intensification of the activities related to climate change in the subsequent years and focus on digitization. Following the trend of widespread electrification of industries (consumption/increase in demand for electricity).
- innovations, the circular economy, e-products and cybersecurity as growth accelerators.
- reduction of the carbon footprint of Scope 1 - climate neutrality 2050 (zero emissions) and Scope 3 - low-emission supply chain as well as the supply and distribution of low and zero emission energy.

Table no. 58. "Road map" and intermediate targets (2025) in the pursuit to achieve climate neutrality by TAURON Group by 2050

| Activity | 2021-2025 Intermediate Target | 2022.Results | Status | ESG topics | Sustainable Development Goals (SDG) |
|---|---|--|-----------|------------|--|
| Direct GHG emissions unit (specific) reduction Scope 1 | -76.5% in 2025 as compared to the base year 2018 (Target 200 kgCO ₂ /MWh) (1) | -9.5% as compared to the base year 2018 (2022 result 770 kgCO ₂ /MWh) (1) | ACTIVE | E G | |
| Renewable generation sources' capacity expansion plan | +1.0 GW of new RES capacity (2) | +0.044 GW of new RES capacity (2) +0.3 GW (under construction and at the development stage) | ACTIVE | E G (I) |   |
| Low-emission and zero-emission generation sources' heat (thermal) capacity expansion / change plan | +0.261 GW of low-emission and zero-emission heat (thermal) capacity (3) | 0 GW of new low-emission and zero-emission heat (thermal) capacity (3) +0.216 GW (under construction) | ACTIVE | E G (I) |  |
| Adaptation of the conventional assets to comply with the environmental requirements (BAT conclusions) | Program completed with the amount of PLN 311.2 million* of capital expenditures on environment protection – BAT Program (adaptation of the assets to the requirements of the BAT conclusions and to the capacity market) | .* | COMPLETED | E (I) |  |

| | | | | |
|--|--|----------------------------------|--------|---|
| Sustainable development: | 11,9%** - share of EBITDA from sustainable operations of the RES operating segment | ACTIVE (2022 achievement) | E G |  |
| EBITDA** from sustainable operations of the RES segment / Group's EBITDA | | PLANNED (2025 target definition) | | |

| | | | | |
|------------------------------------|---|----------------------------------|---|---|
| Sustainable financing - better use | - | PLANNED (2025 target definition) | G |    |
|------------------------------------|---|----------------------------------|---|---|

* BAT Program carried out in 2018 - 2021. Activity completed (no expenditures in 2022).

** Share of EBITDA from sustainable operations in the Group's EBITDA in 2022 is presented in relation to the RES operating segment, which generates more than 80% of the EBITDA from the sustainable operations. The Distribution operating segment is not included in the calculations, although it is in line with the EU Environmental Taxonomy systematics (classification) with respect to the climate targets (climate change mitigation and adaptation).

(1) Direct GHG emissions indicator in kgCO₂eq/MWh calculated in relation to the electricity production (TAURON Group's subsidiaries included: TAURON Wytwarzanie, TAURON Inwestycje, TAURON Ciepło, TAURON Ekoenergia as well as the company's subsidiaries or the entities managed by the company, TAURON Zielona Energia, TAURON Nowe Technologie). The intermediate 2025 target value corresponds to the graphical data - Figure no. 26 TAURON Capital Group's planned CO₂ emissions level in 2018-2030

(2) New RES capacity based on wind energy and photovoltaic farms (2021-2025 Expansion Plan).

(3) Replacement of the capacity of the conventional heat generation sources (coal and heavy heating oil) (baseload and peak units) with low and zero-emission heat generation sources. Only TAURON Ciepło is included

E – Environmental

G – Governance

(I) – Investments

In addition, TAURON Group is planning to take steps, in 2023, aimed at verifying its targets, applying an approach consistent with the criteria and recommendations of the Science Based Targets (SBTi) initiative - following the exit of the TAURON Wydobywanie subsidiary out of TAURON Group's structures (completed at the end of 2022), however without conducting the certification. TAURON Group's actions, announced for 2022, in this regard could not be completed, because after checking the basic criterion involving the amount of revenue generated by the Group from the coal assets related to the Mining operating segment (for 2022 the share was > 5%), and, as a consequence, for TAURON Group no verification of the targets according to the criteria and recommendations of the SBTi initiative was completed.

Thus, appropriate and adequate measures will be implemented starting from 2023, and from that year it will be possible to check and verify the individual targets set within the Group, linked to TAURON Group's pursuit of the long term goal of zero GHG emissions in the value chain by 2050, which is related to the direct emissions (Scope 1). In addition, the indirect emissions (Scope 2 and 3) will be curtailed based on the criteria and recommendations of the SBTi initiative.

The above is a step supplementing the direction of actions, adopted under TAURON Group's Climate Policy, aimed at limiting the global warming and not exceeding the temperature rise of 1.5 °C in the long term, in line with the Paris Agreement and the goals of the United Nations according to the "2030 Agenda for Sustainable Development".

Following the above targets and the planned activities of TAURON Group in pursuit of climate neutrality 2050, an adequate investment (capex) plan had also been announced, which includes the spending of nearly PLN 17 billion for the development of the RES installed capacity in the medium term by 2030, as presented as part of TAURON Group's Strategy for the years 2022-2030 with an outlook until 2050.

Direction – Energy transition

The future for electricity generation

In order to achieve the total decarbonization by 2050, TAURON Group, when compiling an update of the strategic directions and the new strategy for the years 2022-2030 with an outlook until 2050, confirmed its intermediate target in the fight against climate change stemming from the implementation of the Green Turn of TAURON initiated in 2019, setting the Scope 1 direct greenhouse gas emissions reduction target at more than 78% by 2030 with an intermediate emissions reduction target set for 2025.

To achieve this goal, TAURON is planning additional capacity in renewable energy sources so as to reach a total of 3.7 GW of the installed capacity of the zero-carbon sources by 2030. At this stage, the most likely scenario for

reducing the share of conventional power generation capacity in TAURON Group's fuel mix is the spin-off and divestment of the coal assets to another entity (NABE program). More information on this topic in section 2.6 TAURON Group's Strategy and its Assumptions.

Electrification, digitization and creation of new development platforms

To promote electrification and increase the consumption of electricity from RES, TAURON Group is seeking to expand its range of products and services in order to raise customer satisfaction. The main goals in this regard include the installation of 566 electric vehicle charging stations by the end of 2025, but also, with respect to promoting electrification, the strengthening (hardening) of the grid infrastructure.

In addition, taking into account the role of the infrastructure, in particular for the decarbonization purposes, the planned steps include the goal of increasing the flexibility and resilience of the grid infrastructure by investing in the digitization and in raising the quality and efficiency of the services provided, also with the use of the new development platforms. The main goals set for 2025 include improving the CTP and CP indicators (equivalent to SAIDI and SAIFI) by not less than 20% as compared to 2021 and achieving by 2030 the target of more than 5.8 million final consumers with active "smart metering" devices (data to be used as part of the new development platforms) in place.

S – SOCIAL **(Social Responsibility)**

S 1. TAURON Capital Group's Human Capital Management Strategy

GRI 2-7, GRI 404-1, GRI 405-1

The range of the Group's business operations, both in terms of geography as well as competence areas, employing more than 25 700 employees, has a significant impact upon the complexity of the human capital management process. TAURON Group strives to optimize, standardize and digitize the human capital management processes so as to provide employees and management with tools to effectively support the organization, ensure a dialogue based environment, introduce changes and develop the organization. The key factor is the Group's participation in the energy sector's transition process and providing the organization with the competences required to maintain business continuity in the future related thereto.

TAURON Group is seeking to create flexible conditions for the development of knowledge and skills as well as to create a work environment based on cooperation and partnership. Employee opinion polls are conducted and their results form the basis for building and implementing action plans aimed at increasing commitment and creating an attractive workplace. All of TAURON Group's subsidiaries are conducting their operations in compliance with the standards with respect to the compliance with the principles of ethics, respect for diversity and counteracting mobbing and discrimination.

The key data on TAURON Group's human capital in 2020-2022 is presented in Table no. 59.

Table no. 59. GRI 2-7, GRI 405-1. Key data on TAURON Group's human capital in 2020-2022

| Key data | 2022 | 2021 | 2020 |
|---|--------|--------|--------|
| Number of employees (in persons as of 31.12) | 25 740 | 25 324 | 25 572 |
| Share of women among the workforce | 22.2% | 21.8% | 21.5% |
| Share of men among the workforce | 77.8% | 78.2% | 78.5% |
| Share of college graduates among the workforce | 36.8% | 35.9% | 34.8% |
| Share of high school graduates among the workforce | 43.5% | 43.2% | 43.5% |
| Share of vocational and elementary school graduates among the workforce | 19.7% | 20.9% | 21.7% |
| Rotation rate | 7.09% | 7.05% | 6.67% |

TAURON Group's human capital management strategy is performed through the implemented processes in place presented in Figure no. 32:

HUMAN CAPITAL MANAGEMENT



Figure no. 32. Processes implemented as part of TAURON Capital Group's Human Capital Management Strategy

Through active management of human capital TAURON Group achieved in 2020-2022 the results presented in Table no. 60.

Table no. 60. GRI 404-1. Results achieved in 2020-2022 as part of TAURON Capital Group's management of human capital

| Results achieved | 2022 | 2021 | 2020 |
|--|---------|---------|---------|
| Number of training course hours | 398 000 | 385 000 | 295 000 |
| Number of the participants of TAURON Group Open University (the number of Tauronet views in 2021/2022) | 1 000 | 2 000 | 7 000 |
| Number of training courses conducted by Internal Coaches | 185 | 155 | 84 |
| Number of Internal Coaches | 71 | 104 | 86 |
| Number of persons trained by Internal Coaches | 2 100 | 1 600 | 1 100 |
| Number of interns/apprentices | 343 | 265 | 263 |
| Number of patronage classes | 50 | 52 | 53 |
| Number students in patronage classes | 965 | 1 200 | 1 000 |
| Number of participants in the Development Squared initiative | 2046 | 2406 | 950 |

S 1.1. Policies and Principles supporting Human Capital Management

GRI 3-3

S 1.1.1. TAURON Group's Human Capital Management Policy

GRI 2-7, GRI 2-8, GRI 2-20, GRI 2-24, GRI 2-30, GRI 401-1, GRI 403-6, GRI 404-2

TAURON Group's Human Capital Management Policy is a document that focuses on acquiring, developing and maintaining competencies that are key to organizational efficiency and achieving the Group's strategic goals.

The goal of the regulations contained in this policy is the broadly understood support for employees and managers in creating an environment conducive to dialogue, introducing changes and striving for the development of the organization. Among the priorities set by the Policy, there are also issues such as creating an organizational culture based on cooperation and partnership, supporting bottom-up initiatives, independence and development of the personnel.

The policy defines the mission and vision of TAURON Group's human capital management.

Human Capital Management Area mission

With passion and commitment we are creating and implementing solutions shaping the organizational culture and work environment that provide support for the implementation of the goals defined in the Strategy.

Human Capital Management Area vision

We are a partner for the Management Team and Workforce in building an efficient company, based on clear rules and modern solutions.

The document also sets out strategic areas of activities related to employee issues. They include: organization development, efficiency management as well as competences and development management. In each area, specific goals are set and activities aimed at achieving them are identified. Their description is presented in Table no. 61.

Table no. 61. GRI 3-3. Strategic areas of activities defined by TAURON Capital Group's Human Capital Management

| Area: Organization development | Process |
|--|---|
| Goal: Implementing and promoting organizational culture that supports TAURON Group's development | |
| Strengthening employee engagement and creating a safe and inspiring work environment: <ul style="list-style-type: none"> • openness to communication with employees, • obtaining and providing feedback, • engaging employees in improving the work environment. | Employee Opinion Survey Employee communication Employer Branding Management by objectives |
| Building the image of TAURON Group as an attractive employer - both inside and outside the organization: <ul style="list-style-type: none"> • surveying the opinion of employees, • creating tools that allow to ensure easy and efficient communication with employees, • cooperating with universities and schools. | Employee Opinion Survey Employee communication Employer Branding Management by objectives |
| Ensuring an efficient flow of information and creating conditions for a partner dialogue with the workforce: <ul style="list-style-type: none"> • strengthening cooperation among areas and among generations: • creating an environment that is friendly to the exchange of knowledge and experience, • promoting knowledge sharing | Social dialogue Development initiatives Knowledge and age management |
| Building relationships with customers and strengthening awareness with respect to environment protection, climate change and commitment to promoting the Green Turn of TAURON | Employer Branding |
| Supporting TAURON Group in the process of changes through access to knowledge and market solutions: <ul style="list-style-type: none"> • designing development programs and providing knowledge, • monitoring market trends and solutions. | Development initiatives |
| Area: Organization efficiency management | Process |
| Goal: Focus on efficiency management. | |
| Clear and consistent defining of roles, tasks and required authorizations at work positions. | Position evaluation system Job description book |
| Defining clear compensation rules, based on market conditions, that motivate people to work efficiently: <ul style="list-style-type: none"> • supporting the implementation of tasks and goals that stem from the Strategy, • creating performance related employee compensation systems, • building tools that support management by objectives. | Employment, wages and benefits Management by objectives Social dialogue |

| | |
|---|---|
| Minimizing the risk associated with human capital management. | TAURON Group's risk management system |
| Ensuring compliance with the principles of ethics and diversity: <ul style="list-style-type: none"> conducting educational activities, taking care of an environment free from mobbing and discrimination. | Regulations related to diversity, ethics and counteracting mobbing and discrimination |
| Optimizing, standardizing and digitizing the Human Capital Management Area processes, increasing the flexibility and efficiency of the organization. | Human Capital Management Mega-process |
| Area: Competences and development management | Process |
| Goal: Supporting the development of competences | |
| Development of employee competences for the needs of the changing energy sector: <ul style="list-style-type: none"> developing competences that prepare for change management, focusing on acquiring new qualifications and improving employees' competences. | Development initiatives Recruitment |
| Creating a culture based on self-development: <ul style="list-style-type: none"> Supporting employees through various individual development tools. | Employee Opinion Survey Employee communication <i>Employer Branding</i> Management by objectives |
| Ensuring the continuity of competences for the energy sector by educating pupils and students. | Development initiatives Recruitment |
| Taking care of employee retention: <ul style="list-style-type: none"> creating opportunities for development for employees and ensuring a motivating atmosphere at work, implementing pro-employee solutions. | Development initiatives Employee induction |
| Ensuring knowledge transfer between generations: <ul style="list-style-type: none"> implementing development programs, implementing internal training programs, ensuring the exchange of experiences between generations. | Knowledge and age management Development initiatives |
| Ensuring the development of leadership competences of the Management Personnel. | Competence model Development conversation |
| Creating and improving tools for the development, motivation and evaluation of the employees' potential. | Development conversation |

Tables no. 62-65 present the key data with respect to the area of human resource management, including the number of employees by gender, age and type of labor contract, as well as the percentage of employees covered by the collective bargaining agreements.

Table no. 62. GRI 2-7. Number of TAURON Capital Group's employees by type of labor contract and gender as of 31.12.2022, per subsidiary

| NUMBER OF EMPLOYEES | TAURON Polska Energia | TAURON Wydobycie | TAURON Wytwarzanie | TAURON Ekoenergia | TAURON Dystrybucja | TAURON Nowe Technologie | TAURON Dystrybucja Pomiaru | TAURON Sprzedaż | TAURON Sprzedaż GZE | TAURON Czech Energy | TAURON Obsługa Klienta | TAURON Ciepło | Kopalnia Wapienia "Czatkowice" | Polska Energia Pierwsza Kompania Handlowa | Bioeko Grupa TAURON | Wsparcie Grupa TAURON | TAURON Serwis | TAURON Zielona Energia | TAURON Inwestycje | Usługi Grupa TAURON | Energetyka Cieszyńska | TOTAL |
|--|-----------------------|------------------|--------------------|-------------------|--------------------|-------------------------|----------------------------|-----------------|---------------------|---------------------|------------------------|---------------|--------------------------------|---|---------------------|-----------------------|---------------|------------------------|-------------------|---------------------|-----------------------|--------|
| LABOR CONTRACTS | | | | | | | | | | | | | | | | | | | | | | |
| TOTAL NUMBER OF EMPLOYEES UNDER LABOR CONTRACTS, INCLUDING | 435 | 6 297 | 2 459 | 200 | 8 035 | 135 | 1 475 | 323 | 9 | 14 | 2 576 | 1 423 | 300 | 3 | 193 | 787 | 423 | 46 | 53 | 453 | 101 | 25 740 |
| women | 203 | 567 | 441 | 47 | 1 265 | 50 | 280 | 171 | 6 | 7 | 1 864 | 245 | 47 | 3 | 44 | 232 | 33 | 19 | 17 | 170 | 15 | 5 726 |
| Men | 232 | 5 730 | 2 018 | 153 | 6 770 | 85 | 1 195 | 152 | 3 | 7 | 712 | 1 178 | 253 | 0 | 149 | 555 | 390 | 27 | 36 | 283 | 86 | 20 014 |
| INCLUDING: | | | | | | | | | | | | | | | | | | | | | | |
| FOR A DEFINITE PERIOD OF TIME (including for a trial period and as a sub): | 48 | 310 | 62 | 30 | 494 | 15 | 57 | 45 | 0 | 0 | 438 | 75 | 40 | 0 | 99 | 150 | 45 | 14 | 5 | 52 | 8 | 1 987 |
| women | 19 | 70 | 29 | 8 | 88 | 7 | 17 | 22 | 0 | 0 | 340 | 11 | 9 | 0 | 21 | 54 | 5 | 6 | 0 | 14 | 1 | 721 |
| men | 29 | 240 | 33 | 22 | 406 | 8 | 40 | 23 | 0 | 0 | 98 | 64 | 31 | 0 | 78 | 96 | 40 | 8 | 5 | 38 | 7 | 1 266 |
| FOR AN INDEFINITE PERIOD OF TIME: | 387 | 5 987 | 2 397 | 170 | 7 541 | 120 | 1 418 | 278 | 9 | 14 | 2 138 | 1 348 | 260 | 3 | 94 | 637 | 378 | 32 | 48 | 401 | 93 | 23 753 |
| women | 184 | 497 | 412 | 39 | 1 177 | 43 | 263 | 149 | 6 | 7 | 1 524 | 234 | 38 | 3 | 23 | 178 | 28 | 13 | 17 | 156 | 14 | 5 005 |
| men | 203 | 5 490 | 1 985 | 131 | 6 364 | 77 | 1 155 | 129 | 3 | 7 | 614 | 1 114 | 222 | 0 | 71 | 459 | 350 | 19 | 31 | 245 | 79 | 18 748 |

The data provided presents the headcount level in persons (FTEs) as of 31.12.2022, and it was collected with the use of TAURON Group's IT systems. There had been no significant fluctuations in the number of employees during the reporting period (a 1.6% headcount increase as compared to 31/12/2021).

Table no. 63. GRI 2-7. Number of TAURON Capital Group's employees under other contracts than a labor contract by gender and type of labor contract as of 31.12.2021, per subsidiary

| NUMBER OF EMPLOYEES | TAURON Polska Energia | TAURON Wydobycie | TAURON Wytwarzanie | TAURON Ekoenergia | TAURON Dystrybucja | TAURON Nowe Technologie | TAURON Dystrybucja Pomiary | TAURON Sprzedaż | TAURON Sprzedaż GZE | TAURON Czech Energy | TAURON Obsługa Klienta | TAURON Ciepło | Kopalnia Wapienia "Czatkowice" | Polska Energia Pierwsza Kompania Handlowa | Bioeko Grupa TAURON | Wsparcie Grupa TAURON | TAURON Serwis | TAURON Zielona Energia | TAURON Inwestycje | Usługi Grupa TAURON | Energetyka Cieszyńska | TOTAL |
|--|-----------------------|------------------|--------------------|-------------------|--------------------|-------------------------|----------------------------|-----------------|---------------------|---------------------|------------------------|---------------|--------------------------------|---|---------------------|-----------------------|---------------|------------------------|-------------------|---------------------|-----------------------|-------|
| EMPLOYEES EMPLOYED UNDER CONTRACTS OTHER THAN A LABOR CONTRACT | | | | | | | | | | | | | | | | | | | | | | |
| TOTAL NUMBER OF EMPLOYEES EMPLOYED UNDER CONTRACTS OTHER THAN A LABOR CONTRACT: | 25 | 182 | 75 | 12 | 28 | 10 | 22 | 15 | 0 | 0 | 169 | 11 | 19 | 6 | 7 | 852 | 57 | 2 | 8 | 128 | 6 | 1 634 |
| women | 8 | 10 | 15 | 3 | 13 | 1 | 3 | 2 | 0 | 0 | 141 | 1 | 8 | 1 | 0 | 175 | 5 | 0 | 2 | 85 | 0 | 473 |
| Men | 17 | 172 | 60 | 9 | 15 | 9 | 19 | 13 | 0 | 0 | 28 | 10 | 11 | 5 | 7 | 677 | 52 | 2 | 6 | 43 | 6 | 1 161 |
| PERSONS UNDER MANAGEMENT CONTRACTS (MEMBERS OF THE MANAGEMENT BOARDS): | 6 | 2 | 5 | 2 | 4 | 4 | 2 | 4 | 0 | 0 | 5 | 4 | 2 | 1 | 2 | 1 | 2 | 2 | 2 | 2 | 2 | 54 |
| women | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 1 | 0 | 5 |
| men | 6 | 2 | 4 | 2 | 4 | 4 | 2 | 4 | 0 | 0 | 3 | 4 | 2 | 1 | 2 | 0 | 2 | 2 | 2 | 1 | 2 | 49 |
| MEMBERS OF THE SUPERVISORY BOARD | 8 | 4 | 4 | 5 | 4 | 5 | 4 | 4 | 0 | 2 | 4 | 3 | 5 | 0 | 5 | 4 | 4 | 0 | 5 | 0 | 3 | 73 |
| women | 1 | 0 | 0 | 2 | 0 | 1 | 0 | 0 | 0 | 0 | 3 | 0 | 2 | 0 | 0 | 2 | 1 | 0 | 4 | 0 | 0 | 16 |

| | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|-----|----|---|----|---|----|---|---|---|-----|---|----|---|---|-----|----|---|---|-----|---|-------|-----|
| men | 7 | 4 | 4 | 3 | 4 | 4 | 4 | 4 | 4 | 0 | 2 | 1 | 3 | 3 | 0 | 5 | 2 | 3 | 0 | 1 | 0 | 3 | 57 |
| SELF EMPLOYED PERSONS: | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7 |
| women | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| men | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 |
| EMPLOYEES UNDER THE GROUP'S SUPERVISION: | 0 | 0 | 0 | 0 | 0 | 0 | 16 | 0 | 0 | 0 | 163 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 179 |
| women | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 138 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 141 |
| men | 0 | 0 | 0 | 0 | 0 | 0 | 13 | 0 | 0 | 0 | 25 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 38 |
| PERSONS ON POSTGRADUATE INTERNSHIPS: | 3 | 0 | 1 | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 8 |
| women | 2 | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6 |
| men | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| PERSONS PROVIDING SERVICES UNDER A CIVIL LAW AGREEMENT | 8 | 175 | 65 | 5 | 16 | 1 | 0 | 2 | 0 | 0 | 0 | 3 | 12 | 5 | 0 | 847 | 51 | 0 | 1 | 126 | 1 | 1 318 | |
| women | 5 | 10 | 14 | 1 | 9 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 6 | 1 | 0 | 172 | 4 | 0 | 1 | 84 | 0 | 308 | |
| men | 3 | 165 | 51 | 4 | 7 | 1 | 0 | 1 | 0 | 0 | 0 | 3 | 6 | 4 | 0 | 675 | 47 | 0 | 0 | 42 | 1 | 1 010 | |
| EMPLOYEES WHO DO NOT HAVE A GUARANTEED MINIMAL NUMBER OF WORK HOURS | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| women | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| men | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Table no. 64. GRI 2-7. Employment of employees at TAURON Capital Group based on a permanent labor contract type by gender as of 31.12.2022, per subsidiary

| NUMBER OF EMPLOYEES | TAURON Polska Energia | TAURON Wydobycie | TAURON Wytwarzanie | TAURON Ekoenergia | TAURON Dystrybucja | TAURON Nowe Technologie | TAURON Dystrybucja Pomiary | TAURON Sprzedaż | TAURON Sprzedaż GZE | TAURON Czech Energy | TAURON Obsługa Klienta | TAURON Ciepło | Kopalnia Wapienia "Czatkowice" | Polska Energia Pierwsza Kompania Handlowa | Bloeko Grupa TAURON | Wsparcie Grupa TAURON | TAURON Serwis | TAURON Zielona Energia | TAURON Inwestycje | Usługi Grupa TAURON | Energetyka Cieszyńska | TOTAL |
|---|-----------------------|------------------|--------------------|-------------------|--------------------|-------------------------|----------------------------|-----------------|---------------------|---------------------|------------------------|---------------|--------------------------------|---|---------------------|-----------------------|---------------|------------------------|-------------------|---------------------|-----------------------|--------|
| WORKING UNDER A LABOR CONTRACT, INCLUDING: | | | | | | | | | | | | | | | | | | | | | | |
| FULL TIME: | 421 | 6 294 | 2 441 | 198 | 8 014 | 135 | 1 473 | 320 | 6 | 12 | 2 562 | 1 421 | 299 | 3 | 189 | 776 | 422 | 45 | 49 | 429 | 96 | 25 605 |
| women | 197 | 564 | 437 | 46 | 1 252 | 50 | 279 | 169 | 4 | 5 | 1 852 | 245 | 47 | 3 | 44 | 230 | 33 | 19 | 16 | 151 | 14 | 5 657 |
| men | 224 | 5 730 | 2 004 | 152 | 6 762 | 85 | 1 194 | 151 | 2 | 7 | 710 | 1 176 | 252 | 0 | 145 | 546 | 389 | 26 | 33 | 278 | 82 | 19 948 |
| PART TIME: | 14 | 3 | 18 | 2 | 21 | 0 | 2 | 3 | 3 | 2 | 14 | 2 | 1 | 0 | 4 | 11 | 1 | 1 | 4 | 24 | 5 | 135 |
| women | 6 | 3 | 4 | 1 | 13 | 0 | 1 | 2 | 2 | 2 | 12 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 1 | 19 | 1 | 69 |
| men | 8 | 0 | 14 | 1 | 8 | 0 | 1 | 1 | 1 | 0 | 2 | 2 | 1 | 0 | 4 | 9 | 1 | 1 | 3 | 5 | 4 | 66 |

Table no. 65. GRI 2-30. Percentage of TAURON Capital Group's employees covered by collective bargaining agreements as of 31.12.2022, per subsidiary

| | TAURON Polska Energia | TAURON Wydobywanie | TAURON Wytwarzanie | TAURON Ekoenergia | TAURON Dystrybucja | TAURON Nowe Technologie | TAURON Dystrybucja Pomiaru | TAURON Sprzedaż | TAURON Sprzedaż GZE | TAURON Czech Energy | TAURON Obsługa Klienta | TAURON Ciepło | Kopalnia Wapienia "Czatkowice" | Polska Energia Pienwsza Kompania Handlowa | Bloeko Grupa TAURON | Wsparcie Grupa TAURON | TAURON Serwis | TAURON Zielona Energia | TAURON Inwestycje | Usługi Grupa TAURON | Energetyka Cieszyńska | Total |
|---|--------------------------|-----------------------|-----------------------|----------------------|-----------------------|----------------------------|-------------------------------|--------------------|------------------------|------------------------|---------------------------|------------------|-----------------------------------|--|---------------------|--------------------------|------------------|---------------------------|----------------------|------------------------|-----------------------|--------|
| Total number of persons employed | 435 | 6 297 | 2 459 | 200 | 8 035 | 135 | 1 475 | 323 | 9 | 14 | 2 576 | 1 423 | 300 | 3 | 193 | 787 | 423 | 46 | 53 | 453 | 101 | 25 740 |
| Total number of employees covered by collective bargaining agreements | 0 | 6 283 | 2 459 | 200 | 8 018 | 118 | 1 471 | 323 | 9 | 0 | 2 576 | 1 403 | 299 | 0 | 0 | 787 | 0 | 0 | 42 | 451 | 100 | 24 539 |
| Percentage of employees covered by collective bargaining agreements | 0.0% | 99.8% | 100.0% | 100.0% | 99.8% | 87.4% | 99.7% | 100.0% | 100.0% | 0.0% | 100.0% | 98.6% | 99.7% | 0.0% | 0.0% | 100.0% | 0.0% | 0.0% | 79.2% | 99.6% | 99.0% | 95.3% |

The overwhelming majority of TAURON Group's subsidiaries apply the Company Collective Bargaining Agreements (CBAs). Depending on the specific solutions adopted at some of the Group's Subsidiaries, the top management staff (N-1 level) is excluded from the Collective Bargaining Agreements, and the terms of employment are regulated in the labor contract. At the subsidiaries where the Collective Bargaining Agreement is not applied, salaries and the terms of employment are regulated by applying the Compensation Regulations and the Labor Regulations, the content of which is consulted with the social partners (workforce).

Due diligence procedures and internal regulations

The documents supporting the implementation of the goals of TAURON Capital Group's Human Capital Management Policy include:

- TAURON Group's Compensation Principles,
- TAURON Group's Recruitment Principles,
- Principles for improving the qualifications of the Employees, in place at TAURON Group's individual subsidiaries,
- TAURON Group's Competency Model,
- TAURON Group's Regulations of the Internal Trainers Academy,
- Talent and Mentoring Programs, in place at TAURON Group's individual subsidiaries,
- TAURON Group's Employee Referral Program,
- Principles of Cooperation with Schools and Universities,
- Regulations of the "Join" Program – TAURON's internship PROgram.

The Human Capital Management Policy also takes into account the Employee compensation issues. TAURON Group has put in place *TAURON Group's Compensation Principles*. TAURON Group implements simple and transparent compensation principles based on the market conditions and aiming to motivate the staff to work efficiently. The compensation system at each of TAURON Group's subsidiaries is defined in the Company's Collective Bargaining Agreement or the Compensation Regulations. The level of compensation reflects the value, type and quality of labor, the level of competence of the Employee and it is determined based on the tariff rates that are related to the value assigned to the individual positions. The social partners (workforce) are involved in the process of assigning values to the individual jobs and introducing changes to the compensation systems as well as determining the level of the wage increases, both at the Group level through TAURON Group's Social Council as well as at the level of the individual Subsidiaries.

TAURON Group is guided in its actions by the principle of equal treatment of employees and does not tolerate discrimination on any basis, in particular, based on age, gender, race, nationality, religion, sexual orientation, appearance, fitness or difference of opinion. Measures are taken and procedures and mechanisms are implemented to protect employees from discrimination and unequal treatment, and to ensure the detection and elimination of cases of prohibited practices. We provide all employees, regardless of gender, with opportunities for promotion, as well as professional development through a wide range of internal training, participation in specialized training, industry conferences, seminars and workshops. With respect to compensation, we are guided by an assessment of the quality of work and competence of the given employee, and the salary range for the given position is determined based on job valuation, which is an objective and reliable method of determining the importance of each position in relation to other positions at the Company. The wage equality index for TAURON Group is tied to the specifics of the energy industry and the structure of employment (78% men overall, 95% men holding executive positions).

Table no. 66 presents TAURON Group's wage equality ratio (according to the WSE's ESG Reporting Guidelines, S-P2), which indicates the ratio of men's wages to women's wages. The resulting value indicates how much more (or less) men earn on average relative to women.

Table no. 66. TAURON Group's wage equality index in 2022

| Group of positions | Index* [%] |
|------------------------|--------------|
| Managerial positions | -2.81 |
| White collar employees | 28.61 |
| Executive positions | 47.29 |
| Total | 21.51 |

*index calculated on the basis of wages paid in relation to average headcount in 2022

Actions taken and results achieved

Initiatives undertaken with respect to the human resources management at TAURON Group focus on the continuous improvement of the processes in order to adapt them to the changing business environment. A permanent element of the above changes is developing and strengthening such attitudes among employees that are in line with the values of TAURON Group. This basic premise allows for building an organizational culture that enables the employees to take on and implement new challenges, search for innovation, increase efficiency as part of their daily tasks and increase the level of job satisfaction.

TAURON Group, responding to global social and economic challenges, is undertaking a number of initiatives. Using digital technologies, the hybrid work model is being effectively implemented. Remote work allows employees greater flexibility in organizing their time, in line with the idea of a work-life balance. In turn, maintaining the traditional form of work at the employer's site, ensures that social contacts and a sense of identity with the company are maintained.

TAURON is also expanding activities aimed at keeping employees physically and mentally fit. Particular emphasis has been placed on health education and preventive measures, such as promoting pro-health attitudes and healthy lifestyle.

It is also of key importance to strengthen managerial staff based on a number of tools (training, specialized articles) that contribute to the formation of attitudes of leaders who are open-minded and keep up with change.

TAURON Group also ensures the absolute application of labor laws in labor relations and the implementation of legal changes in accordance with changing regulations. In addition, TAURON is optimizing HR and payroll processes, first and foremost focusing on greater automation of HR activities and broadly expanded digitalization. Recruitment, onboarding or employee records management processes have been digitized.

The transformation requires continuous improvement of skills in:

- organizing the work of virtual and hybrid teams,
- organizing in-house work,
- employee retention and sustaining employee engagement,
- diagnosing employee talents,
- developing the adequate processes, standards, and skillfully modifying and adapting them to changing social and economic circumstances.

TAURON Group places particular emphasis on constructive and open dialogue with the workforce. 291 meetings of the employers with the trade union organizations were held at TAURON Group's subsidiaries in 2022. In total, the trade union organizations had about 18 200 members among TAURON Group's employees (i.e. 71% of the total number of employees) at the end of 2022.

During regular meetings and consultations the representatives of the workforce are informed about issues related to:

- TAURON Group's economic and financial situation,
- transition of the power sector,
- implementation of the strategic initiatives,
- issues related to the employee matters at the Group.

1. Employee opinion survey

An employee opinion survey is held every 2 years. After the last edition of the survey, conducted in 2021, a number of initiatives were launched at the individual subsidiaries in response to the demands submitted by the employees. The initiatives focused on improving the following metrics: satisfaction (overall satisfaction), commitment and communication. The initiatives were implemented both at TAURON Group level as well as at the individual subsidiaries' level.

Examples of the initiatives implemented at TAURON Group include: building and continuing constructive social dialogue aimed at employment stabilization (satisfaction rate), implementing attractive training programs for groups of employees, including the training conducted as part of the energy transition (commitment rate), and keeping employees informed on an ongoing basis of the energy transition processes (communication rate).



An example of an initiative implemented at TAURON Polska Energia is an additional communication survey - Your Voice Has Power (Twój głos ma moc). As a result of the survey, a special box was introduced into which employees could anonymously drop their initiatives for improving the organization's functioning. During the 6 months of the survey, dozens of ideas were submitted. The initiatives are applicable to all areas of the business operations and are related to both the day-to-day operations of the company, as well as such

initiatives as environmental education or employee volunteerism.

2. Actions for a just transition

TAURON Group has undertaken a number of activities aimed at preparing the workforce for the energy transition process. The actions have been taken with respect to the potential use of such funding sources as:

- National Just Transition Plan,
- National Recovery Plan,
- Modernization Fund,
- Just Transition Fund.

Submitted project initiatives include, among others:

- retraining, financing training for the employees,
- support in setting up one's own business,
- matching skills and qualifications to the job offers available on the market,
- preparation for the recruitment processes (CV, cover letter, job interview),
- analysis of the labor market and scarce professions/competences,
- analysis of the impact of the outplacement program dedicated to the power plant's workforce (supporting the layoffs process) on the level of commitment and satisfaction as well as employability of the employees in order to achieve the highest possible effectiveness in finding a new job,
- relocation of the employees to other branches or other subsidiaries of TAURON Group - relocation package - reimbursement of accommodation and travel costs in the form of a monthly lump sum based on a periodic calculation taking into account the applicable prices,
- programs dedicated to persons acquiring an entitlement to the pre-retirement benefits or acquiring up to 5 years of retirement rights - additional severance pay, paid employee absenteeism ("Fixed term leaves").

Exchange EU – In 2022, as part of its cooperation with the Małopolska province, TAURON took part in an international workshop dedicated to transition. In April 2022, the Małopolska region was qualified for the EU program - ExchangeEU, whose goal is to develop a platform for the exchange of knowledge and best practices among the coal regions in the EU and facilitate their mutual learning. TAURON was invited to take part in the project carried out by the Małopolska province, in cooperation with Aragon in Spain and Ust in the Czech Republic, as well as the municipalities of: Libiąż, Brzeszcze, Chelmek and the City of Oświęcim, due to its effective cooperation to date. As part of the workshops, TAURON presented its perspective and projects with respect to mobilizing and retraining its employees and creating new green jobs.

World Bank survey "Support for the Polish Mining Regions in Transition"

A World Bank survey entitled "Support for the Polish Mining Regions in Transition" was conducted among the employees of the TAURON Wydobycie (Mining), TAURON Wytwarzanie (Generation), Wsparcie Grupa TAURON, TAURON Serwis and TAURON Ciepło (Heat) subsidiaries in January 2022. The project is financed by the European Commission (DG ENERGY) and is intended to provide support for the regions in the preparation of the road maps according to which the reforms will be implemented.



Nearly 1 500 employees completed the survey. The respondents were mainly men (73%), and the largest number of questionnaires were filled out by the employees of the TAURON Wydobycie (Mining) subsidiary. In addition, 45% of the respondents were more than 45 years old, and the average length of service stood at 21 years. The results of the survey demonstrated that TAURON Group had a well-qualified workforce, aware of the competencies required for their positions and positively viewing the ability to use their skills in performing their daily duties. Based on the completed diagnosis, the World Bank, together with the European Commission, is helping the regions prepare road maps according to which the reforms are introduced and institutions strengthened. The assistance for the mining regions can take different forms depending on the particular challenges and instruments available in the given regions. The results obtained will allow to properly prioritize the main activities implemented with the support of the Just Transition Fund.

Industry Skills Center (Branżowe Centrum Umiejętności) - in 2022, an application was submitted for the "Establishment and Operation of an Industry Skills Center (Branżowe Centrum Umiejętności) in the Field of Electricity at the Vocational Training Center in Wrocław". The application was submitted by the City of Wrocław, as the body that runs the Vocational Training Center, in partnership with the Polish Electricity Transmission and Distribution Association, TAURON Dystrybucja (the primary partner), and the Power Systems Automation Institute (the secondary partner). The main objective of the project is to improve qualifications in the field of metering and diagnostics of electrical equipment and installations and electric shock protection. It is assumed that the Industry Skills Center in the field of electricity will be established by the end of 2024. The goal is to train 300 participants, including 90 pupils, 180 adults (including the employees of the TAURON Dystrybucja subsidiary) and 30 teachers by 30.06.2026.

3. Employee development and training

Technological development, a competitive market and growing demands are forcing greater speed and flexibility in the development activities. The development and improvement of the employees are permanently inscribed in the Group's Strategy, and the implementation of the development activities is carried out on the basis of the principles of improving the qualifications of the employees in place at the individual subsidiaries. All of the development activities at TAURON Group are implemented in accordance with the 70-20-10 principle (the effective learning principle), according to which:

70% of the development activities should be related to gaining experience in the position, among others by delegating new or additional tasks and empowerments to the employee, broadening the scope of his/her responsibility, participation in the task or project teams,

20% of the development activities are based on learning from others, including the ongoing support and regular feedback from your direct superior and colleagues,

10% of the development activities involve participation in various forms of educational and training activities (internal and external).

TAURON Capital Group's employees can choose from a wide range of internal training and external development opportunities, among others, in the form of the participation in industry conferences, seminars, workshops, specialist training, e-learning training or language courses.



Table no. 67 presents the key data on employee training at TAURON Capital Group in 2020-2022.

Table no. 67. GRI 404-1. Key data on the employee training at TAURON Capital Group as of December 31 in the years 2020-2022

| Key data on employee training | TAURON Group | | |
|--|--------------|---------|---------|
| | 2022 | 2021 | 2020 |
| 1. Average number of training hours per employee by job (position) group, including: | 16 | 15 | 12 |
| 1) Management Board and Directors | 40 | 40 | 26 |
| 2) Management positions | 26 | 24 | 14 |
| 3) Administrative staff (white collar positions) | 10 | 10 | 9 |
| 4) Blue collar positions | 17 | 17 | 13 |
| 2. Number of training hours per employee by gender, including: | 397 857 | 383 796 | 294 945 |
| 1) Women | 70 058 | 65 794 | 49 704 |
| 2) Men | 327 743 | 318 002 | 245 240 |

Key statistics on the training carried out at TAURON Group in 2022 are presented in Figure no. 33.

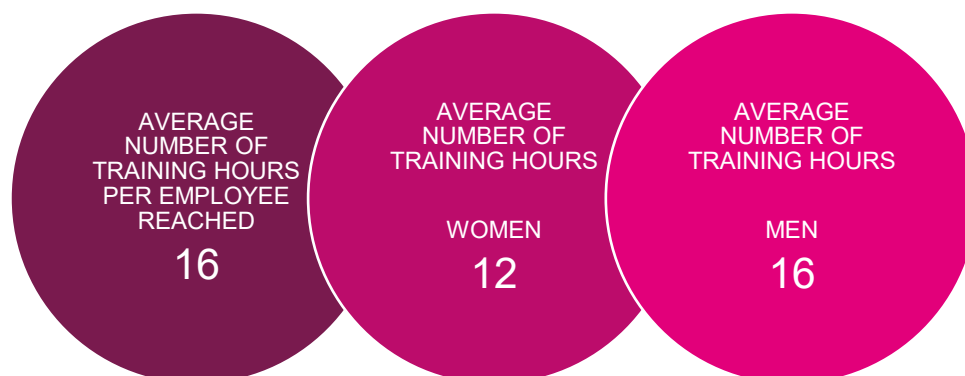




Figure no. 33. GRI 404-1 - The number of training hours per employee at TAURON Capital Group in 2022

We Inspire Development



In order to provide employees with constant access to development options, an additional "Training and Development" tab was created in the intranet. In addition, a new employee zone was launched in 2022, where inspiring materials and development initiatives are continuously posted. The employees can also take advantage of the created Mediateka, where links to webinars, webcasts, podcasts and articles prepared by the HR staff are provided.

Development Conversation

Development conversation is one of the tools supporting the process of management by objectives. Its main assumption is to build employee development plans through a dialogue between the superior and the employee. The essence of the development conversation lies in the development of the employee in relation to the goals pursued by him/her, based on the competence model in place at TAURON Group. The result of the development conversation is an employee development plan drawn up for the given year.

Through development talks, the TAURON Group supports:

- development of the employees and building their commitment,
- definition of the needs and expectations of the employee and the superior related to the accomplishment of the goals,
- implementation of the goals,
- mutual provision of the ongoing feedback,
- building of a culture of dialogue.

TAURON Group Open University (Uniwersytet Otwarty Grupy TAURON - UOGT)

TAURON Group's employees have had the opportunity to participate in lectures conducted as part of the TAURON Group Open University since 2014. The initiative provides a platform for the exchange of views and experiences, as well as an opportunity to gain knowledge and additional competencies. Nearly 40 lectures have been conducted as part of the UOGT, including "Climate Facts and Myths" - a lecture by expert Marcin Popkiewicz, "The Joy of Helping", "Impossible" is just an excuse - a meeting with Jan Mela, "Biking - relaxation, passion, business. About cycling from different perspectives" – a meeting with Czeslaw Lang.

On the occasion of the 30th edition of UOGT, a competition was announced in which employees could submit their proposals for lectures. Inviting employees to co-author the UOGT's program made it possible to learn about their current needs with respect to acquiring expertise and adequately cover the current risks associated with the rapidly changing reality. 2 lectures were conducted by experts in 2022. The first one was the winner of the competition under the topic "Instagram vs. Reality", and the second was "The Joy of Helping" - in response to the situation related to the mass emigration of Ukrainian residents. The lectures were also made available on the intranet and they had been viewed an additional 950 people by the end of 2022.

Internal Trainers (Coaches) Program/ Internal Trainers (Coaches) Academy

The goal of the initiative is to provide support for the development of employees using the internal resources. An Internal Trainer is an employee of TAURON Group who shares expert knowledge with others, and at the same time develops his/her coaching potential. An employee who participates in the recruitment process for the program, during which he or she demonstrates knowledge in a given topic and the ability or potential to conduct training/workshops can become an internal trainer. TAURON also supports the didactic preparation of internal trainers to conduct trainings. Dedicated trainings for trainers are provided to meet their development needs with respect to knowledge sharing skills. The trainer is personally involved in analyzing the training needs, designs training and supports the process of implementing new competencies in the organization.

71 employees with the status of an internal trainer carried out a total of 185 trainings for more than 2 100 TAURON Group employees in 2022. The Internal Trainers Program is implemented at 5 TAURON Group's Subsidiaries. Besides the trainings conducted inside their own Subsidiary, the internal trainers can also, additionally, conduct trainings for the Group's other subsidiaries. 7 such trainings were held for a total of 67 employees in 2022. Examples of training subjects: "Throwing light on photovoltaics", "Renewable energy. Understanding Green Energy", "Technical Aspects of the Electricity Market from the Point of View of the Electricity Supplier and Consumer" or "Empathic Communication Based on the NVC Model."

Development Squared

The webinar series Development Squared, initiated at TAURON Polska Energia, is conducted in four thematic areas: development, knowledge sharing, cooperation and health. The participants of the project are all of TAURON Group's employees with access to the Intranet (nearly 18 000 people in 2022).

21 webinars on 17 different topics, conducted by 10 trainers, were organized in 2022. Among the proposed topics delivered in 2022 were: *Humor and laughter as a basis for well-being*, *Situational leadership in practice* – the webinars conducted for both the managers as well as the employees, *Intergenerational communication and cooperation*, *Do you want to be right or have a relationship - a culture of communication*, or *Sharing knowledge in multigenerational teams*. More than 2 046 employees took part in the initiative.

Training Catalogue

TAURON Group has developed a training base in four modules: expert knowledge, management competencies, personal development and tools. Every month employees can participate in training courses of their choice, developing their skills and knowledge in accordance with their individual development plan. All of the training courses offered in the catalogue as part of the project are organized in accordance with the company's business needs. The training needs are analyzed periodically through surveys and direct communication with the managers.

6 editions of the initiative, as part of which 24 training courses were offered to the employees, were implemented in 2022. In addition, training was organized for TAURON's key functional areas: Trading, Legal, Human Resources, Work Health and Safety (WHS) or Security and Compliance, with nearly 340 people having participated therein.

E-learning

In addition to the training courses carried out using the traditional method, TAURON Group provides its employees with continuous access to the trainings offered on the e-learning platform, which is particularly important during the pandemic and the restrictions related thereto. The



advantages of this form of education include the flexibility of its implementation and the ability to adjust it to the individual pace of knowledge absorption of the given employee. The e-learning training formula also significantly reduces the costs of the training courses, while at the same allowing them to be attended by a larger number of employees. The employees have continuous, unlimited access to the trainings available on the special e-learning platform. It includes both the training courses on the Group wide regulations, the specialist training courses on the IT systems, as well as the training courses developing leadership and interpersonal competences.

The employees updated their knowledge of issues covered by Tauron Group's Corporate Social Responsibility Code of Conduct and Compliance Management System through e-learning trainings in 2022. In total, nearly 17 400 000 employees received more than 54 000 e-learning trainings in 2022.

Manager's Zone

Manager's Zone is a space on the Intranet dedicated to the managers at TAURON Polska Energia. The management staff has constant access to specialized articles on broadly understood management topics, tools supporting team management, interesting events organized online (Mediateka) and recommended books. The Manager's Zone newsletter is sent out regularly (once a month), in which we provide information on the news in the Zone and cover the most current topics. Every year we publish more than a dozen articles on the current trends in the area of management, such as how to appreciate employees, how to strengthen the organizational identity of employees, or how to develop dialogue.

#wzMOCnij się (POWER yourself up)

This is an initiative aimed at providing skills and knowledge to the leaders at TAURON Polska Energia. The topics of the 2022 webinars focused mainly on the mental condition of the employee, where the common denominator of all of the topics was the ability to manage employees during the times of rapid change. During one of the webinars, managers had the opportunity to learn, among other things, based on what to recognize the symptoms of psychosomatic tension in themselves and in an employee, or what communication techniques to use during a crisis conversation and what the structure of a crisis intervention conversation is. In addition, a webinar "Empathic

Leadership", whose goal was to strengthen the managers' awareness of the risks of bullying and discrimination, was conducted. More than 200 people participated in the project.

emPower Women



This is a Microsoft development program in Poland, dedicated to women. It is attended by organizations that are expanding based on Microsoft technology and want to invest in IT competencies. The program is a great opportunity to empower women and give them a chance to develop. The program's topics focus on Microsoft's business cloud technology. The program is open to women representing selected subsidiaries of the Group.

4. Work-life balance and pro-health activities

Two hours for the Family and the Children's Day



TAURON Group has been a participant in the global social movement "Two Hours for the Family" for 10 years. The organizers are encouraging companies to join this project and shorten the working day from 8 to 6 hours by the deadline. Employees can spend the time thus saved with their loved ones. At TAURON Group this campaign has been organized since 2012, on May 15, which is the International Family Day.



At TAURON Group this campaign is carried out for one week under the slogan Family Mega Power (Rodzinna MegaMoc). Each day there is a different event, usually all

kinds of competitions, and one - thematically related to the main slogan in the given year - lecture conducted as part of the UOGT. The week's main slogan in 2022 was: "Take care of yourself and your loved ones". The lectures offered to the employees as part of the Family Mega Power - "The Joy of Helping" have so far been viewed by more than 700 people. Nearly 17 000 employees with access to the Intranet were able to actively participate in all events. The continuation of the Family Mega Power was the Children's Day. The children took part in a workshop on "How to build with the Lego blocks" and a competition to build a Lego structure with a green energy theme. Nearly 400 children took part in the workshop, dozens of competition entries were received, of which the award winning work was the one presenting TAURON's hydroelectric power plant in Pilchowice.

Health week and pro-health webinars

TAURON Group organized several health promoting campaigns in 2022. A series of 5 webinars was conducted in the spring: "Cancer is not a sentence", whose goal was to draw attention to the importance of cancer prevention and adequate oncology prevention. The Health Week was organized in 2022 to promote a healthy lifestyle and preventive examinations among the Group's employees. The Health Week was dedicated to the prevention of back ailments, vision and lung cancer. The Health Week included three lectures in the form of webinars: "How to take care of your back and not get broken?", "Prescription for Eyesight", and "Prevention of Lung Cancer". In total, nearly 500 participants attended the lectures.

5. Awards for social capital management

Top Quality HR

In 2022, TAURON Polska Energia once again took part in the survey organized by the Polish Human Resources Management Association entitled Top Quality HR. As part of the survey, the Association verified and awarded the highest ratings to the following areas of human capital management: incentive and compensation systems, employee development, recruitment and competence management, employee communication and employer branding activities. The Family Mega Power initiative was particularly highly appreciated, implemented under the slogan "Take care of yourself and your loved ones," as part of which, over the past year, employees were offered a number of initiatives to promote a healthy lifestyle and taking care of interpersonal relations (the "Joy of Helping" lecture). The positive result of the survey resulted in the awarding of the 2023 Top Quality HR certificate. The certificate was also awarded to the TAURON Obsługa Klienta (Customer Service) subsidiary.



Friendly Workplace award for TAURON Polska Energia

TAURON Polska Energia received a special award from the editorial board of the Markapracodawcy.pl portal - the Friendly Workplace emblem and a statuette. TAURON's efforts aimed at creating a friendly organizational culture based on open relations with the employees were appreciated. The robust range of development opportunities prepared with the individual needs and predispositions of employees in mind was noted. Special appreciation was expressed for the promotion of expertise. The onboarding model and support for internal recruitment were also considered outstanding. The company's pro-environmental work environment culture and its employees' involvement in the educational and pro-social activities were also highly rated. TAURON Polska Energia is another company besides the TAURON Obsługa Klienta subsidiary that has been appreciated and honorably mentioned for its activities.

S 1.1.2. TAURON Group's Diversity Policy

GRI 2-24, GRI 2-30, GRI 401-3, GRI 405-1

In accordance with TAURON Group's Diversity Policy (hereinafter: Diversity Policy) adopted in 2017, diversity and openness are an integral part of business operations. The Group applies the policy of equal treatment and seeks to ensure diversity in terms of gender, educational background, age and professional experience in relation to all employees. The Diversity Policy is also applied in the cooperation with the external partners of the Group, i.e. companies, universities, schools or other business entities.

Due diligence procedures and internal regulations

The due diligence procedures in place under the Diversity Policy include first and foremost activities aimed at:

- developing the work environment based on respect, openness, reliability (integrity) and fairness (justice),
- respecting diversity, in particular in terms of gender, education, age and professional experience,
- building organizational culture open to diversity, based on the corporate values: Partnership, Development and Boldness (PRO),
- preventing discrimination by fostering adequate work atmosphere as well as building and strengthening positive relationships among the personnel.
- supporting employee initiatives related to equality practices at the Group's Subsidiaries,
- activities that support work-life balance,
- equal treatment of employees in the hiring process and prohibition of discrimination.

As part of the employee related issues, supporting the implementation of the directions set by the Diversity Policy, in combination with the strengthening of the culture of equal treatment irrespective of age, gender, appearance, disability, views or beliefs and ensuring equal opportunities in terms of compensation or professional development, there are regulations in place ensuring fairness and objectivity with respect to work organization and compensation, e.g.

1. TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination,
2. Policy of Respect for Human Rights defining the principles of respect for human rights and actions taken to prevent the violation thereof and promote an atmosphere of dignity and mutual,
3. training and competence development programs that encourage and support the creation of an atmosphere for the development of each employee,
4. regulations to ensure fairness and objectivity in the organization of work and compensation, including, among others:
 - TAURON Group's Compensation Principles,
 - TAURON Group's Human Capital Management Policy,
 - regulations with respect to benefits (entitlements),
 - flexible forms of work time and ability to work remotely, as well as solutions dedicated for women, ensuring equal opportunities for them and support in combining professional life with private life, e.g. reduced working time for pregnant women.
5. TAURON Group's Recruitment Principles,
6. TAURON Group's Competence Model.

Actions taken and results achieved

By implementing its Diversity Policy TAURON Group is seeking to provide the work environment based on respect and fairness (justice), within which each employee may fully realize his or her individual potential. TAURON is building a culture of respect for diversity and the independence of each employee. This goal is achieved through

the implementation of numerous training programs that foster the development of each employee's competencies, as well as a number of initiatives to strengthen the physical and mental condition of the employees.

The most important among them include:

- promoting the passions of TAURON Group's employees as part of displaying respect for human rights, respect for diversity and counteracting discrimination. Since June 2022, a special supplement has been published weekly in the regional newspapers and on the Intranet, describing the activities, passions, experiences as well as a lifestyle and life philosophy of selected Group's employees - the effect of the initiative is an increase of the integration and a sense of identity with the company,
- the "Mom Works" program, which is targets women employed by TAURON Group whose children are under the age of six and pregnant women. Those who join the program have the opportunity to undertake work duties outside of their work place. In addition, for the period of pregnancy, a woman can shorten her working hours by two hours a day, while maintaining her salary. There is also a possibility of taking advantage of an individual work time schedule, depending on the nature of the tasks performed in the given position. Moms who are still on a parental or child rearing leave receive a newsletter containing information on the life of the company, allowing them to stay in touch with the work place. The goal of the program is to increase the work comfort level of the future and current mothers and facilitate their return to active professional work. The program is expected to increase the number of women returning to work after child birth, allowing them to adjust their working hours more flexibly to their needs. It is also intended to ensure that women do not lose touch with the organization during their absence due to a maternity or child rearing leave. The percentage of women returning to work after a parental leave, as well as the retention rate, is presented in Table no. 68.
- Manager Forum at the TAURON Obsługa Klienta (Customer Service) subsidiary. The activity was dedicated to the representatives of the management staff at all levels of management. The goal of the initiative was to expand knowledge, develop skills and strengthen attitudes aimed at appreciating the potential of diversity in a team work. Leaders were invited to participate in the webinars and workshops covering such topics as dealing with difficult emotions in a team, how to build psychological (mental) safety in a team, important aspects of strengthening employee engagement in remote work, building mental toughness, managing people in a VUCA and BANI world. The key message of the initiative was to highlight and appreciate the potential of diversity in a team work - with a special focus on such aspects of diversity as age, knowledge or experience,
- bridging the gaps in access to the profession - more and more traditionally male jobs are being performed by women,
- social dialogue and active cooperation with the trade unions, as well as the *Agreement on the Cooperation as part of the Social Dialogue dated September 13, 2016* in force, concluded with TAURON Capital Group's Social Council. The number of meetings with the trade union organizations at the Group's subsidiaries and the percentage of employees covered by the collective bargaining agreements are presented in Table no. 69,
- meetings with managers, related to the knowledge and age management, were held at TAURON Polska Energia. The meetings were aimed at discussing the issue of competence management with respect to the needs of the changing energy industry and business areas. The effect of these meetings was to provide the managers with a matrix for diagnosing competencies in teams, which will allow them to respond on an ongoing basis to the challenges of the economy and labor market, taking into account such megatrends as silver economy and industry 4.0.

343 persons took advantage of the internship and apprenticeship programs organized at TAURON Group in 2022. As part of the implementation of the Diversity Policy, several foreigners were among the interns. The detailed description of the above activities and projects is provided in section S.1.1.1. TAURON Capital Group's Human Capital Management Policy.

Risks that may have an adverse impact on the application of the Diversity Policy related to TAURON Group's operations:

The risk areas related to non-compliance with the principles of the Diversity Policy include:

- occurrence of the cases of mobbing and discrimination, in particular due to age, gender, education, origin, race, in particular with respect to the equality of the rules of compensation and promotion, as well as equal opportunities with respect to access to training,
- increase in the social unrest related to the unequal treatment,
- increasing employee turnover,
- occurrence of a competence gap,
- loss of the external image and trust in the TAURON brand.

Table no. 68. GRI 401-3. Parental leave at TAURON Capital Group in 2022

| | TAURON Group's total | Women | Men |
|---|----------------------|-------|-----|
| Percentage of returns to work | 82% | 46% | 94% |
| Retention rate following a parental leave | 81% | 76% | 82% |

Table no. 69. GRI 2-30 Number of meetings with the trade union organizations functioning at the Group's subsidiaries and percentage of employees covered by the collective bargaining agreements

| Results achieved | 2022 | 2021 | 2020 |
|---|-------|-------|--------|
| Number of meetings with the trade union organizations functioning at the Group's subsidiaries | 291 | 315 | 334 |
| Percentage of employees covered by the collective bargaining agreements | 95.3% | 95.7% | 95.6 % |

Being aware of the positive impact of a diverse work environment on the knowledge and experience sharing processes, the breakdown of the workforce and the management board of TAURON Group by age and gender is presented in Tables no. 70 and no. 71.

Table no. 70. GRI 405-1. Composition of TAURON Capital Group's workforce broken down by age and gender as of 31.12.2022

| | MANAGEMENT BOARD AND DIRECTORS | | | HIGHER AND LOWER LEVEL MANAGEMENT PERSONNEL | | | OTHER ADMINISTRATIVE STAFF (WHITE COLLAR POSITIONS) | | | BLUE COLLAR POSITIONS | | | TAURON Group | | |
|--|--------------------------------------|-------------------------------------|------------------|---|-------------------------------------|------------------|---|-------------------------------------|------------------|--------------------------------------|-------------------------------------|------------------|--------------------------------------|-------------------------------------|------------------|
| | ≤ 30 i.e. up to 30 years (inclusive) | above 30 up to 50 years (inclusive) | above 50 years < | ≤ 30 i.e. up to 30 years (inclusive) | above 30 up to 50 years (inclusive) | above 50 years < | ≤ 30 i.e. up to 30 years (inclusive) | above 30 up to 50 years (inclusive) | above 50 years < | ≤ 30 i.e. up to 30 years (inclusive) | above 30 up to 50 years (inclusive) | above 50 years < | ≤ 30 i.e. up to 30 years (inclusive) | above 30 up to 50 years (inclusive) | above 50 years < |
| Number of employees | 185 | | | 2 535 | | | 9 641 | | | 13 379 | | | 25 740 | | |
| | 0 | 80 | 105 | 35 | 1 328 | 1 172 | 894 | 5 186 | 3 561 | 1 383 | 6 596 | 5 400 | 2 312 | 13 190 | 10 238 |
| women | 0 | 28 | 16 | 6 | 289 | 149 | 462 | 2 606 | 1 506 | 33 | 277 | 354 | 501 | 3 200 | 2 025 |
| men | 0 | 52 | 89 | 29 | 1 039 | 1 023 | 432 | 2 580 | 2 055 | 1 350 | 6 319 | 5 046 | 1 811 | 9 990 | 8 213 |
| SHARE IN PERCENTAGE (in reference to all of the company's employees) | 1% | | | 10% | | | 37% | | | 52% | | | 100% | | |
| Share in percentage (in reference to the number of employees in the given employment category) | | | | | | | | | | | | | | | |
| TOTAL | 0% | 43% | 57% | 1% | 53% | 46% | 9% | 54% | 37% | 10% | 49% | 41% | 9% | 51% | 40% |
| women | 0% | 15% | 9% | 0% | 12% | 6% | 5% | 27% | 16% | 0% | 2% | 3% | 2% | 12% | 8% |
| men | 0% | 28% | 48% | 1% | 41% | 40% | 4% | 27% | 21% | 10% | 47% | 38% | 7% | 39% | 32% |

Table no. 71. GRI 405-1. Composition of the Management Boards of TAURON Capital Group's subsidiaries as of December 31, 2022, broken down by gender and age

| | TAURON Group | | |
|--|--------------------------------------|-------------------------------------|------------------|
| | ≤ 30 i.e. up to 30 years (inclusive) | above 30 up to 50 years (inclusive) | above 50 years < |
| Number of Management Board employees | | 54 | |
| TOTAL | 0 | 25 | 29 |
| women | 0 | 2 | 3 |
| men | 0 | 23 | 26 |
| Composition of the Management Board in percentages broken down by age and gender [%] | | | |
| (percentage share versus entire Management Board) total | 0% | 46% | 54% |
| (percentage share versus all women in the Management Board) women | 0% | 40% | 60% |
| (percentage share versus all men in the Management Board) men | 0% | 47% | 53% |

Diversity policy with respect to the Management Board and the Supervisory Board

The Company does not have in place a diversity policy with respect to the Management Board and the Supervisory Board in terms of the minority participation in the given body at a level of not less than 30% (according to the Set of Best Practices for the Companies Listed on the Warsaw Stock Exchange 2021). This is due to the solutions in accordance with the Act of December 16, 2016 on the Principles of State Assets Management according to which the appointment of the members of the Management Board is possible after completing a qualification (recruitment) procedure, the purpose of which is to check and evaluate the qualifications of the candidates and select the best one. In the case of appointing the members of the Supervisory Board, the minister responsible for exercising the rights of the State Treasury shares has the statutory right to appoint a majority of the Members of the Supervisory Board.

The General Meeting, aiming to strive to ensure the diversity with regard to women and men in the composition of the Supervisory Board, has adopted the amendments to the Regulations of the Company's General Meeting by, among other things, adding in § 24, section 5 that reads: "The persons making the decisions with respect to the election of the members of the Supervisory Board should ensure the comprehensiveness of the body by electing as its members persons who ensure diversity, allowing, among other things, for the achievement of the target ratio of the minimal minority participation set at not less than 30%".

S 1.1.3. TAURON Group's Recruitment Principles

GRI 2-24

TAURON Group's Recruitment Principles define the assumptions regarding the selection of employees, understood as all actions taken to fill the vacancy: from the moment of defining the staffing needs until the moment of completing the adaptation of a newly recruited employee. 1 940 employees were hired by TAURON Group in 2022. The detailed data on TAURON Group's employment structure is provided in section S 1.1.1. TAURON Group's Human Capital Management Policy of this Report.

Due diligence procedures and internal regulations

Due diligence procedures employed under the Policy include, first of all, the following structured forms of recruitment:

- internal recruitment within a subsidiary (actions aimed at finding job candidates, to fill the vacancies, from among the personnel of the given TAURON Group's subsidiary, recommendations (referrals) by employees of other employees as potential candidates, an e-mail message to all employees),
- internal recruitment within TAURON Group (actions aimed at finding job candidates, to fill the vacancies, from among the personnel of other TAURON Group's subsidiaries, classified ads (notices) in the Group's intranet, recommendations (referrals) by employees of other employees as potential candidates, employees with a development potential),
- external recruitment (actions aimed at finding job candidates by posting job advertisements on the external market (outside TAURON Group), classified ads in the press, online, at universities, recommendations (referrals) by employees of persons from outside TAURON Group's subsidiaries as potential candidates, recruitment agencies).

Priority is given to internal recruitment at TAURON Group, which creates opportunities for promotion or taking an equivalent position in another business unit, and creates natural career paths and encourages employees to further their improvement and development.

Every employee selection process requires an individual approach, depending on the specifics of the given position. The selection of the given recruitment method is preceded by the examination of the internal or external labor market, as well as the analysis of the budget allocated to the given specific recruitment process.

In order to achieve the best recruitment results with the most optimal cost approach possible, the selection of employees at TAURON Group is based on the following assumptions and principles:

- selecting employees based on the long term employment and staff development plans, taking into account planned personnel changes (promotions, transfers, layoffs, etc.),
- integration with TAURON Group's Human Resources Management Policy in place,
- focus on creating choice opportunities (options) through searching for at least several candidates for one job position to be filled,
- standardization of the criteria used in the selection of employees for specific positions and the application of methods, principles and procedures allowing for an objective comparison of individual candidates within a single recruitment process,
- reliability (integrity), impartiality and professionalism applicable to all participants in the selection process without any exceptions;
- every time maintaining high standards of contact and communication with the candidates (specific rules, among other with respect to inviting the candidates for interviews, forms and scope of providing feedback),
- maintaining standards related to the use of the selection tools,
- ethical behavior towards the candidates, including, for example, meeting deadlines, providing information on the results of the recruitment process,
- ensuring the confidentiality of the recruitment process for the candidates at all the stages thereof.

TAURON Group's recruitment processes and the implementation and adaptation of new employees were carried out in a hybrid manner in 2022, depending on the business needs of the managers and the candidates involved in the given recruitment process. Each process was carried out with the highest standards in place and with the use of modern technologies.

Actions taken and results achieved

TAURON Group uses the Applicant Tracking System (ATS). This indispensable tool serves to comprehensively support the recruitment process, starting from candidate sourcing, data processing, through the communication with candidates and close cooperation between the manager and the recruiter. In addition, periodic meetings of the recruitment process experts were held in 2022. Trends in the labor market, recruitment challenges and TAURON Group's plans for 2023, improvements in ATS, or programs to support the process were discussed during the meetings.

Employee onboarding process

A culture of knowledge sharing is being built at the TAURON Group, not only as part of the training provided by the employees, but also as part of the employee induction process known as onboarding. Cyclical meetings with new employees conducted by experts in the given areas are aimed at introducing the employee to the most relevant topics, such as TAURON Group's strategy, information protection, compliance or development and training opportunities. In addition to the meetings with the experts, a new employee zone is also available on the intranet, where employees can find all the most important information needed for the efficient induction (onboarding). As part

of the applicable employee induction (onboarding) process, the manager (the direct superior), together with a designated mentor, prepare an employee induction (onboarding) plan (adaptation card) and is responsible for its implementation. The employee onboarding process planned in this way contributes to promoting anti-discrimination and respect for human rights.

In order to adapt to changes taking place in the labor market, a number of initiatives are being undertaken at TAURON Group to strengthen its image as a good and desirable employer.

Job (Career) Fairs

A permanent element of TAURON Group's promotional activities conducted in the academic environment is the participation in the Job (Career) Fairs, organized by universities and other entities. This form of the *employer branding* activities provides an opportunity to conduct an initial interview with the potential candidates, as well as to promote the organizational culture, attitudes and values that the Group is guided by.

Employee Referral Program

The Employee Referral Program was continued by TAURON Group in 2022. This is an additional recruitment activity that allows for reaching more candidates through the involvement of the Group's employees in the search process. The goal of the program is to acquire candidates with the required potential, i.e. with the desired professional qualifications and competences, based on the referrals of the people who are already employed by the organization. The document regulating the implementation of the activities in this area are the Rules for making employee referrals as part of TAURON Group's recruitment process. The main benefits stemming from implementing the Program include, among others, the optimization of the recruitment costs, shortening of the recruitment's duration, as well as the strengthening of the involvement of the Group's employees and of the awareness of their impact on shaping the human resources at TAURON Group. This year, we have managed to completely digitize the Program by implementing it as an additional module in the new recruitment system.

Cooperation with the universities (colleges)

Student and graduate internships and apprenticeships are carried out at TAURON on a continuous basis. 8 student internships were carried out as part of the University of Silesia's "One University - Many Opportunities" project and the Silesian University of Technology's "Silesian University of Technology as a Modern European Technical University" project in 2022. Of the 44 students who acquired new practical competencies in the form of internships and apprenticeships, 7 were employed by TAURON Group.

TAURON was included in the Data Base of Good Internship Providers in 2022. The data base was created as part of the project "Practice Makes Perfect. Student job internships in the face of legal, social and economic changes," implemented by the University of Silesia.

Cooperation with the education sector

The cooperation of TAURON Group with the education sector focuses primarily on the process of the practical (hands-on) training of future professionals. The projects undertaken with schools, universities (TAURON Group cooperates with 12 partner universities and 18 schools) or local government units are also aimed at promoting TAURON Group and the energy industry among pupils, students and graduates. As part of the cooperation with the educational community the internship and apprenticeship programs were organized, cooperation with student organizations, career offices and research clubs was undertaken, numerous lectures and profession teaching lessons were organized in 2022.

In addition, TAURON Group is trying to have a real impact on the shape of the education activities and projects in Poland, through active participation in many projects in the field of education, for example "Sectoral agreement for the development of the hydrogen economy in Poland", Sector Qualifications Framework for Energy.

The educational offer dedicated to the energy industry is supported by TAURON Group through, among others:

- scholarships for the best students of patronage classes,
- modeling of the didactic processes, organization of training courses, educational meetings both for students of the school as well as for its teaching staff,
- participation of TAURON's employees in conducting qualification exams,
- possibility for the students to participate in subject matter lectures/workshops conducted by TAURON's employees,
- possibility of the students to participate in lectures/workshops aimed at developing students' interpersonal skills,
- organizing practical classes as well as apprenticeships and internships in real working conditions,

- equipping laboratories with the equipment required to conduct experiments related to electricity
- Mentoring for female students - Magenta Meetings is a Mentoring Program to which the TAURON Dystrybucja Subsidiary invites female students of the electrical engineering and power engineering faculties. This year's edition was attended by 11 female students of the AGH University of Science and Technology and the Cracow University of Technology, as well as 5 employees of TAURON Dystrybucja,
- continuation of the activities related to the dual education at the Complex of Energy and Service Schools in Łaziska Górne.

GrEnFin (Greening Energy Market and Finance) Project

TAURON took part in an international project entitled GrEnFin - Greening Energy Market and Finance in 2022, which was prepared by the University of Bologna. The project that was financed by the European Commission:

- supported the strategic directions of TAURON Group's operations,
- responded to the business needs with respect to the training related to the competencies for the energy industry of tomorrow,
- complemented TAURON Group's ongoing initiatives related to education.

The main goals of the project:

- scientific and academic units becoming familiar with business solutions and challenges for the energy industry with respect to the competence needs for the students and specialists in the field of renewable energy sources,
- preparing the future specialists in the energy sector in the context of the EU2030 climate targets,
- developing a master's degree (graduate) program for the EU university students in the field of green energy and the finance related thereto,
- developing a training program in the field of RES for the professionals working actively in the energy sector.

The main tasks of the Project included conducting three summer schools in June, in 2020-2022. The other works carried out as part of the project were related to the preparation of the reports and the cooperation with the other members of the consortium. The result of the project is the development of a master's degree (graduate) program in the field of green energy that can be implemented at all of the EU universities. The program is already implemented and has been running since October 2022 at two universities: University of Bologna and Ludwig-Maximilians-Universität in Munich. The developed study program provides for the internships with international business partners across Europe. Among other things, it is envisaged that internships at TAURON will be provided for the students pursuing the study program developed as part of the GrEnFin project, ..

Implementation doctorate

TAURON Group launched a project to develop employee competences by initiating a number of three-party agreements with universities. As a consequence, 24 employees from the entire Group began doctoral (PhD) studies. The project assumes the use and expansion of knowledge, so that an employee reaching the next level of academic career could transfer the acquired experience and knowledge to the students, and at the same time satisfy the company's identified needs. TAURON has signed agreements with the Silesian University of Technology, the AGH University of Science and Technology, the University of Economics in Cracow, the University of Silesia, the Jagiellonian University and the Warsaw School of Economics. The main assumptions of the program are to create a platform for the three-party cooperation of the universities, the company and the doctoral student, as well as to carry out research, the results of which will be used in solving the challenges facing the company. The doctorate theses will cover the research spectrum in the field of humanities, social sciences, exact and technical sciences. Six of TAURON Group's subsidiaries are taking part in the project - TAURON Polska Energia, TAURON Dystrybucja, TAURON Wytwarzanie, Kopalnia Wapienia "Czatkowice", TAURON Ekoenergia and TAURON Sprzedaż.

S 1.1.4. TAURON Group's Policy of compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination

GRI 2-24, GRI 406-1

TAURON Group's regulations related to counteracting mobbing and discrimination have been in place since 2017 and they are updated on an ongoing basis in order to minimize the risk of an occurrence of actions involving mobbing or discrimination. TAURON Capital Group's Policy of compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination also defines the rules for reporting violations of the Principles of Ethics, Mobbing and Discrimination and the tasks, powers and duties of the Ethics Committee.

There are two sub-committees within the Ethics Committee:

- Internal Sub-committee, whose members are appointed and dismissed by the Management Board of the given subsidiary, that at the same time appoints the Chair of the Subcommittee;
- Group Sub-committee, composed of eight members, appointed from among the representatives of the trade unions operating at TAURON Group and eight representatives of the employers, appointed by the Management Board of TAURON Polska Energia.

An employee is given a choice which Subcommittee he/she would like to turn to in order to have his/her notification (report) reviewed.

TAURON Group's employees filed 4 reports of potential ethics violations, discrimination and bullying with the Ethics Committee in 2022. TAURON Group considers bullying, discrimination and any ethics violations to be highly reprehensible phenomena worthy of condemnation, any form of which is not tolerated. All Employee reports have been thoroughly and objectively investigated, and as a result of the Ethics Committee's work, no report has been confirmed.

Due diligence procedures and internal regulations

The main assumptions applied as part of TAURON Group's Policy of compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination include:

- ensuring compliance with the Principles of Ethics with respect to preventing employee rights violations and conflicts among employees,
- defining the principles of counteracting the cases of mobbing and discrimination at the workplace and in connection with the performance of work, ensuring the implementation of the labor law provisions,
- undertaking intervention measures and mitigating the effects of the identified cases of violations of the Principles of Ethics, in particular the cases of mobbing and discrimination,
- taking disciplinary measures against persons committing violations of the Principles of Ethics, in particular regarding mobbing or discrimination,
- strengthening positive relations among employees.

TAURON Group's Corporate Social Responsibility Code of Conduct is a regulation supporting the Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination, and it includes the Group's corporate values and the principles of conduct in three areas: employee, natural environment and stakeholders (environment).

Actions taken and results achieved

TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination is implemented through the e-learning training courses. They are mandatory for all of the newly hired employees. The other employees are reminded of the Policy principles through information campaigns and content available on the Group's intranet website.

TAURON Group's operations are based on unconditional compliance with labor laws and ensuring a safe work place for all of the employees. Human and family oriented activities are also carried out at TAURON through a series of special campaigns dedicated to strengthening family and general human values. In this way, social capital is built by strengthening the social relations and mutual trust among employees, which guarantee not only the development of the company, but most importantly, of each employee.

TAURON Group strives to create flexible conditions for the development of knowledge and skills and to create a work environment based on cooperation and partnership. Employee opinion surveys are carried out, and their results are the basis for developing and implementing action plans aimed at increasing employee commitment and creating an attractive work place, while taking into account the compliance with the standards for adherence to the principles of ethics, respect for diversity and counteracting mobbing and discrimination.

Among other things, the webinar "Empathic Leadership", aimed at strengthening the managers' awareness of the risks of mobbing and discrimination was held in 2022.

S 1.1.5. TAURON Group's Respect for Human Rights Policy

GRI 2-23, GRI 2-24

The goal of the Respect for Human Rights Policy is to outline TAURON Capital Group's principles with regard to respect for human rights and actions taken to prevent the human rights violations and promote an atmosphere of dignity and mutual respect.

The policy defines the principles of TAURON Capital Group dedicated to respecting and protecting human rights, including, among others

- prohibition of mobbing and discrimination,
- prohibition of harassment, violence and exploitation,
- prohibition of slavery and forced labor,
- ban on employing children and minors,
- freedom of association and employee engagement (commitment),
- compliance with the employment and compensation conditions,
- work health and safety (WHS),
- countering cases that involve violations of human rights.

Furthermore, the regulation also defines TAURON Capital Group's principles dedicated to the respect for human rights and protection with respect to interacting with the stakeholders, in particular with the counterparties (contractors) and business partners, as well as with respect to the local communities.

Due diligence procedures and internal regulations

The basic regulations related to TAURON Group's Respect for Human Rights Policy are TAURON Group's Corporate Social Responsibility Code of Conduct and TAURON Group's Policy of Compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination.

In accordance with the provisions of the Respect for Human Rights Policy, every employee, counterparty (contractor) and an external entity/business partner is required to:

- respect and promote respect for human rights and ensure the protection thereof,
- refuse to participate in any situations that may involve a violation of human rights, mobbing and discrimination, and unequal treatment.

Each employee should pay attention to signals and circumstances that may potentially suggest the possibility of an unequal treatment situation occurring. If such doubts arise, the employees should report them via the communications channels defined in the above mentioned regulations.

Actions taken and results achieved

Anonymous reports of violations submitted by the employees to the Ethics Committee are forwarded to the Compliance Officer in order to conduct a fact finding investigation. As part of periodic reporting, the Compliance Team verifies the number of notifications (reports) received by the Ethics Committee in matters falling within its competence area.

Several dozen trade union organizations that group about 71% of employees are operating within TAURON Group. In order to ensure proper dialogue and exchange of experience, the Social Council of TAURON Capital Group, which represents the trade union organizations, has been established.

A brochure outlining TAURON Group's Respect for Human Rights Policy was published on the website in 2022, available at: <https://www.tauron.pl/tauron/o-tauronie/zgodnosc-compliance>.

The introduction of TAURON Group's Respect for Human Rights Policy contributes to raising awareness of the respect for human rights and promoting the protection thereof.

Raise awareness of respect for human rights and promote their protection.

Right of association

The social dialogue and active cooperation with the trade unions and the *Agreement on the Cooperation as part of the Social Dialogue dated September 13, 2016* in force, concluded with TAURON Capital Group's Social Council, whose main assumptions include:

- the will to cooperate on a permanent, reliable basis, i.e. in good faith and with respect for the rights and interests of the Parties, as well as to act with the due professional diligence, within the limits set by the legal regulations,
- protection of labor and trade union rights, arising from the autonomous sources of the labor law and the generally applicable legal regulations,

- continuous consulting and providing feedback on the fundamental social and economic issues occurring at TAURON Group,
- implementing the obligations stemming from the agreements concluded as part of the Social Dialogue,
- ensuring the correct representation of the Employees' interests, including guaranteeing that the implemented organizational transformations should respect the interests of the Employees and the Trade Unions,
- appointing a Commissioner for the Social Dialogue (Ombudsman) to coordinate the cooperation with respect to the Social Dialogue, carry out the tasks related to the Social Dialogue, monitor the implementation of the arrangements and decisions adopted by the Social Council and the Management Board of TPE.

S 1.1.6. TAURON Group's WHS Policy

GRI 2-24, GRI 403-1, GRI 403-5, GRI 403-9

TAURON Group's Work Health and Safety (WHS) Policy is a set of regulations aimed at continued improvement of the work (occupational) health and safety standards. By applying the provisions provided therein TAURON Group steadfastly seeks to eliminate work related accidents as well as to minimize the occurrence of occupational diseases and the number of potentially accident prone incidents.

The safety of employees, customers, contractors, visitors and the other stakeholders is an absolute priority that has a significant impact on the decisions and actions taken by TAURON Group's subsidiaries.

TAURON Group's WHS policy defines the principles of operation, as well as the rules of conduct that serve the implementation of TAURON Group's four basic goals with respect to work health and safety (WHS), i.e.:

- eliminating accidents at work of all persons employed by and working for the benefit of TAURON Group's subsidiaries and any other persons finding themselves at the place where the subsidiaries are conducting their operations,
- ensuring optimal working conditions for all persons employed by and working for TAURON Group
- raising the qualifications of the employees of TAURON Group, aimed at increasing the competences with respect to improving their safety and the safety of other employees as well as persons who find themselves at the place of their work,
- improving an effective work health and safety (WHS) management system.

Due diligence procedures and internal regulations

TAURON Group's Work Health and Safety (WHS) Policy is the overarching, binding for all entities present on TAURON Group's sites, document describing the uniform system of occupational health and safety.

Each of the subsidiaries operating as part of TAURON Group has its own regulations with respect to work health and safety (WHS), which are compliant with the requirements and the applicable legal regulations. Depending on the profile and type of work performed within TAURON Group, the regulations applied include, among others, internal orders, work health and safety (WHS) instructions (manuals) as well as equipment operation manuals. At the subsidiaries whose operations profile involves generation and distribution, i.e. TAURON Wydobycie, TAURON Wytwarzanie, TAURON Ciepło, Kopalnia Wapienia "Czatkowice", TAURON EKOENERGIA and TAURON Dystrybucja – the issues related to the protection of the health and life of the employees are of particular importance. It is expressed in the extensive safety systems, as well as inspections of the working conditions, compliance with the work health and safety (WHS) regulations and rules at the individual work stations.

TAURON Group's most important documents regulating the work health and safety (WHS) issues at work place include the Work (Occupational) Safety System implemented at TAURON Wydobycie, TAURON Ciepło's Work (Occupational) Health and Safety Management Procedures or TAURON Wytwarzanie's Quality, Environment Protection and Work Safety Policy.

In addition, the subsidiaries, depending on the type of tasks they perform, have a number of compiled internal normative acts related to the emergency and accident situations. These include, among others, instructions (manuals) related to explosion protection, facility fire safety, safe operation of equipment and the procedures for proceeding in case of an occurrence of accidents at work. TAURON Group measures and compares the results of its work health and safety (WHS) activities, both internally and externally, and applies the best identified practices.

TAURON Group conducts internal and external health and safety inspections with the participation of the management, employees and their representatives, work health and safety (WHS) services and contractors. Particular emphasis is placed on the inspections carried out at the subsidiaries with a generation profile, where the internal audits are also conducted in order to assess the functioning of the internal safety management system. For example, at the TAURON Wydobycie (Mining) and TAURON Wytwarzanie (Generation) subsidiaries, the internal audits are conducted at least once a year as part of the safety management system. At TAURON Group's other

subsidiaries, the internal audits are mainly carried out by the Work Health and Safety (WHS) service and take place at least once a year, depending on the needs at the respective subsidiary. The results of these audits are included in the reports in the form of an analysis of the condition of the work health and safety (WHS) for the given year that are forwarded to the top management at each subsidiary. These reports are the basis for the development of the plans to improve the work conditions and for the setting of the work health and safety (WHS) goals within a specific time frame.

The monitoring of the safety condition of the contractors is carried out as part of the internal inspections conducted by the work health and safety (WHS) services and/or the supervisors of the external entities. In addition, the condition of the safety of the contractors is monitored in the form of the periodic accident reports that are sent by TAURON Group's subsidiaries to TAURON Polska Energia.

At Tauron Wytwarzanie (Mining) the goals or tasks related to the contractor safety obligate the subsidiary to ensure greater supervision of these entities. In connection with the above 384 inspections were carried out, resulting in the issuing of as many as 500 recommendations on the work health and safety (WHS) issues related to the third party entities performing works on the subsidiary's site.

At Tauron Ciepło, 71 audits were conducted among the external companies in 2022, and 2 195 persons were trained on the work place hazards. Some of TAURON Group's subsidiaries (especially those with a generation and distribution profile), where particularly hazardous works occur, have introduced additional training as well as the work health and safety (WHS) standards for the external entities.

External entities that carry out work at the Group's subsidiaries are obliged to comply with the applicable work health and safety (WHS) procedures and rules, in particular with respect to the required training, qualifications and medical examinations. The work health and safety (WHS) issues related to the third parties are also reflected in the contracts, which include provisions obliging the contractors to comply with the health and safety (WHS) regulations required at the given work place.

Actions taken and results achieved

TAURON Group is additionally seeking to develop its own best practices aimed at strengthening the safety culture among the employees, customers, contractors, visitors and other stakeholders. In order to improve the labor safety of the workforce, the information and educational activities are intensified at TAURON Group's subsidiaries. They include, among others, the following projects conducted in 2022:

- a health and safety quiz for TAURON Group's employees related to the World Day for Safety and Health at Work,
- development of a list of locations of the AED devices at TAURON Group's subsidiaries,
- "Prescription for Eyesight" webinar as part of the Health Week,
- an open Work Health and Safety (WHS) day, as part of which the employees were able to take part in a training course on the first premedical aid,
- a contest of knowledge on the work health and safety (WHS) and fire protection,
- training of the employees of the Company's Rescue and Fire Fighting Unit at the Nowe Jaworzno Grupa TAURON subsidiary with respect to chemical rescue operations,
- periodic working meetings of the Social Labor Inspector with the Work Health and Safety (WHS) Service Officer,
- publishing of the informational posters promoting the work health and safety (WHS) and fire protection culture at Spółka Ciepłowniczo-Energetyczna Jaworzno III,
- information campaigns on the ergonomics at the individual work stations at TAURON Ciepło,
- conducting a quarterly analysis of the accident rates, containing a summary of accidents at TAURON Ciepło over the past 5 years,
- modular training for the employees' managers, intended for the organizational units where the employees perform particularly hazardous work,
- a permanent belay system was installed at TAURON Ekoenergia to provide the protection against falls from height during the cleaning of the grates at the hydroelectric power plants,
- a newsletter related, among others, to such topics as: Accident and then what to do next, Fire safety every day and on special occasions (holidays) at TAURON Obsługa Klienta (Customer Service),
- drills and trainings for the members of Company's Rescue and Fire Fighting Units at TAURON Wytwarzanie (Generation),
- inspections by the representative of the workforce of the work conditions at the Company's Head Office and TAURON Wytwarzanie Branches
- continuation of the activities undertaken as part of the Minute for the Work Health and Safety (WHS) campaign, which is intended to popularize and raise the employee awareness of the work health and safety (WHS) issues,
- a series of the training sessions at TAURON Dystrybucja Pomiary for the employees driving the company cars on the safe and economic driving techniques,

- "We all have an impact on safety" campaign aimed at improving the ergonomics of working with the measurement systems and meters whose installation / operation requires taking a forced position,
- a quarterly work health and safety (WHS) magazine was launched, in which articles related to the current work health and safety (WHS) issues were published,
- posting on the bulletin board of a summary of the latest accident as part of the accident prevention activities at TAURON Dystrybucja Pomiary,
- VR training for the energy related vocational school students conducted by TAURON Dystrybucja,
- continuation of the "4Z" program, dedicated to the employees working with the belt conveyors installed in the underground workings at TAURON Wydobycie (Mining),
- training in the work health and safety (WHS) and fire protection for the employees operating a mobile road building material mixer at BIOEKO Group TAURON,
- expanding the scope of the trainings aimed at improving the professional competence of the employees at TAURON Serwis and sending the employees that use the Info Kiosks a newsletter related to the work health and safety (WHS) issues.

Accident frequency rates

There were 180 accidents at TAURON Group's subsidiaries in 2022, leading to the total of 180 persons getting injured. This means as many as 26 fewer accidents as compared to 2021. It should be mentioned that no fatal accident was reported.

The accident frequency rate came in at 6.6 in 2022 and it was lower than the accident frequency rate reported in 2021 (7.8). We can observe a similar positive trend for the accident severity index, which is lower than last year (down from 60.0 in 2021 to 59.0 in 2022).

The employee accident rate (accident frequency rate), along with the number of persons injured as a result of accidents, broken down by gender (Injury rate - IR) is presented in Table no. 72.

Table no. 72. GRI 403-9. Employee accident rate (accident frequency rate), along with the number of persons injured as a result of accidents, broken down by gender at TAURON Capital Group in 2022

| | |
|--|------------|
| TOTAL NUMBER OF ALL ACCIDENTS | 180 |
| Women | 12 |
| Men | 168 |
| NUMBER OF FATAL ACCIDENTS AT WORK | 0 |
| Women | 0 |
| Men | 0 |
| NUMBER OF MINOR ACCIDENTS AT WORK | 177 |
| Women | 11 |
| Men | 166 |
| NUMBER OF MAJOR ACCIDENTS AT WORK | 3 |
| Women | 1 |
| Men | 2 |
| NUMBER OF GROUP ACCIDENTS | 0 |
| Women | 0 |
| Men | 0 |
| | 6,6 |

ACCIDENT FREQUENCY RATE

Accident frequency rate = (number of accidents at work x 1000) / average employment in 2022

ACCIDENT SEVERITY RATE

59,0

Accident severity rate = Total number of days of inability to work of victims of accidents at work / Number of persons injured in accidents at work (excluding fatalities)

TAURON Group identifies hazards and estimates occupational risks at the work places and takes the necessary preventive measures aimed at ensuring the best possible health protection for its employees. Due to the steadfast pursuit of a reduction in the number of accidents, the activities promoting safe behavior at the work place are continuously intensified. They include numerous training courses, covering both the employees as well as the external entities performing work for TAURON Group's subsidiaries. The percentage of TAURON Group's persons trained in 2022 is presented in Table no. 73.

Table no. 73. Percentage of the employees employed by the contractors and subcontractors that have undergone the above WHS training

| 2022 | TAURON Serwis | TAURON Ciepło | TAURON Wydobywanie | TAURON Dystrybucja Pomiary | Nowe Jaworzno Grupa TAURON | Spółka Usług Górniczych |
|---|---------------|---------------|--------------------|----------------------------|----------------------------|-------------------------|
| Percentage of the employees employed by the contractors and subcontractors that have undergone the above WHS training | 100% | 75% | 100% | 62% | 100% | 100% |

S 1.2. Human Capital Related Risks

TAURON Group's main human capital related risks include:

- Human Capital Management Risk,
- Internal Communication Risk,
- WHS Risk.

S 1.2.1. Human Capital Management Risk

Table no. 74 presents the Human Capital Management Risk identified at TAURON Group. In accordance with the Risk Model adopted at TAURON Group, the Human Capital Management Risk is classified in the category: Operational Risk/Employees and organizational culture.

Table no. 74. Human Capital Management Risk identified at TAURON Capital Group

| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|-------------------------------|---|----------------------------|--|
| 1. | Human Capital Management Risk | Risk related to the employee issues, including diversity, participation, employment and working conditions, relations with the trade unions and respect for the right of freedom of association, human capital management, career path and recruitment management, training systems, health and safety at work as well as, in the long run, the need to restructure employment due to climate change, forcing a change of the business operations profile. The materialization of the risk may result in the interruptions or disruptions in the operational work, employee complaints, collective labor disputes, strikes, loss of specialized staff and difficulties in reproducing it. | → ■ | <ol style="list-style-type: none">1. Adoption and implementation of TAURON Group's Recruitment Principles.2. Implementation of TAURON Group's Human Capital Management Policy.3. Implementation of TAURON Group's Policy of Compliance with Ethics Principles and Counteracting Mobbing and Discrimination.4. Care for the development of the employees' competences, including through the participation in the development training courses.5. Conducting consultations with the social organizations operating at TAURON Capital Group.6. Implementation of TAURON Group's Human Capital |

Management Policy based on the Competence Model and the applicable compensation and labor law regulations (Compensation Regulations, ZUZP, Labor Regulations).

7. Applying the provisions of the Diversity Policy.
8. Implementation of the provisions of the Respect for Human Rights Policy.

S 1.2.2. Internal Communication Risk

Table no. 75 presents the Internal Communication Risk identified at TAURON Group. In accordance with the Risk Model adopted at TAURON Group, the Internal Communication Risk is classified in the category: Operational Risk/Employees and organizational culture.

Table no. 75. Internal Communication Risk identified at TAURON Capital Group

| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|-----------------------------|--|----------------------------|--|
| 1. | Internal communication risk | Risk related to providing incorrect or unverified information within the organization, formulating an unclear / incomplete message, a failure to provide employees with the information of material importance, resulting in misleading the recipients of the information or a failure to comply with the disclosure obligations resulting in the wrong business decisions being made as a result of a lack of reliable (accurate) information, a loss of trust in the employer or administrative penalties (fines). | → ■ | <ol style="list-style-type: none"> 1. Developing relationships with TAURON Capital Group's workforce and close cooperation with the Social Dialogue Ombudsman. 2. The use and development of the available communication tools in order to provide relevant information to the employees of TAURON Capital Group. 3. When providing relevant information - organizing face to face (direct) meetings of the management team with the workforce. 4. Regular periodic meetings with the representatives of the subsidiaries, that deal with the internal communication, in order to exchange information. 5. Applying the provisions of TAURON Group's Communications Strategy. |

S 1.2.3. WHS Risk

Table no. 76 presents the WHS risk identified at TAURON Capital Group. In accordance with the Risk Model adopted by TAURON Group, the WHS Risk is classified in the category: Operational Risk/Employees and organizational culture.

Table no. 76. WHS Risk identified at TAURON Capital Group

| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|-----------|--|----------------------------|--|
| 1. | WHS Risk | Risk related to ensuring health and safety at work. The materialization of the risk results in an employee injury, loss of health or excessive exposure of an employee to factors harmful to health, compensation paid out for damage to health. | → ■ | <ol style="list-style-type: none"> 1. Prioritizing the safety of the employees, customers, contractors and stakeholders in the business operations undertaken. 2. Applying the provisions of TAURON Group's Work Health and Safety (WHS) Policy. 3. Ensuring optimal work conditions. 4. Conducting active monitoring of the working conditions and the correctness of work organization. 5. Raising employees' qualifications with respect to improving work safety. |

| | | | |
|------------------|--|------------|--|
| | | | 6. Conducting training courses, implementing and improving the WHS management system. |
| 2. Pandemic risk | Risk related to the persistence of the pandemic causing disruptions to Poland's economic and administration and bringing about material changes in the market environment, impacting the operating conditions of TAURON Group's subsidiaries. The increase in the number of infection cases leads to a reduction of the business activity, which affects the level of demand for the products offered by TAURON Group's subsidiaries, including, in particular, the electricity distribution and supply volumes. | → ■ | <ol style="list-style-type: none"> 1. Monitoring of the epidemiological threat at TAURON Group. 2. Collecting information on threats and identifying potential threats to the safety of the employees of TAURON Group's subsidiaries. 3. Opracowywanie i rekomendowanie rozwiązań zmierzających do obniżenia poziomu zagrożenia dla zasobów Grupy TAURON. 4. Ongoing monitoring of the risk of the availability of employees and services provided by TAURON Group's subsidiaries. 5. Recommending solutions aimed at reducing the effects of the materialization of the threat on TAURON Group's resources. 6. Preparing and providing feedback on the content of messages disseminated at the level of TAURON Group and TAURON Polska Energia S.A. 7. Use of the screening tests. 8. Preparing contingency plans in the event of a loss of the Group's key employees. 9. Development of backup business continuity plans. 10. Analysis and, if required, introduction of additional credit risk-taking guidelines and extending of the scope of testing (vetting) the financial condition of the customers. 11. Analysis and, if required, introduction of a mechanism to monitor and cap (limit) spending. |

S 2. TAURON Group's social and intellectual capital management

GRI 3-3

Building and management of TAURON Group's social capital is based on developing mutual relations both within the organization as well as towards the external environment (stakeholders).

Social dialogue, that is related to both the existing production assets as well as the implementation of new investment projects, plays an important role in developing the social capital. TAURON Group is conducting a good neighbor policy, as part of which it aims to improve the living conditions of the local communities and cooperates with the local government authorities. The Group is also involved in a number of undertakings for the benefit of the stakeholders (environment), such as charity and education activities, cooperation with academic centers, employee volunteering and providing support for a number of important sports and cultural events.

Broadly targeted pro-social projects, implemented both through the Group's subsidiaries as well as the TAURON foundation, are an important element shaping TAURON Group's social capital. Since the beginning of Russia's invasion of Ukraine, TAURON Group has been helping the Ukrainian society, during this difficult time for them, through, among other things, the cooperation with the foundations and an in-kind assistance aimed at rebuilding the energy infrastructure in Ukraine.

An increasingly important role in managing the social capital is also played by the activities aimed at shaping the adequate organizational and business conditions that are necessary to achieve strategic goals with respect to the relations with the customers and the market environment.

Table no. 77. GRI 3-3. Results achieved as part of TAURON Capital Group's management of the social capital in 2020-2022

| Results achieved | 2022 | 2021 | 2020 |
|---|------|------|------|
| Number of meetings with the trade union organizations functioning at the Group's subsidiaries | 291 | 315 | 334 |

| | | | |
|---|---|---|---|
| Percentage of the employees covered by the collective bargaining agreements | 95.3% | 95.7 | 95.6 % |
| New key and consolidated categories, in which particular importance is attached to financial optimization of the purchasing | As part of the business operations conducted, as required | As part of the business operations conducted, as required | As part of the business operations conducted, as required |
| Regular meetings with local communities to provide information on the business operations conducted and its impact on the residents | As part of the business operations conducted | As part of the business operations conducted | As part of the business operations conducted |
| Number of local and pro-social initiatives that TAURON Foundation has joined | 181 | 93 | 144 |
| Number of corporate social responsibility projects implemented | 27 | 22 | 18 |

The potential of intellectual capital covers with its scope workforce capital, internal structural capital and external structural capital.

The main component of TAURON Group's intellectual capital is the employees' knowledge and their aggregate competences. Internal structural capital is another important component of intellectual capital. This capital includes technologies, methods and processes that enable the Group to function. Furthermore, research, development and innovation activities are carried out as part of internal projects and including the participation of the business partners and the academic community. The last component, the external structural capital, is related to the intangible market factors. This capital includes the company's brand and reputation (good will), the network of associates and the relations with the stakeholders, with a particular emphasis on the relationships with the suppliers and customers. TAURON Group strives to deepen the cooperation with the suppliers of technology and know-how, represented both by the large industrial conglomerates, as well as by the small companies - mainly startups.

Efficient intellectual capital management provides opportunities to increase adaptive flexibility and carry out transformational (transition) activities aligned to the changes taking place in the market environment.

The results achieved as part of TAURON Group's management of intellectual capital in 2020-2022 are presented in Table no. 78.

Table no. 78. GRI 3-3. Results achieved as part of TAURON Capital Group's management of intellectual capital in 2020-2022

| Results achieved | 2022 | 2021 | 2020 |
|--|--|--|--|
| Number of new research and development projects launched in all of the Group's lines of business | 6 (including 1 project conducted in cooperation with start-ups) | 3 (including 1 project conducted in cooperation with start-ups) | 10 (including 8 projects conducted in cooperation with start-ups) |
| Number of projects underway in the R&D Area | 24 | 33 | 52 |
| Total value of projects underway | PLN 85 million | PLN 95 million | PLN 109 million |
| Co-financing obtained from external sources for the implementation of the R&D projects | PLN 31 million | PLN 40 million | PLN 42 million |
| Number of rationalization ideas applications filed | 3 | 1 | |
| Number of patent applications filed | 0 | 0 | 5 |
| Number of patents received | 2 | 2 | 5 |

S 2.1. Policies, Codes, Principles supporting Line of Business (area) management

S 2.1.1. TAURON Group's PRO Client Social Policy

GRI 2-24, GRI 417-2, GRI 417-3

TAURON Group, in line with the Strategy, wants to respond to the customers' expectations and needs. A key strategic objective, with respect to customer service, is to maintain high standards of service.

In accordance with the assumptions, by 2030:

- more than 90% of customer cases will be resolved during the first contact with the customer,
- full digitization of service will be introduced and paper documents will be abandoned,
- all service channels will be adapted to the needs of people with disabilities.

The Management Board of TAURON Polska Energia S.A. adopted TAURON Group's PRO Client Social Policy to be applied in 2017. The document is aimed at developing adequate organizational and business conditions required to achieve the strategic goals of TAURON Group with respect to the customer and market environment relations.

The policy is a collection of main assumptions applied in the supply and customer service process. The number of TAURON Group's employees is presented in Table no. 79.

Table no. 79. Number of TAURON Group's individual and business customers as of December 31, 2022

| Supply group type | Supply Line of Business | Transmission and Distribution |
|-----------------------------------|-------------------------|-------------------------------|
| Individual | 5 294 322 | 11 912 |
| Business (including institutions) | 403 682 | 209 452 |
| Total | 5 698 004 | 221 364 |

Due diligence procedures and internal regulations

By implementing the assumptions of the PRO Customer Social Policy TAURON Capital Group is responding in the best possible manner to the customer needs, focusing its efforts on the following principal issues:

- making sure the highest standards are met in the relationships with the customers, based on transparency, mutual respect and trust,
- continuous bi-directional communications, based on a dialogue,
- surveying customer opinions (feedback), experiences and expectations,
- responding to customer needs through a clear offering, satisfying their needs and meeting their expectations.

Marketing research

Due diligence procedures implemented as part of the PRO Customer Social Policy include, first and foremost, periodic surveys. Their goal is to get to know the customers so as to be able to even more fully respond to their needs. The monitoring of the marketing communications is carried out in cooperation with the market analysts. The summary of such surveys conducted in 2022 is presented in Table no. 80.

Table no. 80. Surveys carried out by TAURON Group in 2022 as part of the due diligence procedures

| Subject of the survey | Time when the survey was conducted |
|--|------------------------------------|
| Surveys on products / services: | |
| Survey on the Heating product | 03.2022 |
| Survey on the Microgrids product | 08.2022 |
| Survey on the assistance for the SME segment product | 07.2022 |
| Survey of the LAS product customers | 11.2022 |

| Subject of the survey | Time when the survey was conducted |
|---|------------------------------------|
| Survey of the Photovoltaics product customers | 10.2022 |
| Photovoltaics product customer satisfaction survey | 12.2022 |
| Smart Home Grenton product customer satisfaction survey | 12.2022 |
| Survey on the use of the online services | 05.2022 |
| Monitoring of consistency and transparency of the marketing communications, including in particular the communications related to the new products and offerings, including: | |
| Survey on the effectiveness of the "From TAURON, not by chance (Z TAURONA, nie z przypadku)" campaign | 07.2022 |
| Mystery shopper research at Customer Service Centers and Partner Outlets (4 waves) | Q1, Q2, Q3, Q4.2022 |
| Survey on the familiarity with the TAURON offering | 12.2022 |
| Survey on the awareness of the functioning of the Partner Outlets | 11.2022 |

Educational activities targeted at the customers

As part of the due diligence procedures also educational activities targeted at the customers and the disadvantaged groups (including customers vulnerable to electricity prices and seniors) were conducted. The summary of such activities and their quantities are presented in Table no. 81 and no. 82.

Table no. 81. The most important educational activities targeted at all of the customers carried out by TAURON Group in 2022

| Information campaigns | Activities conducted as part of the campaign |
|---|---|
| "Replace your heating system, take the subsidy" campaign | |
| <p>TAURON launched a program to subsidize the replacement of the old heating system with more environmentally friendly equipment in 2022. As part of the program, each customer who have decided to replace their old heating solution with a more ecological one, taking advantage of TAURON's offering, could receive up to PLN 4 200. The amount of the subsidy depends on the year of the construction of the building and the type of solution chosen. The highest subsidies will be granted to TAURON's customers who will choose the heat pumps.</p> <p>An advantage of the "Heat yourself with TAURON (Ogrzej się z TAURONEM)" program is that it did not exclude the possibility of obtaining subsidies for investments from other sources, such as the nationwide "Clean Air (Czyste Powietrze)" program. As part of the program's promotion, a guidebook was compiled in which TAURON experts not only explained the principles of the program, but also presented the advantages of particular solutions, i.e. the heat pumps, gas condensing boilers. In parallel, TAURON ran an information campaign on the Internet, radio, press and billboards in order to make it easier for residents to replace their old furnaces with the new ones.</p> | Wide-ranging on-line campaign |
| | Promotion of the subsidy program and guide on the LEPIEJ (BETTER) blog. |
| | 1050 ebook downloads, 6500 viewings of the article about the program |
| | 131 200 copies of the guide distributed in printed form |
| Education and sales campaign on the photovoltaics targeting residential customers | |
| <p>The year 2022 was a time of big changes for the photovoltaics market in Poland. As of April 1, 2022, a new prosumer billing system took effect: the net-billing. This change raised a lot of concerns about the profitability of photovoltaics investments, primarily among individual customers.</p> <p>That's why TAURON, with those who are considering installing a photovoltaic system in mind, has prepared a guide book "Photovoltaics in light of the new benefits" - a comprehensive source of information on the new billing system, as well as many other issues relevant to those considering installing a photovoltaic system. The guide book also includes information on the possibilities for subsidizing this type of investment, including the principles of the functioning of the "My Current 4.0" or "Clean Air" program. The guide book is a source of knowledge, thanks to which customers can convince themselves that investing in</p> | Wide-ranging on-line campaign |
| | Press campaign |
| | Promotion of the publication in trade, national (on-line and press) and local (radio) media |
| | Promotion in the social media |
| | Close to 6 thousand downloads of the guide book |

Information campaigns

Activities conducted as part of the campaign

renewable energy sources, including photovoltaics, is not only profitable, but also ecological.

Educational walks in the forest with TAURON and Lasz Państwowe (State Forests)

Communication in the social media

TAURON, in cooperation with the State Forests, organized the "Forest Workshops" series, which included two events in 2022:

- an educational walk for children and their parents,
- a walk in the forest with dogs.

During the "Educational Walk for Children," a State Forests' forester guided the participants along a scenic nature and forestry path and conducted a lecture on the forest plants and animals. Among other things, the children were listening to stories about how young forest seedlings are planted and protected from damage, what animals live in the Polish forests, how to identify their tracks and how the State Forests' employees take care of them. An art competition as well as games and activities for the children were organized during the tour.

The event "With a dog in the forest" was led by a forester, who was giving a lecture on the characteristics of the Polish forests, forest animals and plants, as well as adequate behavior in the forest with dogs. The tour was attended by a variety of dogs - of different breeds, sizes and colors. The role of the forests and their planting was emphasized during both events.

The performance of the project was associated with the addition of the Prąd EKO+LAS (ecology + forest electricity) service to TAURON's offering. Thanks to this service, every customer can join the planting of the Polish forests.

Mailings to TAURON's customers, several dozens of the events' participants

Informational materials aimed at promoting energy conservation, including the guidebook "On Saving Every Day"

Materials published on the blog lepiej.tauron.pl

In view of the market situation and the rising energy prices, the protection against which is provided by the Solidarity Shield solutions, TAURON has launched activities aimed at educating the customers about the importance of saving energy. Reducing electricity consumption is a real benefit for the household budget. A household's demand for electricity can drop by up to a dozen or so percent just by changing its usage habits. In order to make the customers aware of the importance of such changes, a guidebook "On Saving Every Day" has been prepared, as well as a series of advice articles that are periodically published on the blog lepiej.tauron.pl.

Promotion in the social media

Close to 5 thousand viewings of the educational materials on the blog lepiej.tauron.pl

"Bezpieczniki TAURONA" (TAURON Fuses) series educational programs for customers:

- Turn on for the sake of the child,
- Turn on for nature,
- Turn on at work.

50 000 users of the educational materials on the educational portal for the children

Customer education in such areas as safe, conscious and rational use of electricity, first aid, especially after an electric shock, security of electricity supply, environment protection, tree planting distances from the power lines.

Promotion on the industry and local portals

Promotion in the social media

The campaign is carried out in the media (online, television, radio, press, social media), in the direct communications with the local governments, schools, regional education authorities (boards of education), chambers of commerce, as well as during events.

Close to 3 million internet users watched our educational videos

Customer education covered such topics as: electro-waste and energy labels, safe lighting for holidays, tree planting near the power lines and caring for the trees already planted, safety of the works, including the agricultural works, performed near the power lines, first aid in case of an electric shock.

Close to 100 000 viewings of the educational video "Can you mow the grass after the rain" and "Don't plant a tree where the electricity is running".

A series of online guides for the customers on the topics of most interest thereto

Paid online campaign

The guides are related to:

- operation of the micro-installations - "Why are micro-installations shutting down",
- planting trees near the power lines and caring for the trees already planted - with the customer safety, as well as a failure free electricity supply in mind - "What to plant so as not to overdo it",

The guides have been downloaded more than 115 000 times

Promotion of the publications on the industry websites

| Information campaigns | Activities conducted as part of the campaign |
|---|--|
| <ul style="list-style-type: none"> rules of safe operation of the electrical devices and safe behavior in the vicinity of the power devices - "Safety conduct near the power devices", changes in the method of calculating the capacity charge for some end users in connection with the amendment to the Act on the Capacity Market - "Change in the method used to calculate the capacity charge" information on how to help storks when winter attacks in spring. There are more than 2 200 stork nests on TAURON Dystrybcja's power grid poles. The company has been helping these protected birds survive for years - "How to help storks when winter attacks" TAURON Dystrybcja advises on how to choose an outdoor lighting set that will not only provide a beautiful visual effect, but above all will be safe to use - "How to choose safe lighting for the holidays season" <p>The guides are available on the company's website.</p> | |

Brochure for the micro-installation owners

A brochure for the micro-installation owners has been published on the website tauron-dystrybcja.pl. The informational and educational material is dedicated to the users and those planning to erect a power generation installation. It provides advice on how to connect the micro-installation, answers to the most common customer questions related to its use, including the inverter shutdowns. The brochure has been written based on a standard of simple language in accordance with TAURON Speaks TAURON Speaks the Way Humans Do (TAURON Mówi po Ludzku) principles. It also displays a user friendly form (iconography, bolding, bullets).

Number of submitted electronic forms from the customers for 2022 - nearly 187 thousand

"Bocian nasz" (Our Stork) program

More than 2 200 stork nests are located on TAURON Dystrybcja's power poles. Power engineers take care of them, especially in winter, when the birds are not in Poland, and the care and cleaning actions can be performed on the nests. The scope of the works corresponds closely to the life cycle of the birds and the need to ensure the safe operation of the power grid.

The campaign is aimed at ensuring the safety of the customers, a failure free electricity supply and the safety of the storks that build their nests on the power poles. An information campaign addressed to the customers draws their attention to the safety of animals that cannot be guaranteed without the safety of our customers. The program is also designed to draw the customers' attention to the aspects related to the environment protection.

Cooperation with the local governments

Expert support from the Regional Directorates for Environment Protection

More than 2 200 stork nests are located on the power poles

Information campaign in the media, including in the social media

Table no. 82 The most important educational activities targeted at the disadvantaged groups carried out by TAURON Group in 2022

| Information campaigns | Activities conducted as part of the campaign |
|---|---|
| <p>Ebook The first contract with TAURON</p> <p>The e-book was developed as one of the initiatives implemented as part of the "TAURON Without Barriers" project and provides a guide that leads the user through the process of concluding the first contract with TAURON. Each item in the table of contents is at the same time a link/hyperlink, taking the user to the relevant chapter that applies to the given consumer. In each chapter the consumer finds information on what he or she needs to prepare (documents) and what to do to sign the contract. In case any forms are required, the consumer can immediately download the necessary form, because hyperlinks are embedded in the text. The consumer will also find the current offering at the end.</p> <p>The e-book is designed to be used by the blind and visually impaired people using the text readers, vocalizers and other tools (devices and software) that facilitate reading. It meets the WCAG (<i>Web Content Accessibility Guidelines</i>) standards. The Widzialni Foundation worked on adapting the e-book to the WCAG standard. This is the foundation that promotes the www services accessibility.</p> | <p>Promotion on the industry and local portals, as well as in the local press (Polska Press dailies) and the coverage in TVP Katowice</p> <p>Promotion in the social media, indirectly, through the promotion of the "Without Barriers" program conducted by TPE</p> <p>E-book placed in the e-book library on the blog better.Tauron.pl</p> <p>Unique alias Tauron.pl/przewodnik (providing a link to a section on the blog Lepiej (Better))</p> |

| Information campaigns | Activities conducted as part of the campaign |
|---|---|
| <p>LEPIEJ (BETTER) service. lepiej.tauron.pl</p> <p>The overarching goal of the service is to seek better solutions that will translate into a higher quality of life for each reader. The content available on the website explains, in an easy and straightforward manner, the benefits of the solutions available as part of TAURON's offering as well as on the market of the energy products. In addition, tips on how to be safe online, how to spend free time, pieces of advice related to family life or self-development are available.</p> <p>The service was prepared in accordance with the principles of digital accessibility. Launched in May 2021, it is continuously supplemented with the valuable content. The solutions aimed at bringing it up to the WCAG standards were implemented on the platform in 2022.</p> <p>In 2022, the blog better.tauron.pl was used in the implementation of the educational campaigns - including, among others, a campaign related to the online safety, to saving electricity or the benefits of replacing the heating system with the more environmentally friendly solution. The platform is a place to promote content on the broadly understood ecology, including, among other things, the promotion of the renewable energy sources, electric vehicles or the modern heating methods.</p> | <p>Promotion of the content in the social media</p> <p>Mentions and redirects to the service in the media materials</p> <p>More than 690 thousand viewings of the Lepiej (Better) service</p> <p>More than 470 000 users</p> <p>More than 7.5 million viewings of the blog articles in the search engines</p> |
| <p>TAURON without barriers program websites tauron.pl/bezbarrier</p> <p>The program's homepage and its subpages have been updated visually, functionally and in terms of the content. The sites are fully responsive and comply with the UX (<i>User Experience</i>) and UI (<i>User Interface</i>) principles, as well as with the WCAG 2.1 standard.</p> <p>The goal of the campaign is to generate interest among the consumers and make them familiar with the solutions TAURON is offering, as well as to build a positive image of the company as a friendly brand that responds to the needs of people with disabilities. Thanks to it, TAURON Group's customers can find out what benefits (facilities) are available to them when using the company's services. The redesign of the websites took place in the fourth quarter of 2022.</p> | <p>Compliance with the WCAG 2.1 standard</p> <p>Meeting the principles of perceivability, functionality, comprehensibility and robustness</p> |
| <p>Educational campaign "Don't get caught by the hook in the online ocean"</p> <p>The goal of the campaign "Don't get caught by the hook in the online ocean" was to make Internet users aware of the dangers of the Internet, how to recognize fraud attempts and how to act if they suspect they have fallen victim to cybercriminals. The campaign placed particular emphasis on an increasingly common method used by criminals to impersonate well-known companies or institutions, known as phishing. It was aimed primarily at the 55+ users, who are most vulnerable to cyber attacks. A website tauron.pl/bezpieczenstwo, was created for the purpose of running the campaign, as well as a series of educational materials: articles, a guide book and infographics. At the end of the campaign, users were invited to participate in a Knowledge Quiz to test their level of knowledge with respect to recognizing the activities of fraudsters and how to prevent them.</p> | <p>Nearly 200 000 unique viewings of the tauron.pl/safety website and the blog articles</p> <p>More than 8 200 downloads of the guide book</p> <p>Activities conducted in the offline and online channels: radio, work, Internet</p> |
| <p>Positively about disability</p> <p>A communication campaign aimed at breaking the stereotypes of social exclusion and building awareness of this problem, which affects both people with disabilities as well as seniors. The campaign was implemented as part of the TAURON without barriers program, which includes activities aimed at improving the products and services accessibility. Activities were implemented through Facebook and Instagram channels. Press publications were also prepared to describe the activities carried out as part of the TAURON without barriers program.</p> | <p>Campaign in the social media. More than 37 000 recipients of the post</p> |
| <p>Educational videos with facilities for children with disabilities: sign language, audio description and subtitles for the deaf</p> <p>As part of the educational program for children "TAURON's Fuses. Turn on for the good of the child" all of the videos were additionally prepared in versions for people with disabilities - there are a total of 22 videos in each category. The videos, in addition to the educational platform for the program's participants, are also available to everyone on TAURON TV channel on YouTube.</p> | <p>Communication with the regional education authorities (regional boards of education)</p> <p>Promotion of the publication in the trade, national media (online and press) and local media (radio)</p> <p>Promotion in the social media</p> |

Customer service through the highest quality sales and service channels

1. Senior citizens, pregnant women, persons with young children and people with disabilities are treated as persons that require special attention and are served on a priority basis in TAURON Group's stationary contact channel.

In 2022, at the Customer Service Centers (Punkt Obsługi Klienta - POK), the people with disabilities and special needs were provided with the following aids:

- vulnerable customers were offered priority service,
- signage related to the people with special needs displayed in the Customer Service Centers (POKs) and in the vicinity thereof was standardized,
- a hearing assistance system (the so-called induction loop) was implemented at the customer service desks in 22 Customer Service Centers (POKs) – the personnel was trained in the use thereof. The loops will be installed in the remaining Customer Service Centers (POKs) by the end of Q1 2023,
- customer service centers were equipped with the magnifying sheets and signature frames,
- service scenarios were adapted, taking into account the guidelines on how to properly serve customers with disabilities, pregnant women, parents with children and senior citizens,
- an audit of the evacuation procedures, taking into account people with disabilities, was carried out, and the evacuation coordinators were trained (including with respect to first aid),
- in-house accessibility coordinators, who are responsible for architectural as well as communication and information accessibility were appointed and trained.

2. In the telephone contact channel:

For the senior citizens and the people with disabilities:

- service was provided in a dedicated queue for senior citizens,
- customer can make choices in the Interactive Voice Response (IVR) system by voice or tone (Dual Tone Multi Frequency - DTMF),
- a comprehensive (multi-skill) sales service system is in place on the sales hotline in order to eliminate internal redirections. If the customer does not select the appropriate item on the keypad then he/she will be connected to the consultant (agent), he/she will not be disconnected.

Additional facilities were also introduced in the telephone contact channel for all customers:

- further IVR system's simplifications were implemented, enabling, among other things, to remind the customer the topic regarding which he made his/her last contact,
- additional functionalities were launched to improve customer service, among others the customer can enter his/her personal details before getting connected with the hotline consultant (agent).

3. In the online channel:

For the senior citizens and the people with disabilities:

- a project was launched to bring the tauron.pl and tauron-dystrybucja.pl websites, as well as the My TAURON (Mój TAURON) self-service service and chat as well as the online interactive forms to the WCAG 2.1 standards. AA,
- tauron.pl/bezbarier subpage, which presents all of the aids introduced for people with hearing, visual and movement disabilities as well as for the senior citizens, was updated,
- a mailing standard in a form that is accessible to screen readers, where content is designed using text rather than graphics, was implemented,
- system of assistance with concluding a contract via chat was implemented,
- digital availability of electronic invoices was verified,
- service for the customers with eLicznik remote readout meters was modified in order to make it more clear (legible) for the visually impaired persons.

For all of the customers in the online channel:

- a failure search engine was implemented in order to more precisely locate the customer on tauron-dystrybucja.pl,
- response time via the e-mail channel for selected cases was shortened,
- tools were implemented in the My TAURON (Mój TAURON) service in order to give the customer access to an overview of the archived invoices and historical payments, forms were implemented that allow,

among other things, for updating of the data, spreading payments into installments, postponing of the payment deadline, changing the contracted capacity (power) or changing the forecast charges. A view for prosumers was also created,

- additional access paths for ordering a duplicate contract were implemented, and the form for changing the connection capacity (power) was simplified,
- information related to the Anti-inflation and Solidarity Shield was published.

Actions taken and results achieved

Customer Experience Management at TAURON Group - Customer Satisfaction Index

Customer experience is understood by TAURON Group as the sum of interactions with the customer, not only during customer service, but also at all other points of contact (interaction) with the company. Experience research has been carried out since 2019 in the areas where the customer most often meets (faces) the company, i.e. in the process of handling grid connections, contracts, settlements, debt collection and when filing a complaint. The survey is conducted every month through online surveys and in-depth research in the form of interviews conducted quarterly via a hotline.

TAURON Group surveys customers who have been through the process and collects information on their level of loyalty (*Net Promoter Score - NPS*) and examines how much effort the customer has put into the handling of their case (*Customer Effort Score - CES*).

The below Table no. 83 presents the results of the loyalty (NPS) survey among TAURON Group's household customers in 2020 - 2022. As part of the survey the customers are asked what improvements and changes TAURON Group should introduce to meet their expectations. The area of complaints was covered later in the survey, which is why the data is presented for the period 08.2020 - 12.2022.

Table no. 83. Results of the loyalty (NPS) survey among TAURON Group's household customers in 2020-2022

| NPS – results with respect to grid connections | | | | |
|--|----------------|------|------|------|
| | Channel/year | 2022 | 2021 | 2020 |
| Survey | POK | 64 | 63 | 55 |
| | Hotline | 26 | 4 | 0 |
| | On-line (mail) | -4 | -14 | 2 |
| NPS – results with respect to contracts | | | | |
| | Channel/year | 2022 | 2021 | 2020 |
| Survey | POK | 71 | 66 | 63 |
| | Hotline | 37 | 30 | 20 |
| | On-line (mail) | 27 | 3 | -5 |
| NPS – results with respect to billing and payments | | | | |
| | Channel/year | 2022 | 2021 | 2020 |
| Survey | POK | 67 | 47 | 42 |
| | Hotline | 48 | 38 | 31 |
| | On-line (mail) | 29 | -3 | 7 |
| NPS – results with respect to complaints | | | | |
| | Channel/year | 2022 | 2021 | 2020 |
| Survey | POK | 10 | -17 | -17 |
| | Hotline | -18 | -27 | -38 |

| | | | | |
|--|----------------|-------------|-------------|-------------|
| | On-line (mail) | -33 | -50 | -40 |
| NPS – results with respect to debt collection | | | | |
| | Channel/year | 2022 | 2021 | 2020 |
| Survey | Hotline | 26 | 21 | 37 |
| | On-line (mail) | -10 | 6 | 0 |

The below Table no. 84 presents the results of the customer effort (CES) survey among TAURON Group's household customers in 2020-2022. The area of complaints was covered later in the survey, which is why the data is presented for the period 08.2020-12.2022.

Table no. 84. Results of the customer effort (CES) survey among TAURON Group's household customers in 2020-2022

| | | | | |
|---|----------------|-------------|-------------|-------------|
| CES – results with respect to grid connections | | | | |
| | Channel/year | 2022 | 2021 | 2020 |
| Survey | POK | 45 | 47 | 41 |
| | Hotline | 7 | -11 | -24 |
| | On-line (mail) | -20 | -37 | -30 |

| | | | | |
|--|----------------|-------------|-------------|-------------|
| CES – results with respect to contracts | | | | |
| | Channel/year | 2022 | 2021 | 2020 |
| Survey | POK | 55 | 50 | 47 |
| | Hotline | 21 | 15 | 4 |
| | On-line (mail) | 9 | -16 | -32 |

| | | | | |
|--|----------------|-------------|-------------|-------------|
| CES – results with respect to billing | | | | |
| | Channel/year | 2022 | 2021 | 2020 |
| Survey | POK | 51 | 37 | 35 |
| | Hotline | 34 | 28 | 15 |
| | On-line (mail) | 13 | -15 | -14 |

| | | | | |
|---|----------------|-------------|-------------|-------------|
| CES – results with respect to complaints | | | | |
| | Channel/year | 2022 | 2021 | 2020 |
| Survey | POK | 0 | -26 | -11 |
| | Hotline | -30 | -35 | -39 |
| | On-line (mail) | -46 | -59 | -49 |

| | | | | |
|--|----------------|-------------|-------------|-------------|
| CES – results with respect to debt collection | | | | |
| | Channel/year | 2022 | 2021 | 2020 |
| Survey | Hotline | 11 | 4 | -14 |
| | On-line (mail) | 18 | -33 | -7 |

TAURON without barriers

TAURON without barriers is a comprehensive program aimed at removing the communication, architectural and digital barriers as well as improving accessibility for both the employees as well as the customers. It is a joint initiative of TAURON Group's subsidiaries, as part of which solutions dedicated to people with disabilities, senior citizens, the sick or the socially or digitally excluded are being implemented. The tasks covered by the program include not only the elimination of barriers, but also the streamlining of the customer service processes so as to make it friendly and accessible to everyone.

The information on the implemented facilities (aids), targeted at both the people with disabilities as well as the senior citizens, is provided on the tauron.pl/bezbarrier website. A spot showcasing selected facilities (aids) was prepared. The communication activities aimed at building awareness of the topic of accessibility, among both the customers as well as the employees, were also conducted in 2022. Among others, the "Positively about Disability" campaign or accessibility knowledge quizzes were held in 2022.

One of the latest solutions include customer service desks equipped with the induction loops. Ultimately, these solutions for the deaf and hard of hearing are to be introduced at all the locations. The activities undertaken also include the training of the consultants serving customers at the customer service centers and via the hotlines (at the call centers) or the compiling of the "First agreement (contract) with TAURON" guidebook, which is adapted to enable its use by the blind people, in accordance with the WCAG standards. The customers can also watch videos with the Polish sign language translation to help them use the My TAURON (Mój TAURON) service.

Among the activities carried out as part of the TAURON without barriers program, a webinar entitled "Athletes without barriers! How to succeed despite barriers". The goal of the activity was to build awareness of the inclusion of people with intellectual disabilities in everyday life and sports activities. The initiative provided an opportunity to meet with the Special Olympics athletes: Rafał Mróz and Małgorzata Basicka, as well as with coach Dariusz Stachura and the director of Special Olympics Poland, Ms. Joanna Styczeń-Lasocka.

TAURON speaks the way humans do

The initiative that involves simplifying the formal and legal documents, messages and letters addressed to the customers. To date, it has been possible to:

- simplify nearly 700 documents and 1 000 messages,
- train 15 trainers and 60 plain language consultants,
- appoint coordinators of the initiative at the subsidiaries who look after the development of TAURON Speaks the Way Humans Do (TAURON mówi po ludzku - TMPL) project,
- launch a sub-page at tauron.pl/tmp1, showing the effects of the activities to date,
- introduce Stylobuk, i.e. a set of rules for the use of the simple language that apply at TAURON,
- introduce the prerequisite to agree all of the new documents, messages, marketing materials, before sending them out to customers or publishing them, with the plain language consultants.

The above activities are conducive to the development of the processes of providing reliable and comprehensible information on the products and services offered.

As a result, in 2022, similar as in the previous years (2019-2021), no cases of the non-compliance of the products and services with respect to the information and labeling thereof, as well as no cases of the non-compliance relate to the marketing communications were reported in entire TAURON Group.

In accordance with the principles stemming from the PRO Client Social Policy, the marketing message sent by TAURON Group is not only in line with the law, but also with good practices. The above is illustrated in tables no. 85 and no. 86.

Table no. 85. GRI 417-2. Cases of the non-compliance of TAURON Group's products and services with respect to the information and labeling thereof in 2022

| Number of cases of non-compliance with: | TAURON Dystrybucja | TAURON Sprzedaż | TAURON Ciepło | TAURON Nowe Technologie | Kopalnia Wapienia "Czatkowice" | Bioeko Grupa TAURON | Total number of cases |
|--|--------------------|-----------------|---------------|-------------------------|--------------------------------|---------------------|-----------------------|
| Regulations - resulting in a fine or penalty | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Regulations - resulting in a warning | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Internal codes of conduct | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| | | | | | | | |
|--------------|----------|----------|----------|----------|----------|----------|----------|
| Total | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
|--------------|----------|----------|----------|----------|----------|----------|----------|

Table no. 86. GRI 417-3. Cases of the non-compliance of TAURON Group's related to the marketing communications in 2022

| Number of cases of non-compliance with | TAURON Dystrybucja | TAURON Sprzedaż | TAURON Ciepło | TAURON Nowe Technologie | Kopalnia Wapienia "Czatkowice" | Bioeko Grupa TAURON | Total number of cases |
|--|--------------------|-----------------|---------------|-------------------------|--------------------------------|---------------------|-----------------------|
| Regulations - resulting in a fine or penalty | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Regulations - resulting in a warning | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Internal codes of conduct | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Anti-Inflation Shield

The Government Anti-Inflation Shield, regulated by the Act of January 13, 2022, on the Amendments to the Act and Value Added Tax (Journal of Laws, item 196), applied to all of the customers who were parties to the comprehensive (covering distribution and supply) and standalone supply contracts for electricity and gas. It introduced a number of changes with respect to the VAT and excise taxes in 2022. In addition, the Anti-Inflation Shield imposed on the Supplier the requirement to implement a support program for the vulnerable customers and those covered by the long term home care – aimed at providing the support for the requests and inquiries regarding the deferral of payment, spreading of the payments into installments and the non-stopping of electricity supply within the time limits indicated by the act. Customers were sent:

- more than 4 million letters independent of the invoices,
- more than 10 million invoice inserts,
- more than 3.5 million e-mail messages.

RES amendment. New billing model for the Prosumers

There were legal changes in 2022, regarding a new billing model for the prosumers with changes introduced to the billing algorithms and the way the metering data is reported for the prosumers. These changes became effective as of April 1, 2022.

Implementing the provisions of the act, TAURON Group introduced the following changes in the services for the prosumers:

- changes were made to the content of contracts,
- a prosumer deposit was launched,
- assumptions for the system changes were prepared,
- the invoice template was adjusted (departure from the meter readings),
- cross-zone commercial balancing was launched.

Government Solidarity Shield

The Government Solidarity Shield was introduced in 2022. A consequence of the new regulations coming into force was the requirement for the customers to submit an adequate statement in order to take advantage of the profits stemming from the provisions of the acts. In connection with this, TAURON Group introduced new solutions in the IT systems and the necessary changes with respect to the customer service.

TAURON Group kept the customers informed about the statutory solutions on an ongoing basis. The press releases were prepared for the media providing wide coverage. 1.35 million post impressions were achieved on the Facebook, Twitter and LinkedIn channels.

In addition, TAURON Group:

- conducted a special outreach information campaign addressed to the customers, on the price lists that offer price guarantees – the customers were encouraged to change their price list so that they could benefit from the Solidarity Shield solutions in 2023. The customers received letters with the information on the contact channels that they could use to change their contracts free of charge,

- prepared an e-book guide book for the individual and the institutional customers: "On How to Save Every Day."
- used the lepiej.tauron.pl blog to provide support for the service with respect to implementing the Solidarity Shield.

Customer contacts when the peak statement submissions level was reached, i.e. on 28/11/2022, went up by 400% at the POKs and by 500% via the Hotline.

Under the Act related to the freezing of the prices until the end of 2022, TAURON Group received 151 000 statements to be processed. Almost 17 000 statements were received via ePUAP. On the other hand, 153 000 statements were received under the Act related to the maximum price level (cap).

S 2.1.2. Intellectual Property Protection Management System.

GRI 2-24

In connection with its functioning as part of a constantly developing economy based on knowledge and new technologies, TAURON Group, as a conscious owner of the innovative solutions and creative intangible assets, is shaping its corporate policy with respect for intellectual property rights in mind.

TAURON Group is protecting and managing the intellectual property developed within the Research and Innovation Area in a systemic way, in particular through adequate regulations aimed at various groups of its recipients, i.e.:

- TAURON Group's Intellectual Property Policy - a non-group regulation targeted at our external counterparties,
- TAURON Group's Intellectual Property Management Principles - an intra-corporate regulation governing intellectual property issues at the Capital Group level.

TAURON Group's Intellectual Property Policy defines the uniform principles and standards of conduct with respect to the management of intellectual property at TAURON Group, and it constitutes a set of good practices which we expect our counterparties (contractors) and collaborators to follow. The provisions of TAURON Group's Intellectual Property Policy assume the compliance with the legal regulations governing the intellectual property issues, as well as indicate the directions and actions that the Group's subsidiaries should take in this regard, as part of their activities.

TAURON Group's Intellectual Property Management Principles, in turn, is a document introduced at the Capital Group level that contains provisions, common to all of the processes and instructions of conduct (operating procedures) related thereto, dealing with the subject of protection and management of intellectual property at TAURON Group (for example the definitions and directional guidelines). It is the overarching documentation for two specific processes:

- process of filing for inventions, utility models or industrial designs,
- employee rationalization process.

Issues related to obtaining protection for the inventions, as well as other technical objects of industrial property, are regulated by TAURON through an adequate process entitled "Filing for Inventions, Utility Models or Industrial Designs" and a manual (instruction, procedure) related thereto. These documents indicate a specific scheme of procedures and define templates of agreements necessary for the proper acquisition of the rights and protection of the industrial property objects.

On the other hand, the process entitled "Rationalization" and the instruction (manual, procedure) on dealing with the rationalization ideas at TAURON Group related thereto, regulate the rules related to the acquisition and remuneration for the innovations originating from the employees (internal innovations). In accordance with the above mentioned Group's regulations, the rationalization ideas are any ideas for an improvement of a technical and technological nature that come from our Employees.

TAURON is managing the Group's intellectual property in a conscious and responsible manner. TAURON's goal is to provide the protection of the intellectual property rights (IPR) that is carried out, in particular, through the proper acquisition of the intellectual property rights, as well as their licensing, the protection of the corporate (trade) secrets and combating the unfair competition.

Actions taken and results achieved

The protection of intellectual property is an important element of TAURON Group's research, development and innovation (R&D&I) activities. The activity, the importance of which is highlighted in TAURON Group's Strategy, is reflected in the Strategic Research Agenda (SAB), adopted in 2018 and updated in 2022. Within TAURON Group, as part of the Research and Innovation Area, the portfolio management of the R&D projects is applied, ensuring a comprehensive approach to the implementation of the tasks that fulfill the innovative solutions indicated in the Strategy in support of TAURON Group's transition towards climate neutrality.

SAB is a document that precisely describes the directions for the development of the innovations and provides a more detailed elaboration of the Strategy. The document is composed of four research portfolios:

- Customer and his/her needs,
- Intelligent distribution,
- Green energy,
- Sustainable heat.

Each portfolio sets the directions for the research and development projects. As part of the directions, the subject areas are defined for the selected detailed research areas that are important from the point of view of the Group's development. Such a structure of the SAB supports the selection of the specific projects and the rejection of others, as well as allows for the optimal allocation of the financial resources. Thus, the R&D and innovation activities at TAURON Capital Group are implemented and developed based on the complete and detailed assumptions of a strategic nature - with the clearly defined goals and ambitions.

Due diligence procedures and internal regulations

The implementation of SAB takes place on several levels, forming the so-called innovation ecosystem, including in the pro-climate context. The procedures and good practices applied, reinforcing the synergies of the various elements of the ecosystem, are deployed in accordance with the technical qualification criteria indicated in the EU regulations. In this way, TAURON Group's contribution to climate change mitigation is made in harmony with the Group's development, while ensuring respect for the "do no significant harm" principle.

In addition to the traditionally understood research and development activities (research and development projects, cooperation with the scientific units and innovative business partners), the Group is expanding the cooperation with the start-ups. TAURON is conducting a proprietary accelerator program called TAURON Progres that enables innovative companies (startups) to pilot the new solutions in the real world conditions. The best ideas submitted are tested on TAURON's infrastructure, as well as offered support from the subject matter experts and analysts. The cooperation with the startups is also an opportunity to further develop the project portfolio of the Corporate Venture Capital (CVC) type fund - EEC Magenta.

The research and investment projects aimed at ensuring the reliability of the electricity supply and promoting the sustainable development within the Group and by TAURON Group are illustrated in Table no. 87.

Table no. 87. Research and investment projects in 2022 aimed at ensuring the reliability of the electricity supply and promoting the sustainable development within the Group and by TAURON Capital Group

| Investment project categories | Investment project type – investment project name (broken down into categories in the table) | Investment project description | Costs (incurred in conjunction with the implementation of the investment project) PLN |
|--|--|--|---|
| Renewable energy technologies | Ultra fast forecasting of the generation and regulation capacities of the photovoltaic sources | The goal of the project is to carry out industrial research and development works aimed at developing a unique system for ultra fast forecasting of the electricity production from the photovoltaic installations, allowing the forecasting of electricity production over a time frame of less than one hour, using a combination of monitoring of the current weather conditions by the measuring devices and the high quality HD cameras and the numerical weather forecasts. | 295 864 |
| TOTAL COSTS IN THE CATEGORY | | | 295 864 |
| Electricity distribution | Distributed energy 2.0 operating model - self-balancing power grid are | The goal of the project is to verify the technologies that would enable setting up of local power sub-grids, called micro grids. As part of the project, a pilot micro grid installation has been built and is being tested in terms of: maintaining the balance and continuity of power supply, quality of electricity, operational safety from the perspective of the consumers, devices and the grid, as well as the economic aspects of the entire solution. Based on that, guidelines are being developed enabling the interoperation of microgrids with the electricity distribution grid. The result of the Project's implementation will be both a fully functional and tested pilot installation (operating in the actual conditions) as well as the detailed technical documentation of the solution, that would allow for its implementation both on the Polish as well as on the foreign market. | 3 152 005 |
| | Flexible Distribution - a prototype of a simulation tool | As part of the project, a compendium of knowledge on the flexibility services and a case study in a selected pilot area will be developed, including an assessment of the effectiveness of a potential purchase of the flexibility services in relation to the planned expenditures on the grid modernization and the possible time frame of such modernization. There will also be an audit of the IT systems' data availability and its usefulness for identifying the needs in terms of acquiring flexibility services and assessing the economic effectiveness of this process. The final product (outcome) of the project will be a prototype of a tool supporting the decision-making process regarding the purchase of the flexibility services, based on the analytical and forecasting methods developed as part of the project. | 419 900 |
| TOTAL COSTS IN THE CATEGORY | | | 3 571 905 |
| Transmission and distribution technologies | Integrated cable grid diagnostics system | As part of the project a prototype of an IT tool to support the management of the MV cable lines is being developed, based on the technical and statistical data, as well as the results of the measurements and diagnostic tests carried out at the Tauron Dystrybucja subsidiary. The developed algorithms should determine the degree of risk and probability of a failure, as well as enable other analyses to facilitate the pre-emptive actions while maintaining an optimal technical and economic balance. | 216 312 |

| | | |
|--|--|---|
| TOTAL COSTS IN THE CATEGORY | | 216 312 |
| Advanced technologies (storage, recovery, etc.) | Flexibility of the existing power generating units with limited capital expenditures | The project focuses on developing an improved flexibility control and monitoring system that impacts the flexible use of the coal fired generating units. The technology developed will allow the power plants to be operated efficiently, taking into account the new requirements for the power ramp up/ramp down. The use of the system will shorten the power ramp up/ramp down time and will reduce the operating costs related to the numerous unit failures (thanks to the reduction of the current technical minimum). 7 542 |
| | Development of the industrial design of the carbonate fuel cells and ceramic electrolyzers enabling the integration with the power-to-gas installations | The goal of the project is to improve the chemical energy storage process (a substitute for natural gas - SNG), mainly based on the higher efficiency of the high temperature electrolysis and the use of the carbonate fuel cells for the CO ₂ capture from the flue gases, which does not require the supply of the electricity from the power plant to the capture system. In addition, both of the innovations introduced enable their integration on the heat and electricity generation side. 1 328 830 |
| | Energy storage systems for the DSO needs | The goal of the project is to build a stationary energy storage system based on the electrochemical cells. The installation of the energy storage facility takes place at the point of connection to the distribution grid of the renewable energy sources, which will enable the use of this unit to increase the possibility of connecting such sources to the grid and mitigate the impact of the rapid changes in the generated power on the power quality parameters. 2 039 797 |
| | Developing and testing an adaptive energy storage system based on the second life of the batteries coming from the electric vehicles (Second Life ESS) | The goal of the project is to reuse the lithium-ion batteries used by the electric vehicles before. As part of the project, the laboratory tests of the battery packs were carried out in 2022 to assess their condition and suitability for the stationary energy storage facility. In view of the satisfactory results of the tests, the construction of a prototype energy storage facility was commenced. It is expected that in 2023 the prototype storage facility will be tested under real-life conditions. 629 822 |
| | Development of a decision making support tool for the selection of the electric bus charging technology and the location of the charging infrastructure | The project includes the development of a methodology for the selection of the electric bus charging technology to meet the needs of the bus fleet operators and the construction of a prototype IT tool to assist the DSOs and the bus fleet operators in the optimal planning of the fleet and charging infrastructure. 105 689 |
| TOTAL COSTS IN THE CATEGORY | | 4 111 680 |
| Innovative related services (e.g. remote meters) | Development of the advanced technology for the monitoring and predictive analysis of the technical condition of the boiler in order to increase the reliability of the boiler unit | The origin of the project is associated with the need to improve the availability (dispatchability) of the 460MWe unit. The technologies being developed should definitely increase the efficiency and reduce the costs of the diagnostics of the heat exchange surface inside the boiler, improving its availability and increasing the economic efficiency of its operation. The goal of the project is to develop two complementary technologies/tools for the advanced diagnostics of the wear of the heat exchange components inside the boiler. The first solution would be used for the precise (detailed) monitoring of the technical condition of the heat exchange components inside the boiler, which could operate at high temperatures, while the second solution would be used for the analysis and interpretation of the results obtained in the context of the prediction of the erosive wear of the heating surfaces of the boiler's furnace chamber and the required repairs (overhauls). 254 158 |

| | | |
|--|---|-------------------|
| Development and demonstration of a computer system for operation control and management of the availability (dispatchability) and reliability of the industrial infrastructure based on the artificial intelligence algorithms | The goal of the project is to develop a prototype modular computer system based on the artificial intelligence algorithms in order to increase the reliability of Tauron Group's generation infrastructure. The goal will be achieved through the creation of a hybrid IT infrastructure, which will include adaptive predictive/prescription models interoperating with the control systems, optimization algorithms, numerical models, databases and the algorithms controlling the health of the energy devices. | 3 953 830 |
| Internet of Things (IOT) | The goal of the project is to develop and implement an IT architecture for collecting and managing data from the selected areas of a smart city, the implemented solution assumes scaling in terms of the number of the sensor devices and functional areas served. The project focuses on air quality monitoring, waste management, smart street lighting and parking management and traffic monitoring in the city, among others. The developed IT environment, along with the recommendations, will be the basis for developing and offering the ultimate (target) product to the cities and municipalities. | 93 890 |
| Developing a tool to support the cooperation with the energy clusters with respect to the sharing and processing of the metering data | The goal of the project is to design, test and implement an ecosystem of the eMeter functionality to meet the needs of a new segment of customers - energy clusters and energy communities. | 24 623 |
| Utilization of the next generation hydrogen technologies for the stationary energy and transportation applications, based on a circular economy (HYDROGEN POLAND) | The goal of the project is the industrial scale demonstration of a hydrogen based economy, which will include a full value chain. The project includes the production of the green hydrogen using the renewable energy and its further conversion, distribution and use. In parallel, it also assumes the use of the non-recyclable waste and its conversion into an alternative fuel - decarbonized synthetic natural gas. | 506 000 |
| HEMS (Home Energy Management System) Program | The main goal of the Program is to develop specialized solutions in the field of building energy systems, in order to increase the revenue stream from the sales of the technologically advanced products and services. The Program also aims to tailor the sales and customer service tools and channels by developing the digital consulting and communication tools to support the customers in the process of planning and implementing the thermal insulation and energy saving projects. As part of the Program, works were carried out on the following projects in 2022: - website and e-counseling, - Thermal Comfort Management, - energy storage facility for the PV installations. | 56 400 |
| TOTAL COSTS IN THE CATEGORY | | 4 888 901 |
| TOTAL AGGREGATE COSTS | | 13 084 662 |

S 2.1.3. TAURON Group's Principles of Conducting Corporate Social Responsibility (CSR) projects

GRI 2-24

The main document regulating the issues of TAURON Group's responsibility towards the public is TAURON Group's Principles of Conducting Corporate Social Responsibility (CSR) Projects adopted by the Management Board of TAURON Polska Energia in 2020. The regulations contained in the document specify the objectives, scope, as well as the way the CSR projects are to be planned and monitored over a specified period of time. These measures are aimed at ensuring transparency of the commitments made by TAURON Group towards the local community and the stakeholders. TAURON Group implemented a total of 14 framework projects with an aggregate value of PLN 3.3 million, dedicated to supporting the local community development initiatives, in 2022.

With respect to the CSR projects addressed to the external stakeholders, TAURON Group focuses on initiatives to promote economic development that include:

- providing support for the development of children and youth from the families at the risk of social exclusion caused by the transformation of the manufacturing industry. The most important projects in this respect include, first and foremost, the cooperation with the House of Guardian Angels Association for Helping Children and Youth, initiated in 2018. The association supports children from the poor post-mining and post-smelting districts, focusing on leveling the playing field (providing equal opportunities) and improving the comfort of their lives,
- program called TAURON supports young athletes in such disciplines as volleyball, football and swimming. TAURON Group has also been committed to promoting sports among children and young people by organizing a proprietary football tournament called TAURON Junior Cup since 2018,
- promoting knowledge related to science and the safe use of the electricity. The most important project is TAURON Fuses (Bezpieczniki TAURONA). As part of this project TAURON Group provides ready made lesson plans for the teachers, a guide for the parents as well as interesting games and educational materials related to the electricity for pupils. All the information is available on the website dedicated to the project: <https://edukacja.bezpieczniki.tauron.pl/>,
- TAURON's proprietary Green Laboratories (Zielone Laboratoria TAURONA) program, which is based on the comprehensive equipping of the science labs at the schools located in TAURON Group's area of operations, thus providing support for the high quality education. For more information, visit the website dedicated to the project: https://laboratoria.tauron.pl,
- cooperation with the ISKIERKA (SPARK) Foundation, which helps the children with cancer, and the Red Noses Foundation (Fundacja Czerwone Noski), whose medical clowns bring joy to the young patients by visiting the children's rehabilitation, oncology and cardiology wards. As part of the cooperation with the Foundations, among others, carnival balls for the hospitalized children and an inclusive family picnic were organized. The joint activities also included the creation of a special education and integration project called Supersprawni (Superskillful), targeted at the hospitalized children with varying degrees of the neurological disabilities, who, despite their limitations, were able to participate in the theater workshops,
- providing support for the activities of the Mountain Volunteer Rescue Service (GOPR). GOPR's area of operations overlaps with TAURON Group's distribution area, which further emphasizes the consistency and legitimacy of the partnership. A number of educational campaigns are designed to increase safety in the mountainous terrain by raising awareness of the danger. TAURON's support, thanks to which the rescuers are equipped with, among other things, rescue equipment, provides an additional contribution to improving safety in the mountains,
- trainings, thematic webinars and workshops for TAURON Group's employees conducted in the cooperation with TAURON's Partners with respect to health, active lifestyle, well-being practices or safety in the mountains and on tourist trails. Sports games are also organized to reveal the capabilities and sports potential of TAURON Group's employees and to integrate the internal community.

In addition to the framework (master) projects dedicated to the local communities, smaller projects are also implemented, both at the Capital Group's level as well as that of the individual subsidiaries. All of the pro-social initiatives and projects supporting the development of the local community are monitored and their results are systematically reported.

S 2.1.4. Principles of sponsorship at TAURON Group

GRI 2-24

TAURON Group's sponsorship activities are carried out in accordance with TAURON Group's Sponsorship Strategy for the years 2018-2025, updated in 2019. The main document regulating sponsorship activities at TAURON Group is the document entitled the TAURON Group's Principles of Conducting Sponsoring Activities. The regulations provided in the document specify what constitutes a sponsorship activity at TAURON Group, what its objectives and dimensions are, and how sponsorship projects should be planned and implemented to ensure their transparency, accomplishment of the objectives set and compliance with the generally applicable legal regulations, internal and intra-corporate regulations as well as good practices.

The most important projects include the titular sponsorship of TAURON Arena in Cracow and the cooperation with the Polish Volleyball League. TAURON is the titular sponsor of the Women's Volleyball League, as well as of the Men's Volleyball League 1st Division, the Women's and Men's Volleyball Poland Cup and the strategic sponsor of the Volleyball PlusLiga and the Polish Women's and Men's Volleyball Poland Super Cup tournaments. Thanks to its cooperation with the Polish Volleyball League, TAURON Group has the opportunity to support one of the sports disciplines most loved by the Poles.

TAURON, as part of the "TAURON without barriers" initiative, is the General Sponsor of the Special Olympics - a nationwide organization that supports athletes with intellectual disabilities. Sport provides an opportunity for the participants of the Special Olympics to break down their own barriers, build self-esteem, and develop both athletically, as well as socially. On the other hand, the project breaks down stereotypes, contributes to the better understanding and acceptance of people with intellectual disabilities.

TAURON Group's portfolio of the supported sports projects has included the Speedway Euro Championship for a number of years. Fight Exclusive Night appeared among the sponsored projects in 2022, for the first time. In 2022, TAURON Group was also involved in sponsoring sports clubs (teams): TAURON Podhale Nowy Targ, TAURON GTK Gliwice, Raków Częstochowa, KPR Ruch Chorzów.

TAURON Group joined the group of sponsors of the Wrocław Opera House in 2022. This is the third cultural project in the portfolio, in addition to the TAURON Nowa Muzyka festival in Katowice and the Snow Fest Festival in Szczyrk.

TAURON Group is among the TOP 3 brands in the energy industry that engage in sponsorship activities (according to Sponsorship Monitor 2022 - Syndicated Research Report by ARC Market and Opinion, Warsaw 2023).

S 2.1.5. Cooperation with the local government authorities

TAURON Group is cooperating and maintaining close relations with the local authorities in the area of its operations.

There are 10 powers of attorney (proxies) responsible for the contacts with the local government authorities at TAURON Dystrybucja, who maintain close relations with the local authorities in the area of their operations. They hold regular meetings with the presidents and mayors of cities, heads of municipalities, county management boards. In addition, they represent the Company in the organizations grouping the local government units (including, among others, Local Agglomerations, Regional Development Agencies, Economic Development Centers, Regional Associations of Municipalities and Counties), participate in the meetings of the County Emergency Management Centers, the Regional Energy Council, as well as the meetings held at the Marshal and Provincial Offices related to the energy issues.

The powers of attorney (proxies) responsible for the contacts with the local government authorities held 541 meetings in the municipalities and 58 meetings in the counties located on the territory of TAURON Group's distribution area in 2022. The meetings were devoted to agreeing on the planned investments, communicating matters that are important for TAURON Group, as well as dealing with the current issues related to ensuring the electricity supply, handling distribution contracts, modernizing the grid, eliminating the collisions, cutting down the trees, etc.

The powers of attorney (proxies) responsible for the contacts with the local government authorities promote, among the local government units on the territory of TAURON Dystrybucja's area of operations, the "Energy Friendly Local Government" competition, which has been organized for eight years by PTPIREE in cooperation with the Transmission Network and Distribution Grid Operators. The powers of attorney (proxies) also undertake activities related to the raising of the funds for the energy infrastructure modernization related projects.

S 2.1.6. Cooperation with the industry (trade) organizations

Tauron Group's subsidiaries are the members of the most important industry (trade) organizations operating in the energy sector, bringing together the majority of entities operating in the given area. As a consequence, these

organizations are a reliable partner for the government administration in the legislative process and can transparently participate in the process of shaping the regulatory environment.

In recent years, the most significant area of regulation, both at the national, as well as the European Union level, has been the issue of energy transition. The shape and manner of introducing the legal acts in this area will have a key impact on TAURON Group's operations, ongoing investment projects and the functioning of the market environment.

Industry (trade) associations play an important role in formulating and representing the interests of the energy sector. At the European Union level, this activity is carried out through the participation in the organizations grouping the national associations (e.g. Eurelectric, Eurowind, EU DSO), organizing of the conferences and information campaigns targeted at the participants in the EU legislative process, and the direct participation in the consultations organized by the European Commission.

At the national level, the industry (trade) associations are an important partner in the legislative process. The joint proposals for the legislative changes or positions on the drafts prepared by the Government are worked out by such forums.

The activities of TAURON Group's subsidiaries in the above organizations also allow for the exchange of experiences, the preparation and financing of the analyses and the conducting of the joint projects.

An important element that is carried out by the industry (trade) organizations is the activity that involves conducting of the social campaigns and information campaigns that have a nationwide reach. Among other things, the campaigns on the energy conservation and raising of the consumer awareness of the energy prices were conducted in 2022.

The below Table no. 88 shows the industry (trade) organizations and business associations in which TAURON Group's subsidiaries participated in 2022.

Table no. 88 GRI 2-28. Industry (trade) organizations and business associations in which TAURON Group's subsidiaries participated in 2022.

| Name of the industry (trade) organization or business association | TAURON Group's Subsidiary |
|--|--|
| Polski Komitet Energii Elektrycznej (Polish Electricity Association) | TAURON Polska Energia |
| Towarzystwo Gospodarcze Polskie Elektrownie (Polish Power Plants Association) | TAURON Wytwarzanie |
| Towarzystwo Obrotu Energią (The Association of Energy Trading) | TAURON Sprzedaż TAURON Sprzedaż GZE |
| Polskie Towarzystwo Przesyłu i Rozdziału Energii Elektrycznej (Polish Power Transmission and Distribution Association) | Tauron Dystrybucja TAURON Dystrybucja Pomiary |
| Stowarzyszenie Elektryków Polskich (Association of Polish Electrical Engineers) | Tauron Dystrybucja |
| EU DSO Entity | TAURON Dystrybucja |
| Stowarzyszenie Emitentów Giełdowych (Association of Stock Exchange Issuers) | TAURON Polska Energia |
| Górnicza Izba Przemysłowo-Handlowa (Polish Mining Chamber of Industry and Commerce) | TAURON Wydobycie |
| Polski Związek Producentów Kruszyw (Polish Association of Aggregate Producers) | Kopalnia Wapienia "Czatkowice" |
| Polskie Stowarzyszenie Energetyki Wiatrowej (Polish Wind Energy Association) | TAURON Polska Energia |
| Związek Pracodawców Energetyki Polskiej (Polish Power Industry Employers Association) | TAURON Ekoenergia |
| Polskie Stowarzyszenie Magazynowania Energii (Polish Energy Storage Association) | TAURON Ekoenergia |
| Fundacja OPEN ALLIES (OPEN ALLIES Foundation) | TAURON Obsługa Klienta |
| Forum ITAM (ITAM Forum) | TAURON Obsługa Klienta |

| | |
|---|-----------------------|
| Polskie Towarzystwo Elektrociepłowni Zawodowych (Polish Utility Scale Combined Heat and Power Plants Association) | TAURON Ciepło |
| UN Global Compact | TAURON Polska Energia |
| Pracodawcy Rzeczypospolitej Polskiej (Employers of the Republic of Poland) | TAURON Polska Energia |

S 2.2. Risks related to social capital management

S 2.2.1. Social Risk

Table no. 89 presents Social Risk identified at TAURON Group. In accordance with the Risk Model adopted by the Group, the Social Risk is classified in the category: Operational risk/Employees and organizational culture

Table no. 89. Social Risk identified at TAURON Group

| # | Risk name | Risk description | Trend and risk materiality | Response to risk |
|----|--|---|----------------------------|---|
| 1. | Social risk | The risk includes the risk of non-compliance with the customer service standards, implementation of supply contracts, external communications and marketing activities, as well as the risk related to the protection of personal data. The risk materialization results in a loss of reputation and the customers' trust, disputes with customers, a failure to meet the goals, including the sales goals, and possible penalties for the non-compliance with the legal requirements regarding personal data protection. | ↗ ■ | <ol style="list-style-type: none"> 1. Applying of the PRO Client Social Policy. 2. Conducting of the dialogue with the customers, including customer satisfaction surveys, tailoring the product offering to their needs, ensuring high quality of the customer service. 3. Developing of the relationships with the customers and the market environment. 4. Responsibility for the product, including for the quality and security of the supply, tailoring of the product offering to the customer expectations. 5. Protection of privacy and security of the customers' personal data. 6. Deploying of the tools supporting the implementation of the client social policy. 7. Standardization of the draft contracts (contract templates) with the customers and their adaptation to the changes in the legal regulations as well as the optimization of the sales and service processes. 8. Implementation of the promotional activities in accordance with the adopted TAURON Brand Strategy and TAURON Group's Sponsorship Strategy for the years 2018-2025, taking into account the respect for the human rights and conducting of the responsible marketing activities. |
| 2. | Corporate responsibility management risk | social area Risk related to the involvement of TAURON Group in the activities that do not respond to the needs of the stakeholders resulting in a loss of confidence on the part of various stakeholder groups, loss of the credibility and the messages generated by the company in the society. | → ■ | <ol style="list-style-type: none"> 1. Implementation and performance of the CSR projects plan, which specifies all activities, including the justification thereof. 2. Applying of the document entitled TAURON Group's Principles of Conducting Corporate Social Responsibility (CSR) projects. 3. Approval of the key activities by the authorized areas. |

| | | | |
|--|--|-------------------|---|
| <p>3. Risk of reputation management by shaping the brand image</p> | <p>The risk associated with the use of the TAURON brand in combination with the adverse, controversial activities that have a negative impact on the Group's image, which in effect projects an inadequate image of the company.</p> | <p>→</p> <p>■</p> | <ol style="list-style-type: none"> 1. Supervising of the process of establishing the methodology for conducting promotional and sponsorship campaigns, approving of the key activities by the authorized areas. 2. Implementing of the Visual Identification System, appointing a Team responsible for assessing and approving the image building projects. |
|--|--|-------------------|---|

GRI content index, ESG indicators (acc. to WSE) and Global Compact Principles

| | |
|-----------------------------------|--|
| Statement of use | TAURON Capital Group has reported in accordance with the GRI Standards for the period of January 1 - December 31, 2022 |
| GRI 1 used | GRI 1: Foundation 2021 |
| Applicable GRI Sector Standard(s) | Not applicable |

| GRI Standard Name | Disclosure | Section | Page | |
|--|--|--|----------------|----------|
| General disclosures | | | | |
| 1. The organization and its reporting practices | | | | |
| GRI 2: General Disclosures | 2-1 Organizational details | 1. Information on TAURON Capital Group's Report and the legal basis | 6 | |
| | 2-2 Entities included in the organization's sustainability reporting | 1. Information on TAURON Capital Group's Report and the legal basis | 6 | |
| | | G 3.3.3. Formal and legal organizational structure | 53 | |
| | 2-3 Reporting period, frequency and contact point | 1. Information on TAURON Capital Group's Report and the legal basis | 6 | |
| | 2-4 Restatements of information | 1. Information on TAURON Capital Group's Report and the legal basis | 6 | |
| | 2-5 External assurance | 1.3. Reporting standard | 7 | |
| | 2. Activities and workers | | | |
| | 2-6 Activities, value chain, and other business relationships | 2.8. TAURON Capital Group's key financial data | | 29 |
| | | G 3.2.2. TAURON Group's Business and Operational Model | | 45 48 |
| | WSE S-P6 Human Rights Due Diligence | G 5.3.3. Code of Conduct for Contractors (Counterparties) of TAURON Group's Subsidiaries | | 65 |
| S 1.1.5. TAURON Group's Respect for Human Rights Policy | | | 180 | |
| 2-7 Employees | S 1. TAURON Capital Group's Human Capital Management Strategy | | 155 | |
| | S 1.1.1. TAURON Group's Human Capital Management Policy | | 157 159-162 | |
| WSE S-P3 Employee Turnover | S 1. TAURON Capital Group's Human Capital Management Strategy | | 155 | |
| 2-8 Workers who are not employees | S 1.1.1. TAURON Group's Human Capital Management Policy | | 157 | |
| 3. Governance | | | | |
| 2-9 Governance structure and composition | G 3.1 TAURON Polska Energia S.A. Company Management Principles | | 39 | |
| WSE G-P1 Board Composition | | | | |
| 2-10 Nomination and selection of the highest governance body | G 3.1. TAURON Polska Energia S.A. Company Management Principles | | 39 | |
| 2-11 Chair of the highest governance body | | | | |

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|--|--|-------------------|
| | G 3.4. Changes to the principles of TAURON Polska Energia S.A. and TAURON Capital Group Management | 54 |
| 2-12 Role of the highest governance body in overseeing the management of impacts | 2.6. TAURON Capital Group's Strategy and its assumptions | 23 |
| 2-13 Delegation of responsibility for managing impacts | E 1.1.4. TAURON Group and climate and sustainable business development - operations, impact, trends, results | 109 |
| 2-14 Role of the highest governance body in sustainability reporting | 1.3. Reporting standard E 1.1.4. TAURON Group and climate and sustainable business development - operations, impact, trends, results | 7 109 |
| 2-15 Conflicts of interest | G 3.1.1. Management Board of TAURON Polska Energia S.A. G 5.3.5. TAURON Group's Principles of counteracting a conflict of interest | 39 68 |
| 2-16 Communication of critical concerns | G 5.3.7. TAURON Group's Security Management System Policy | 71 |
| 2-17 Collective knowledge of the highest governance body | | |
| 2-18 Evaluation of the performance of the highest governance body | G 3.1.1. Management Board of TAURON Polska Energia S.A. | 39 |
| 2-19 Remuneration policies | G 3.1. TAURON Polska Energia S.A. Company Management Principles | 39 |
| 2-20 Process to determine remuneration | S 1.1.1 TAURON Group's Human Capital Management Policy | 157 |
| 2-21 Annual total compensation ratio | The indicator was not disclosed due to data confidentiality | |
| 4. Strategy, policies and practices | | |
| 2-22 Statement on sustainable development strategy | Letter of the President of the Management Board | 5 |
| 2-23 Policy commitments | G 2. Documents supporting the ESG management process | 36 |
| | G 5.4.2. Compliance Risk | 76 |
| | S 1.1.5. TAURON Group's Respect for Human Rights Policy | 180 |
| WSE S-P5 Human Rights Policy | | |
| 2-24 Embedding policy commitments | G 2. Documents supporting the ESG management process | 36-38 |
| | G 5.3. TAURON Capital Group's Key Policies, Codes and Principles in force as part of the Corporate Governance 63 | 63-75 |
| | E 1.1. Policies supporting the management of the following areas: environment, climate, sustainable development in the value chain S 1.1. Policies and Principles supporting Human Capital Management | 83-109 157-204 |
| 2-25 Processes to remediate negative impacts | E 1.1.2. TAURON Group in the area of environment - activities, impact, protection, results | 83 |
| 2-26 Mechanisms for seeking advice and raising concerns | | |
| | G 5.5. Whistleblowing System | 79 |
| WSE G-P4 Whistle-blower Mechanism | | |
| 2-27 Compliance with laws and regulations | G 5.3.6. Personal data protection policy for TAURON Group's entities | 68 |

| | | | |
|--|---|--|------------|
| | | G 5.5. Whistleblowing System | 79 |
| | 2-28 Membership associations 2-30 Collective bargaining agreements | S 2.1.6. Cooperation with the industry (trade) organizations | 205-206 |
| 5. Stakeholder engagement | | | |
| | 2-29 Approach to stakeholder engagement | 1.4. Stakeholder mapping | 7 |
| | 2-30 Collective bargaining agreements | S 1.1.1. TAURON Group's Human Capital Management Policy | 157 163 |
| | WSE S-P4 Freedom of Association and Collective Bargaining | S 1.1.2. TAURON Group's Diversity Policy | 171 173 |
| Material topics | | | |
| | | 1.4. Stakeholder mapping | 7 |
| GRI 3: Material Topics 2021 | 3-1 Process to determine material topics | 1.5. Material aspects of the reporting | 10 |
| | | 1.4. Stakeholder mapping | 7 |
| | 3-2 List of material topics | 1.5. Material aspects of the reporting | 10 |
| GRI 201: Economic Performance 2016 | | | |
| GRI 3: Material Topics 2021 | 3-3 201 Management of material topics | | |
| | | E 1.1.4. TAURON Group and climate and sustainable business development - operations, impact, trends, results | 117 |
| | 201-2 Financial implications and other risks and opportunities due to climate change | E 1.2.1.1. Physical Risk | 141 |
| | | E 1.2.1.2. Climate Risk related to the transition | 143 |
| | | E 1.2.2. Environmental Risk | 145 |
| | WSE E-P3 Climate Risks & Opportunities | E 1.2. TAURON Group in the area of environment - activities, impact, protection, results | 141 |
| GRI 205: Anti-corruption 2016 | | | |
| GRI 3: Material Topics 2021 | 3-3 205 Management of material topics | | |
| | | G 5.3.1. TAURON Group's Anti-corruption Policy | 63 |
| | 205-1 Operations assessed for risks related to corruption | | |
| | 205-2 Communication and training about anti-corruption policies and procedures | | |
| | 205-3 Confirmed incidents of corruption and actions taken | | |
| | WSE G-P2 Business Ethics Standards | S 1.1.5. TAURON Group's Respect for Human Rights Policy | 180 |
| | WSE G-P3 Anti-corruption Policy | G 5.3.1. TAURON Group's Anti-corruption Policy | 63 |
| GRI 206: Anti-competitive Behavior 2016 | | | |
| GRI 3: Material Topics 2021 | 3-3 206 Management of material topics | | |
| | 206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices | G 5.3.1. TAURON Group's Anti-corruption Policy | 63 |
| GRI 301: Materials 2016 | | | |
| GRI 3: Material Topics 2021 | 3-3 301 Management of material topics | | |
| | 301-1 Materials used by weight or volume | G 3.2.2. TAURON Group's Business and Operational Model | 49 |

| | | | |
|--|---|---|----------------|
| | | E 1.1.2. TAURON Group in the area of environment - activities, impact, protection, results | 84 |
| | | E 1.1.4. TAURON Group and climate and sustainable business development - operations, impact, trends, results | 131 |
| GRI 302: Energy 2016 | | | |
| GRI 3: Material Topics 2021 | 3-3 302 Management of material topics | | |
| | 302-1 Energy consumption within the organization | E 1.1.4. TAURON Group and climate and sustainable business development - operations, impact, trends, results | 132-134 |
| | WSE E-P2 Energy Consumption | E 1.1.4. TAURON Group and climate and sustainable business development - operations, impact, trends, results | 132-134 |
| | 302-3 Energy intensity | E 1.1.4. TAURON Group and climate and sustainable business development - operations, impact, trends, results | 135-136 |
| GRI 303: Water and Effluents 2018 | | | |
| GRI 3: Material Topics 2021 | 3-3 303 Management of material topics | | |
| | 303-1 Interactions with water as a shared resource | | 92 |
| | 303-2 Management of water discharge related impacts | E 1.1.2. TAURON Group in the area of environment - activities, impact, protection, results | 92 |
| | 303-3 Water withdrawal | | 93-94 |
| | 303-4 Water discharge | | 95-96 |
| | WSE E-S3 Water Consumption | | 93-96 |
| GRI 304: Biodiversity 2016 | | | |
| GRI 3: Material Topics 2021 | 3-3 304 Management of material topics | | |
| | 304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas | E 1.1.2. TAURON Group in the area of environment - activities, impact, protection, results | 103-106 |
| GRI 305: Emissions 2016 | | | |
| GRI 3: Material Topics 2021 | 3-3 305 Management of material topics | | |
| | 305-1 Direct GHG emissions (Scope 1) | E 1.1.4. TAURON Group and climate and sustainable business development - operations, impact, trends, results | 122-123 125 |
| | 305-2 Energy indirect (Scope 2) GHG emissions | | 124-125 |
| | 305-3 Other indirect (Scope 3) GHG emissions | | 124-125 |
| | 305-4 GHG emissions intensity | E 1. TAURON Capital Group's strategy and business model in the context of climate and environment protection requirements | 82 |
| | WSE E-P1 GHG Emissions | E 1.1.4. TAURON Group and climate and sustainable business development - operations, impact, trends, results | 122-125 |
| | WSE E-S1 Emissions Intensity | E 1. TAURON Capital Group's strategy and business model in the context of climate and environment protection requirements | 82 |

| | | | |
|--|---|---|---------|
| | | 2.6. TAURON Capital Group's Strategy and its assumptions | 23 |
| | WSE E-S2 Emissions Management | E 1. TAURON Capital Group's strategy and business model in the context of climate and environment protection requirements | 82 |
| | | E 2.1. Climate neutrality 2050 | 151 |
| | 305-5 Reduction of GHG emissions | E 1.1.2. TAURON Group in the area of environment - activities, impact, protection, results | 88 |
| | | E 1.1.4. TAURON Group and climate and sustainable business development - operations, impact, trends, results | 120-121 |
| | 305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions | E 1.1.2. TAURON Group in the area of environment - activities, impact, protection, results | 90-92 |
| GRI 306: Waste 2020 | | | |
| GRI 3: Material Topics 2021 | 3-3 306 Management of material topics | | |
| | 306-1 Waste generation and significant waste-related impacts | E 1.1.2. TAURON Group in the area of environment - activities, impact, protection, results | 97-101 |
| | 306-2 Management of significant wasterelated impacts | | |
| | WSE E-S6 Waste Management | | |
| GRI 401: Employment 2016 | | | |
| GRI 3: Material Topics 2021 | 3-3 401 Management of material topics | | |
| | 401-1 New employee hires and employee turnover | S 1.1.1. TAURON Group's Human Capital Management Policy | 157 |
| | 401-3 Parental leave | S 1.1.2. TAURON Group's Diversity Policy | 173 |
| GRI 403: Occupational Health and Safety 2018 | | | |
| GRI 3: Material Topics 2021 | 3-3 403 Management of material topics | | |
| | 403-1 Occupational health and safety management system | S 1.1.6. TAURON Group's WHS Policy | 181 |
| | 403-5 Worker training on occupational health and safety | | |
| | 403-6 Promotion of worker health | S 1.1.1. TAURON Group's Human Capital Management Policy | 157 |
| | 403-9 Work-related injuries | S 1.1.6. TAURON Group's WHS Policy | 181 |
| | WSE S-S1 Employee Health and Safety | | 183 |
| GRI 404: Training and Education 2016 | | | |
| GRI 3: Material Topics 2021 | 3-3 404 Management of material topics | | |
| | 404-1 Average hours of training per year per employee | S 1. TAURON Group's Human Capital Management Policy | 156 |
| | | S 1.1.1. TAURON Group's Human Capital Management Policy | 167-168 |
| | 404-2 Programs for upgrading employee skills and transition assistance programs | S 1.1.1. TAURON Group's Human Capital Management Policy | 157 |
| GRI 405: Diversity and Equal Opportunity 2016 | | | |
| GRI 3: Material Topics 2021 | 3-3 405 Management of material topics | | |
| | 405-1 Diversity of governance bodies and employees | S 1. TAURON Group's Human Capital Management Policy | 155 |

| | | | |
|--|--|---|-----------|
| | WSE S-P1 Board Diversity | S 1.1.2. TAURON Group's Diversity Policy | 174-175 |
| | WSE S-P2 Gender Pay Gap Ratio | S 1.1.1. TAURON Group's Human Capital Management Policy | 164 |
| GRI 406: Non-discrimination 2016 | | | |
| GRI 3: Material Topics 2021 | 3-3 406 Management of material topics | | |
| | 406-1 Incidents of discrimination and corrective actions taken | S 1.1.4. TAURON Group's Policy of compliance with the Principles of Ethics and Counteracting Mobbing and Discrimination | 178 |
| GRI 416: Customer Health and Safety 2016 | | | |
| GRI 3: Material Topics 2021 | 3-3 416 Management of material topics | | |
| | 416-1 Assessment of the health and safety impacts of product and service categories | E 1.1.2. TAURON Group in the area of environment - activities, impact, protection, results | 87 109 |
| GRI 417: Marketing and Labeling 2016 | | | |
| GRI 3: Material Topics 2021 | 3-3 417 Management of material topics | | |
| | 417-2 Incidents of non-compliance concerning product and service information and labeling 417-3 Incidents of non-compliance concerning marketing communications | S 2.1.1. TAURON Group's PRO Client Social Policy | 196-197 |
| GRI 418: Customer Privacy 2018 | | | |
| GRI 3: Material Topics 2021 | 3-3 418 Management of material topics | | |
| | 418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data | G 5.3.6. Personal data protection policy for TAURON Group's entities | 70 |
| TAURON Capital Group's proprietary indicators | | | |
| 1. | The key data on the financial capital | 2.8. TAURON Capital Group's key financial data | 29 |
| 2. | Humanitarian assistance for refugees from Ukraine | 3. TAURON Capital Group amid war in Ukraine | 32-33 |
| 3. | Estimated charges to be paid for the business use of the environment | | 89 |
| 4. | Costs and expenditures for the projects related to environment protection (excluding climate related expenditures) | E 1.1.2. TAURON Group in the area of environment - activities, impact, protection, results | 92 |
| 5. | Structure (composition) of ashes, sludge, gypsum and aggregates brought to the market | | 101 |
| 6. | Structure (composition) and quantities of the combustion and mining by-products brought to the market | | 102 |
| 7. | Site closure and rehabilitation approach | | 102-103 |
| 8. | Identification and classification of determining areas related to climate in business operations | | 110 |
| 9. | Installed capacity, broken down into main types of the raw material (fuel) and power generation unit type | | 112-114 |
| 10. | Share of mass failures in total failures at TAURON Dystrybcja | | 118 |
| 11. | Frequency of the interruptions in the supply of electricity to the consumers of TAURON Dystrybcja | E 1.1.4. TAURON Group and climate and sustainable business development - operations, impact, trends, results | 118 |
| 12. | Average duration of the interruptions in the supply of electricity distributed by TAURON Dystrybcja | | 118 |
| 13. | Targets and implementations regarding the adaptation of the distribution assets to climate change by increasing the share of MV cable lines in relation to the total length of the MV lines (%), cables / overhead lines | | 119 |
| 14. | Net electricity and heat volume generated broken down into main energy sources | | 127 |
| 15. | Targets for the minimum declared average annual increase in RES capacity planned in 2020-2030 (third party audit) | | 129 |

| | | | |
|-----|--|---|---------|
| 16. | The minimum declared CO ₂ emission reduction rate for gross electricity production planned in 2018-2030 [Mg CO ₂ /MWh] (third party audit) | | 130 |
| 17. | Target, and result achieved, for transmission losses set to be achieved by TAURON Dystrybucja | | 136 |
| 18. | Percentage change in 2022 vs. 2021 of the sales products aimed at achieving the climate neutrality target | | 137 |
| 19. | Summary of financing obtained for pro-climate investment projects | | 139-140 |
| 20. | EU environmental taxonomy. Disclosure regarding the percentage share of turnover (Revenue) from products or services related to business activities aligned for the taxonomy | | 147 |
| 21. | EU environmental taxonomy. Disclosure regarding the percentage share of capital expenditures (CapEx) due to products or services related to business activities aligned for the taxonomy | | 148 |
| 22. | EU environmental taxonomy. Disclosure regarding the percentage share of operating expenses (OpEx) due to products or services related to business activities aligned for the taxonomy | | 149 |
| 23. | "Road map" and intermediate targets (2025) in the pursuit to achieve climate neutrality by 2050 | E 2.1. Climate neutrality 2050 | 151 |
| 24. | Percentage of the employees employed by the contractors and subcontractors that have undergone the above WHS training | S 1.1.6. TAURON Group's WHS Policy | 184 |
| 25. | Number of individual and business customers | S 2.1.1. TAURON Group's PRO Client Social Policy | 188 |
| 26. | Surveys carried out as part of the due diligence procedures | S 2.1.1. TAURON Group's PRO Client Social Policy | 188 |
| 27. | The most important educational activities targeted at all of the customers | | 189-191 |
| 28. | The most important educational activities targeted, in particular, at the disadvantaged groups | S 2.1.1. TAURON Group's PRO Client Social Policy | 191-192 |
| 29. | Results of the loyalty (NPS) survey among household customers | | 194 |
| 30. | Results of the customer effort (CES) survey among household customers | | 195 |
| 31. | Research and investment projects in 2022 aimed at ensuring the reliability of the electricity supply and promoting the sustainable development | S 2.1.2. Intellectual Property Protection Management System | 200-202 |

Principles of the United Nations Global Compact (reporting of the activities since 2023)

| | | |
|--|--|----------------|
| GC – 1. Support and respect the protection of internationally proclaimed human rights. | S 1.1.5. TAURON Group's Respect for Human Rights Policy | 180 |
| GC – 2. Ensure that business practices are not complicit in human rights abuses. | | |
| GC – 3. Uphold the freedom of association and the effective recognition of the right to collective bargaining. | S 1.1.1. TAURON Group's Human Capital Management Policy S 1.1.5. TAURON Group's Respect for Human Rights Policy | 157 180 |
| GC – 4. Eliminate all forms of forced and compulsory labor. | S 1.1.5. TAURON Group's Respect for Human Rights Policy | 180 |
| GC – 5. Abolish child labor. | | |
| GC – 6. Eliminate discrimination in employment and occupation. | S 1.1.2. TAURON Group's Diversity Policy S 1.1.5. TAURON Group's Respect for Human Rights Policy | 171 180 |
| GC – 7. Adopt a precautionary approach to environmental challenges. | E 1.1.1. TAURON Group's Environmental Policy E 1.1.3. TAURON Group's Climate Policy | 83 109 |
| GC – 8. Conduct environmentally responsible activities. | E 1.1.2. TAURON Group in the area of environment - activities, impact, protection, results E 1.1.4. TAURON Group and climate and sustainable business development - operations, impact, trends, results | 83 109 |
| GC – 9. Encourage the development and diffusion of environmentally friendly technologies. | E 1.1.2. TAURON Group in the area of environment - activities, impact, protection, results | 83 |
| GC – 10. Fight corruption in all its forms including extortion and bribery. | G 5.3.1. TAURON Group's Anti-corruption Policy G 5.3.4. Purchasing Process Risk G 5.5. Whistleblowing System | 63 66 79 |

Approval of the Non-Financial Report of TAURON Capital Group for 2022 was approved by the Management Board of the Parent Company on March 28, 2023

Paweł Szczeszek - President of the Management Board

Patryk Demski - Vice President of the Management Board for Strategy and Development

Bogusław Rybacki - Vice President of the Management Board for Asset Management

Krzysztof Surma - Vice President of the Management Board for Finance

Tomasz Szczegieliak - Vice President of the Management Board for Trading

Artur Warzocha - Vice President of the Management Board for Corporate Affairs



REPRESENTATIONS

of the Management Board
of TAURON Polska Energia S.A.



REPRESENTATION

of the Management Board of TAURON Polska Energia S.A. on the accuracy of the annual financial statements of TAURON Polska Energia S.A. and of the Management Board's report on the operations of TAURON Polska Energia S.A. and TAURON Capital Group

Management Board of TAURON Polska Energia S.A. represents that, to the best of its knowledge, the annual financial statements of TAURON Polska Energia S.A. and comparable figures were prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of TAURON Polska Energia S.A.

Management Board of TAURON Polska Energia S.A. also certifies that the Management Board's annual report on the operations of TAURON Polska Energia S.A and TAURON Capital Group includes a fair review of the development and performance of the business and the position of TAURON Polska Energia S.A and TAURON Capital Group, together with a description of the principal risks and uncertainties that TAURON Polska Energia S.A and TAURON Capital Group face.

Members of the Management Board:

1. Paweł Szczeszek - President of the Management Board
2. Patryk Demski - Vice President of the Management Board
3. Bogusław Rybacki - Vice President of the Management Board
4. Krzysztof Surma - Vice President of the Management Board
5. Tomasz Szczegielniak - Vice President of the Management Board
6. Artur Warzocha - Vice President of the Management Board

March 28, 2023
date



INFORMATION

of the Management Board of TAURON Polska Energia S.A. on the appointment of the audit firm to conduct the audit of the annual financial statements of TAURON Polska Energia S.A. in accordance with the applicable regulations

Management Board of TAURON Polska Energia S.A., pursuant to the representation of the Supervisory Board, informs of the appointment of the audit firm to conduct the audit of the annual financial statements of TAURON Polska Energia S.A. in accordance with the applicable regulations, including the regulations related to the appointment and the procedure for appointment of auditor and indicates that:

- a) the audit firm and members of the team performing the audit met the conditions for preparing an impartial and independent report (opinion) on the audit of the annual financial statements of TAURON Polska Energia S.A. in accordance with the applicable regulations, professional standards and professional code of ethics,
- b) applicable regulations related to the rotation of the audit firm and the key certified auditor as well as the mandatory rotation periods (engagement term limits) are complied with,
- c) TAURON Polska Energia S.A. has a policy in place with respect to the appointment of auditor and a policy with respect to the provision, for the benefit of TAURON Polska Energia S.A., by the audit firm, an entity related to the audit firm or a member of its network, of additional non-audit services, including services that are conditionally exempt from the ban on the provision of non-audit services by the audit firm.

Members of the Management Board:

1. Paweł Szczeszek - President of the Management Board
2. Patryk Demski - Vice President of the Management Board
3. Bogusław Rybacki - Vice President of the Management Board
4. Krzysztof Surma - Vice President of the Management Board
5. Tomasz Szczegieliński - Vice President of the Management Board
6. Artur Warzocha - Vice President of the Management Board

March 28, 2023
date



REPRESENTATION

of the Supervisory Board
of TAURON Polska Energia S.A.



REPRESENTATION

of the Supervisory Board of TAURON Polska Energia S.A. on the Audit Committee

Supervisory Board of TAURON Polska Energia S.A. represents that the regulations related to the appointment, composition and operations of the Audit Committee are complied with, including the regulations related to the fulfillment by the members thereof of the independence criteria and of the requirements with respect to the knowledge and skills (qualifications) related to the industry TAURON Polska Energia S.A. is operating in, as well as in the field of accounting or auditing financial statements.

Supervisory Board of TAURON Polska Energia S.A. also certifies that the Audit Committee performed the tasks of an audit committee as set forth in the applicable regulations.

Members of the Supervisory Board:

1. Piotr Tutak - Chair of the Supervisory Board
2. Teresa Famulska - Vice Chair of the Supervisory Board
3. Marcin Wawrzyniak - Secretary of the Supervisory Board
4. Stanisław Borkowski - Member of the Supervisory Board
5. Dariusz Hryniów - Member of the Supervisory Board
6. Leszek Kozirowski - Member of the Supervisory Board
7. Ryszard Madziar - Member of the Supervisory Board
8. Grzegorz Peczkis - Member of the Supervisory Board

March 29, 2023
date



ASSESSMENT

by the Supervisory Board
of TAURON Polska Energia S.A.



**Assessment by the Supervisory Board of TAURON Polska Energia S.A.
of the financial statements and
the Management Board's report on the operations of
TAURON Polska Energia S.A. and TAURON Capital Group
for the financial year 2022**

The Supervisory Board of TAURON Polska Energia S.A., pursuant to the requirement of art. 382 § 3¹ clause 1) of the Code of Commercial Companies, § 20 item 1 clause 3) of the Articles of Association of TAURON Polska Energia S.A. and § 70 item 1 clause 14 and § 71 item 1 clause 12 of the Regulation of the Minister of Finance of March 29, 2018 on current and periodic information disclosed by security issuers and the conditions of recognizing as equivalent the information required by the legal regulations of a non-member state, performed assessment of the following documents presented by the Company's Management Board:

- 1) Financial statements of TAURON Polska Energia S.A. for the year ended on December 31, 2022, prepared in accordance 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 on December 31, 2022, prepared in accordance with the International Financial Reporting Standards approved by the European Union,
- 3) Management Board's report on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022.

The abovementioned documents were audited by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa with its seat in Warsaw (further: certified auditor) which was appointed by the Supervisory Board to perform audit of standalone and consolidated financial statements of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022.

Assessment of the financial statements of TAURON Polska Energia S.A. for the year ended on December 31, 2022

The Supervisory Board of TAURON Polska Energia S.A. performed assessment of the Financial statements of TAURON Polska Energia S.A. for the year ended on December 31, 2022 prepared in accordance with the International Financial Reporting Standards approved by the European Union, including:

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

The Supervisory Board issued positive assessment on the Financial statements of TAURON Polska Energia S.A. and stated their compliance with the ledgers, documents and the actual state of affairs.

The basis for the issuing by the Supervisory Board of a positive assessment was the report of the independent certified auditor on the audit according to which the above Financial statements of TAURON Polska Energia S.A.:

- 1) give a true and fair view of the assets, liabilities and the financial position of TAURON Polska Energia S.A. and as of December 31, 2022, and its financial results and cash flows for the period from January 1, 2022

to December 31 in accordance with the International Financial Reporting Standards approved by the European Union and the adopted principles (policy) of accounting,

- 2) are in compliance, with respect to their form and content, with the legal regulations applicable to TAURON Polska Energia S.A. as well as with the Articles of Association of TAURON Polska Energia S.A.
- 3) were prepared based on the properly kept accounting records (ledgers), in compliance with provisions of chapter 2 of the accounting act of September 29, 1994 (further: accounting act).

Assessment of the financial statements of TAURON Polska Energia S.A. Capital Group for the year ended on December 31, 2022

The Supervisory Board of TAURON Polska Energia S.A. performed assessment of the Consolidated financial statements of TAURON Polska Energia S.A. for the year ended on December 31, 2022 prepared in accordance with the International Financial Reporting Standards approved by the European Union, including:

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

The Supervisory Board issued positive assessment on the Consolidated financial statements of TAURON Polska Energia S.A. and stated their compliance with the ledgers, documents and the actual state of affairs.

The basis for the issuing by the Supervisory Board of a positive assessment was the report of the independent certified auditor on the audit according to which the above Consolidated financial statements of TAURON Capital Group:

- 1) give a true and fair view of the consolidated assets, liabilities and the financial position of TAURON Polska Energia S.A. and as of December 31, 2022, and its consolidated financial results and consolidated cash flows for the period from January 1, 2022 to December 31 in accordance with the International Financial Reporting Standards approved by the European Union and the adopted principles (policy) of accounting,
- 2) are in compliance, with respect to their form and content, with the legal regulations applicable to TAURON Polska Energia S.A. as well as with the Articles of Association of TAURON Polska Energia S.A. and were prepared based on the properly kept accounting records (ledgers), in compliance with provisions of the accounting act.

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

The Supervisory Board issued positive assessment on the Report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group for the financial year 2022 in terms of its compliance with the ledgers, documents and the actual state of affairs. The subject Report shows true and fair view of the assets and liabilities as well as financial position and development perspective of TAURON Polska Energia S.A. and TAURON Capital Group, and its completeness and compliance in the scope of presented information was confirmed by certified auditor.

Additionally, in the opinion of the certified auditor the above Report was prepared in compliance with art. 49 of the accounting act and § 70 and § 71 of the Regulation of the Minister of Finance of March 29, 2018 on current and periodic information disclosed by security issuers and the conditions of recognizing as equivalent the information required by the legal regulations of a non-member state and is compliant with the information presented in the Financial statements of TAURON Polska Energia S.A. and Consolidated financial statements of TAURON Capital Group for the year ended on December 31, 2022.

At the same time, pursuant to art. 49b section 9 and art. 55 section 2c of the accounting act TAURON P drew up Non-financial Report of TAURON Capital Group for 2022 in the form of a separate document published on the Company's website.

The above Non-financial Report of TAURON Capital Group for 2022 was drawn up in accordance with Article 49b section 1-8 and art. 55 section 2b-e of the accounting act which implements the guidelines of the Directive of the European Parliament and of the Council 2014/95/EU of October 22, 2014, as regards disclosure of non-financial

information, along with the additional, subsequent guidelines, including the European Commission Communication 2019/C 209/01 of June 20, 2019, including the guidelines on non-financial reporting: Supplement on reporting climate-related information and the Global Reporting Index guidelines - GRI Standards.

Summary of the performed assessment

The Supervisory Board, in their assessment of the above financial statements of TAURON Polska Energia S.A. and TAURON Capital Group, and the report of the Management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group took account of the recommendations of the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. that supervised the process of financial reporting in line with the provisions of the act of May 11, 2017 on certified auditors, audit firms and public oversight.

As part of the process related to auditing the financial statements the Audit Committee was attending regular meetings with the representatives of the audit firm Ernst & Young Audyt Polska with its seat in Warsaw conducting the audit of the financial statements of TAURON Polska Energia S.A. and TAURON Capital Group, monitoring and discussing the course of the audit processes. Furthermore, the Audit Committee studied the reports presented by the audit firm on the audits of the financial statements and the additional report for the financial year 2022 prepared for the Audit Committee and the Company's management, in accordance with the provisions of art. 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of April 16, 2014 on specific requirements regarding statutory audit of public-interest entities and art. 67 section 4 clause 9) of the act on certified auditors, audit firms and public oversight.

Considering the above, the Supervisory Board, taking into account the recommendations of the Audit Committee and relying on the opinion of certified auditors, gives positive assessment of the Financial statements of TAURON Polska Energia S.A. and TAURON Capital Group, as well as Report of the management Board on the operations of TAURON Polska Energia S.A. and TAURON Capital Group and states that they are in compliance with the ledgers, documents and the actual state of affairs.

Members of the Supervisory Board:

1. Piotr Tutak - Chair of the Supervisory Board
2. Teresa Famulska - Vice Chair of the Supervisory Board
3. Marcin Wawrzyniak - Secretary of the Supervisory Board
4. Stanisław Borkowski - Member of the Supervisory Board
5. Dariusz Hryniów - Member of the Supervisory Board
6. Leszek Koziorowski - Member of the Supervisory Board
7. Ryszard Madziar - Member of the Supervisory Board
8. Grzegorz Peczkis - Member of the Supervisory Board

March 29, 2023
date

This is a translation of the document originally issued and signed in Polish