TAURON POLSKA ENERGIA

# Consolidated annual report of TAURON Polska Energia S.A. Capital Group for the year 2014

12 March 2015

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

Ladies and Gentlemen,

I am pleased to provide you with the Annual Report of TAURON Capital Group, in which we present the financial results and the most important events of 2014.

Last year was full of events both significant for the whole market and directly related to TAURON Group. In 2014 we faced an unfavourable market situation in the energy sector. It is reflected in the decline of electric energy production in Poland by 3.7 per cent, whereas in case of hard coal based generation sources the decline exceeded 5 per cent. The level of domestic energy consumption was also unsatisfactory, reaching only 0.5 per cent. However, the past year brought a significant improvement in the scope of market prices of energy that stabilised at the level of approximately PLN 180/MWh.

Irrespective of the market situation, TAURON Group generates sound financial results, consistently implementing the assumptions of the corporate strategy. In the previous year, revenues of the Group amounted to PLN 18.4 billion, and EBITDA reached the level of PLN 3.6 billion, comparable to the value achieved in 2013. The growth in the EBITDA margin to approximately 20 per cent is worth noticing. The Distribution and Sales Areas played a key role, having jointly generated 76 per cent of the Group's EBITDA.

The significant events of positive impact on the generated results which should be listed include, in particular, the revenues due to Operating Power Reserve, savings associated with the effectiveness improvement programme under implementation and the minimum costs related to $CO_2$ emission. On the other hand, the financial result was reduced, among others, by the recovery of the redemption obligation of red and yellow certificates, lower energy sales volumes and prices and one-off events.

In 2014, the net profit attributable to shareholders of the parent company reached almost PLN 1.2 billion and it was lower by 9.7 per cent than a year earlier. I would like to stress that the company consistently shares its profit with the shareholders. In 2014 we allocated PLN 333 million for the dividend payment, which corresponds to 25 per cent of the Group's profit generated in 2013.

Taking into account the volatile market situation, in June 2014 we updated the corporate strategy. Its foundations remain unchanged, whereas we adjusted the assumptions of the strategy to the energy policy of the European Union and the ambitious targets related to $CO_2$ emission which shall to a large extent determine the shape of our energy market.

The updated strategy assumes, among others, the growth of generation capacity as a result of commissioning high efficiency power units in various technologies, with the total capacity of 2.2 GW. Important growth areas shall also include Distribution and Sales. The aggregate capital expenditures of TAURON Group in the years 2014–2023 shall amount to approximately PLN 37 billion. One of the flagship investments is the construction of the 910 MW coal-fired unit at Jaworzno III Power Plant. The agreement with the contractor – the Rafako-Mostostal Warszawa consortium – was signed in April 2014. We also implement significant investment projects in other areas, among others, we continue the construction of the CCGT Unit in Elektrociepłownia Stalowa Wola and the co-generation unit in Tychy. In the Mining Area construction works of the 800 m level in Zakład Górniczy Janina and the Grzegorz shaft in Zakład Górniczy Sobieski are in progress.

TAURON successfully acquires funds from external sources for financing of investments. The last year's issue of bonds ended with oversubscription provided PLN 1.75 billion for the Group whereas the considerable interest of investors enabled us to obtain attractive interest rates. We have also acquired a loan from the European Investment Bank, at a level of approximately PLN 300 million and we have issued fifteen year bonds on the German market. The debt ratios of the Group are maintained at a safe level, which is reflected in the ratings granted by Fitch.

In parallel, we conducted many other corporate initiatives. We signed a joint venture agreement of the TAMEH Holding company with ArcelorMittal, to implement tasks in the area of industrial power engineering. We continued the activities aimed at reducing minority shareholders' share in subsidiaries. At present we hold nearly 100 per cent share in the capital of almost all subsidiaries. We carried out active measures oriented towards construction and maintaining of good relations with clients through the development of the product portfolio, improving customer service channels and numerous promotional and educational actions.

In 2015 we expect improvement of the economic climate. Forecasts indicate that in the following quarters the GDP growth shall exceed 3 per cent and the economic climate is the most important factor determining the electric energy demand. Based on these premises, we expect growth of volume in the Generation, Heat and Mining Areas. However, we shall also face challenges, including higher purchase costs of emission allowances, lower revenues from operating power reserve and the reduced return on equity in the Distribution Area.

I would like to assure our shareholders that the Management Board of TAURON Polska Energia S.A. shall endeavour to gain the best possible results in the demanding market. It is worth mentioning that this year the fifth anniversary of our presence at the GPW shall pass – I do believe that it shall be a successful year for our shareholders. Taking this opportunity I would like to summarise shortly our activities addressed to investors. In the previous year we held about 200 meetings with financial investors and analysts issued 33 recommendations, including 12 recommending the purchase of the company shares. Moreover, we implemented a number of initiatives dedicated to individual investors, including the Individual Investor's Day. The quality of the information policy has been recognised, among others, by the jury of *The Best Annual Report* competition, which granted the main award to the company for the annual report and distinction for the annual report on Internet.

On behalf of the Management Board, I would like to express our gratitude to our shareholders, Members of the Supervisory Board and our employees for their involvement in the implementation of the strategic objectives of TAURON Group.

Yours faithfully,

Dariusz Lubera

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

| Selected figures | in thousands PLN | | in thousands EUR | |
|---|---|---|---|---|
| | 2014 period from 01.01.2014 to 31.12.2014 | 2013 period from 01.01.2013 to 31.12.2013 | 2014 period from 01.01.2014 to 31.12.2014 | 2013 period from 01.01.2013 to 31.12.2013 |
| ***Selected consolidated figures of TAURON Polska Energia S.A. Capital Group*** | | | | |
| Sales revenue | 18 440 763 | 19 131 122 | 4 401 872 | 4 543 130 |
| Operating profit | 1 830 113 | 1 934 066 | 436 854 | 459 289 |
| Profit before tax | 1 498 215 | 1 683 621 | 357 629 | 399 815 |
| Net profit | 1 185 560 | 1 346 485 | 282 997 | 319 755 |
| Net profit attributable to shareholders of the parent company | 1 180 893 | 1 308 318 | 281 883 | 310 691 |
| Net profit attributable to non-controlling interests | 4 667 | 38 167 | 1 114 | 9 064 |
| Other comprehensive income | (290 384) | 43 488 | (69 316) | 10 327 |
| Total comprehensive income | 895 176 | 1 389 973 | 213 681 | 330 082 |
| Total comprehensive income attributable to shareholders of the parent company | 890 879 | 1 349 123 | 212 656 | 320 381 |
| Total comprehensive income attributable to non-controlling interests | 4 297 | 40 850 | 1 025 | 9 701 |
| Earnings per share (in PLN/EUR) (basic and diluted) | 0,67 | 0,75 | 0,16 | 0,18 |
| 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 flows from operating activities | 2 617 907 | 4 079 082 | 624 903 | 968 673 |
| Cash flows from investing activities | (3 386 733) | (4 180 488) | (808 425) | (992 754) |
| Cash flows from financing activities | 1 635 749 | (249 100) | 390 459 | (59 155) |
| Net increase (decrease) in cash and cash equivalents | 866 923 | (350 506) | 206 937 | (83 236) |
| | **As of 31.12.2014** | **As of 31.12.2013** | **As of 31.12.2014** | **As of 31.12.2013** |
| Non-current assets | 28 162 749 | 27 567 008 | 6 607 407 | 6 647 137 |
| Current assets | 6 396 444 | 4 788 562 | 1 500 702 | 1 154 650 |
| Total assets | 34 559 193 | 32 355 570 | 8 108 109 | 7 801 787 |
| Issued capital | 8 762 747 | 8 762 747 | 2 055 873 | 2 112 931 |
| Equity attributable to shareholders of the parent company | 17 966 448 | 17 327 165 | 4 215 200 | 4 178 039 |
| Equity attributable to non-controlling interests | 30 116 | 466 334 | 7 066 | 112 446 |
| Total equity | 17 996 564 | 17 793 499 | 4 222 266 | 4 290 485 |
| Long-term liabilities | 11 744 092 | 9 304 341 | 2 755 341 | 2 243 524 |
| Short-term liabilities | 4 818 537 | 5 257 730 | 1 130 502 | 1 267 778 |
| Total liabilities | 16 562 629 | 14 562 071 | 3 885 843 | 3 511 302 |

The aforementioned financial information for the years 2014 and 2013 has been converted into EUR in accordance with the following rules:

– particular items in the statement of financial standing – in accordance with the average NBP exchange rate announced as of 31 December 2014 – 4.2623 PLN/EUR (as of 31 December 2013 – 4.1472 PLN/EUR)

– particular items in the statement of comprehensive income and statement of cash flows – in accordance with the exchange rate which constitutes an arithmetic average of average NBP exchange rates announced on the last day of each month of the financial year from 1 January 2014 to 31 December 2014 – 4.1893 PLN/EUR (for the financial year started 1 January 2013 and ended 31 December 2013 – 4.2110 PLN/EUR).

# CAPITAL GROUP TAURON POLSKA ENERGIA S.A.

# INDEPENDENT AUDITOR'S OPINION
# AND REPORT ON THE AUDIT OF
# THE CONSOLIDATED FINANCIAL STATEMENTS OF
# THE TAURON POLSKA ENERGIA S.A. CAPITAL GROUP
# FOR THE YEAR 2014

**THE TAURON POLSKA ENERGIA S.A. CAPITAL GROUP**

**KATOWICE, ULICA KS. PIOTRA ŚCIEGIENNEGO 3**

**CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2014**

**WITH**

**AUDITOR'S OPINION**

**AND**

**AUDIT REPORT**

# TABLE OF CONTENTS

Deloitte Polska Spółka z ograniczoną
odpowiedzialnością Sp. k.
Al. Jana Pawła II 19
00-854 Warszawa
Polska

Tel.: +48 22 511 08 11, 511 08 12
Fax.: +48 22 511 08 13
www.deloitte.com/pl

# AUDITOR'S OPINION

**To the Shareholders and the Supervisory Board of TAURON Polska Energia S.A.**

We have audited the attached consolidated financial statements of the TAURON Polska Energia S.A. Capital Group (hereinafter "the Capital Group") for which TAURON Polska Energia S.A. with its registered office in Katowice, at ul. ks. Piotra Ściegiennego 3 is the parent (hereinafter "the Parent Company") . The financial statements include: a consolidated statement of financial position prepared as at 31 December 2014, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the financial year from 1 January 2014 to 31 December 2014 and notes comprising a summary of significant accounting policies and other explanatory information.

Preparation of consolidated financial statements and a report on the activities of the Capital Group in line with the law is the responsibility of the Management Board of the Parent Company.

The Management Board of the Parent Company and members of its Supervisory Board are obliged to ensure that the consolidated financial statements and the report on the activities of the Capital Group meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2013 item 330, as amended), hereinafter referred to as the "Accounting Act".

Our responsibility was to audit and express an opinion on compliance of the consolidated financial statements with the accounting principles (policy) adopted by the Capital Group and whether the consolidated financial statements give a true and fair view of the financial and economic position as well as the financial performance of the Capital group and on the correctness of the underlying accounting records.

Our audit of the financial statements has been planned and performed in accordance with:

– section 7 of the Accounting Act;
– national auditing standards, issued by the National Council of Statutory Auditors in Poland.

We have planned and performed our audit of the consolidated financial statements in such a way as to obtain reasonable assurance to express an opinion on the statements in question. Our audit included, in particular, verification of the correctness of the accounting principles (policy) and material estimates applied by the Capital Group and its subsidiaries, verification - largely on a test basis - of the accounting evidence and records supporting the amounts and disclosures in the consolidated financial statements, as well as overall evaluation of the consolidated financial statements. We believe that the audit has provided a reasonable basis to express an opinion on the consolidated financial statements.

In our opinion the audited consolidated financial statements in all material respects:

- give a true and fair view of the information material to evaluation of the economic and financial position of the Capital Group as at 31 December 2014 as well as its financial performance in the financial year from 1 January 2014 to 31 December 2014;
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and in all matters not regulated in the standards - in accordance with the provisions of the Accounting Act and its executory provisions;
- comply with the provisions of law applicable to the Parent Company and entities in the Capital Group, which affect the contents of the consolidated financial statements.

The report on the activities of the Capital Group for the 2014 financial year is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133) and consistent with underlying information disclosed in the audited consolidated financial statements.

Artur Maziarka
Key certified auditor
conducting the audit
No. 90108

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o.
– which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 10 March 2015

***The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.***

# REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS OF THE TAURON POLSKA ENERGIA S.A. CAPITAL GROUP FOR THE 2014 FINANCIAL YEAR

## I. GENERAL INFORMATION

### 1. Details of the audited Parent Company

The Parent Company operates under the business name TAURON Polska Energia S.A. (hereinafter "the Parent Company"). Its registered office is located in Katowice, at ul. ks. Piotra Ściegiennego 3.

The Parent Company operates as a joint stock company. It has been entered in the Register of Entrepreneurs of the National Court Register kept by the District Court for Katowice-Wschód in Katowice, VIII Business Division of the National Court Register, Entry No. KRS 0000271562.

The Parent Company operates based on the provisions of the Code of Commercial Companies.

As at 31 December 2014, the Parent Company's issued capital equaled PLN 8,762,747 thousand and was divided into 1,752,549,394 shares with a face value of PLN 5 each.

Composition of the Management Board as of the date of the opinion:
- Dariusz Lubera – President of the Management Board;
- Aleksander Grad – Vice-President of the Management Board;
- Katarzyna Rozenfeld – Vice-President of the Management Board;
- Stanisław Tokarski – Vice-President of the Management Board;
- Krzysztof Zawadzki – Vice-President of the Management Board.

Changes in the composition of the Management Board of the Parent Company during the audited period and until the date of the opinion:
- on 17 March 2014, Joanna Schmid and Dariusz Stolarczyk were dismissed from the position of a Member of the Management Board of the Company and their term of office expired on the same day;
- on 17 March 2014, the Supervisory Board appointed Katarzyna Rozenfeld and Stanisław Tokarski to the position of Vice-Chairmen of the Management Board.

### 2. Capital Group structure

The following companies have been included in the consolidated financial statements as at 31 December 2014:

a) the Parent Company – TAURON Polska Energia S.A.

We have audited the financial statements of the Parent Company for the period from 1 January 2014 to 31 December 2014. As a result of the audit, on 10 March 2015 we issued an unqualified opinion.

b) Companies consolidated using the full method:

| Name of the company | Percentage interest in the issued capital | Entity auditing the financial statements and type of opinion issued | Reporting date of the consolidated entity |
|---|---|---|---|
| TAURON Wytwarzanie S.A | 100% | Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion | 31 December 2014 |
| TAURON Ekoenergia Sp. z o.o. | 100% | Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion | 31 December 2014 |
| TAURON Dystrybucja S.A. | 99.71% | Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion | 31 December 2014 |
| TAURON Sprzedaż Sp. z o.o. | 100% | Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion | 31 December 2014 |
| TAURON Czech Energy s.r.o. | 100% | COTAX AUDIT s.r.o – audit opinion for the Entity had not been prepared until the date of issuing this report | 31 December 2014 |
| TAURON Sprzedaż GZE Sp. z o.o. | 100% | Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion | 31 December 2014 |
| TAURON Ciepło Sp. z o.o. | 100% | Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – emphasis of matter opinion | 31 December 2014 |
| TAURON Obsługa Klienta Sp. z o.o. | 100% | Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion | 31 December 2014 |
| Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation | 100% | Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – qualified opinion | 31 December 2014 |
| TAURON Wydobycie S.A. | 100% | Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion | 31 December 2014 |
| TAURON Sweden Energy AB (publ) | 100% | Not subject to audit in 2014 | 31 December 2015 |
| TAURON Dystrybucja Pomiary Sp. z o.o. | 99.71% | Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion | 31 December 2014 |
| TAURON Dystrybucja Serwis S.A. | 99.71% | Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion | 31 December 2014 |
| Kopalnia Wapienia Czatkowice Sp. z o.o. | 100% | Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion | 31 December 2014 |

c) Companies consolidated using the equity method:

| Name of the company | Percentage interest in the issued capital | Entity auditing the financial statements and type of opinion issued | Reporting date of the consolidated entity |
|---|---|---|---|
| Elektrociepłownia Stalowa Wola S.A. | 50% | Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion | 31 December 2014 |
| Elektrownia Blachownia Nowa Sp. z o.o. | 50% | Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – emphasis of matter opinion | 31 December 2014 |
| TAMEH HOLDING Sp. z o.o. | 50% | Not issued | 31 March 2015 |
| TAMEH POLSKA Sp. z o.o. | 50% | Not subject to audit in 2014 | 31 December 2015 |
| TAMEH Czech s.r.o | 50% | Audit opinion for the Entity had not been prepared until the date of issuing this report | 31 December 2014 |

During the financial year the composition of the audited Capital Group and the consolidated entities, for which the Parent Company prepared the audited consolidated financial statements, did not change.

## 3. Information on the consolidated financial statements for the previous financial year

The activities of the Capital Group in 2013 resulted in a net profit of PLN 1,346,485 thousand. The consolidated financial statements of the Capital Group for 2013 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. The certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders' Meeting which approved the consolidated financial statements for the 2013 financial year was held on 15 May 2014.

The consolidated financial statements for the 2013 financial year were submitted to the National Court Register (KRS) on 22 May 2014.

## 4. Details of the authorized entity and the key certified auditor acting on its behalf

The entity authorized to audit the consolidated financial statements was appointed by the Supervisory Board, The consolidated financial statements were audited out based on the agreement of 7 May 2013 concluded between the Parent Company and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with the registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the consolidated financial statements was conducted under the supervision of Artur Maziarka, key certified auditor (No. 90108) in the registered office of the Parent Company from 16 to 20 February 2015 and outside the Company's premises until the opinion date.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor conducting the audit confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight (Journal of Laws of 2009 No. 77, item 649 as amended) to express an unbiased and independent opinion on the consolidated financial statements of the Capital Group.

## 5. Availability of data and the Parent Company management's representations

The scope of our audit was not limited. During the audit, all necessary documents and data as well as detailed information and explanations were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Management Board of the Parent Company of 10 March 2015.

## II. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP

Presented below are the main items from the consolidated statement of comprehensive income, consolidated statement of financial position as well as financial ratios describing the financial performance of the Parent Company its economic and financial position compared to the prior year.

| Main items from the consolidated statement of comprehensive income (PLN '000) | 2014 | 2013 |
|---|---|---|
| Sales revenue | 18,440,763 | 19 131 122 |
| Operating expenses | (16,725,414) | (17,189,369) |
| Operating profit (loss) | 1,830,113 | 1,934,066 |
| Net profit (loss) | 1,185,560 | 1,346,485 |
| **Main financial data from consolidated statement of financial position (PLN '000)** | | |
| Inventories | 527,596 | 509,224 |
| Trade receivables | 1,664,191 | 1,862,717 |
| Current assets | 6,396,444* | 4,788,562* |
| Total assets | 34,559,193 | 32,355,570 |
| Equity | 17,996,564 | 17,793,499 |
| Short-term liabilities (including short-term provisions and accruals) | 4,818,537* | 5,257,730 |
| Trade payables | 916,744 | 1,037,304 |
| Total liabilities and provisions | 16,562,629 | 14,562,071 |

| Profitability and efficiency ratios | 2014 | 2013 |
|---|---|---|
| – return on sales | 10% | 10% |
| – net return on equity | 7% | 8% |
| – assets turnover ratio | 0.53 | 0.59 |
| – receivables turnover in days | 34 | 38 |
| – payables turnover in days | 21 | 26 |
| – inventory turnover in days | 11 | 13 |
| **Liquidity/Net working capital** | | |
| – debt ratio | 48% | 45% |
| – equity to fixed assets ratio | 52% | 55% |
| – net working capital (PLN '000) | 325,172 | (502,209) |
| – current ratio | 1.07 | 0.91 |
| – quick ratio | 0.96 | 0.81 |

*the current assets include non-current assets classified as held for sale
*the current liabilities include a disposal group of liabilities classified as held for sale

An analysis of the above figures and ratios indicated the following trends in 2014:

- the return on sales at the same level as in the prior year and a decrease in the net return on equity;
- a decrease in the assets turnover ratio;
- a decrease in the receivables, liabilities and inventories turnover ratios;
- an increase in the debt ratio and a decrease in the equity to fixed assets ratio;
- an increase in the net working capital;
- an increase in the current ratio.

# III. DETAILED INFORMATION

## 1. Detailed information regarding the audited consolidated financial statements

The audited consolidated financial statements were prepared as of 31 December 2014 and include:

– consolidated statement of financial position prepared as at 31 December 2014, with total assets and liabilities plus equity of PLN 34,559,193 thousand;
– consolidated statement of comprehensive income for the period from 1 January 2014 to 31 December 2014, with a net profit of PLN 1,185,560 thousand and the total comprehensive income of PLN 895,176 thousand;
– consolidated statement of changes in equity for the period from 1 January 2014 to 31 December 2014, disclosing an increase in equity of PLN 203,065 thousand;
– consolidated statement of cash flows for the period from 1 January 2014 to 31 December 2014, showing an inflow of cash and cash equivalents of PLN 866,923 thousand;
– notes comprising a summary of significant accounting policies and other explanatory information.

The audit covered the period from 1 January 2014 to 31 December 2014 and focused mainly on:

– verification of the correctness and fairness of the consolidated financial statements prepared by the Management Board of the Parent Company;
– verification of the consolidation documentation;
– evaluation of the correctness of the consolidation methods and procedures applied during consolidation.

## 2. Consolidation documentation

The Parent Company presented the consolidation documentation including:

1) financial statements of controlled entities, adjusted to the accounting principles (policy) applied during consolidation;
2) financial statements of controlled entities translated into the Polish currency;
3) all consolidation adjustments and eliminations necessary for preparation of the consolidated financial statements;
4) calculation of non-controlling interest;
5) calculation of exchange differences arising from translation of the financial statements of controlled entities denominated in foreign currencies.

The financial statements of the subsidiaries were consolidated using the full method, i.e. full amounts of all relevant items of the financial statements of the Parent Company and the subsidiaries included in consolidation were summed up.
The equity method was applied with respect to jointly-controlled entities. The value of the Parent Company’s interest in jointly-controlled entities was adjusted by increases or decreases in the equity of the jointly-controlled entities attributable to the Parent Company, which occurred in the period covered by consolidation.

The Parent Company preparing the consolidated financial statements has not applied any material simplifications and exceptions to the consolidation principles with respect to the controlled entities.

### 3. Completeness and correctness of drawing up notes and explanations and the report on the activities of the Capital Group

The Capital Group confirmed the validity of the going concern principle in the preparation of the consolidated financial statements. The notes and explanations give a correct and complete description of measurement principles regarding assets, liabilities, financial result and principles of preparation of the consolidated financial statements.

The Parent Company prepared notes in the form of tables to individual items of the consolidated statement of financial position, consolidated statement of comprehensive income as well as narrative descriptions in line with the requirement of IFRS.

The Management Board of Parent Company prepared and supplemented the consolidated financial statements with a report on the activities of the Capital Group in the 2014 financial year. The report contains information required under Article 49 of the Accounting Act and the Ordinance of the Minister of Finance Ordinance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133). We have audited the report with respect to the disclosed information derived directly from the audited consolidated financial statements.

## IV. FINAL NOTES

Management Board's Representations

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received a representation letter from the Parent Company's Management Board, in which the Board stated that the Capital Group complied with the laws in force.

Artur Maziarka
Key certified auditor
conducting the audit
No. 90108 90108

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Artur Maziarka – Vice-President of the Management Board of Deloitte Polska Sp. z o.o.
– which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 10 March 2015

# TAURON POLSKA ENERGIA S.A. CAPITAL GROUP

# CONSOLIDATED FINANCIAL STATEMENTS
# PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS
# FOR THE YEAR ENDED 31 DECEMBER 2014

# TABLE OF CONTENTS

*(in PLN '000)*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|---|
| Sales revenue | **11** | 18 440 763 | 19 131 122 |
| Cost of sales | **12** | (15 512 063) | (15 990 461) |
| **Profit on sale** | | **2 928 700** | **3 140 661** |
| Other operating income | **13** | 233 306 | 127 436 |
| Selling and distribution expenses | **12** | (549 164) | (553 502) |
| Administrative expenses | **12** | (664 187) | (645 406) |
| Other operating expenses | **14** | (118 542) | (135 123) |
| **Operating profit** | | **1 830 113** | **1 934 066** |
| Finance income | **15** | 86 198 | 99 257 |
| Finance costs | **16** | (417 160) | (346 993) |
| Share in profit/(loss) of joint ventures | **21** | (936) | (2 709) |
| **Profit before tax** | | **1 498 215** | **1 683 621** |
| Income tax expense | **17.1** | (312 655) | (337 136) |
| **Net profit** | | **1 185 560** | **1 346 485** |
| | | | |
| **Other comprehensive income subject to reclassification to profit or loss:** | | **(16 123)** | **25 791** |
| Change in the value of hedging instruments | | (20 207) | 33 397 |
| Foreign exchange differences from translation of foreign entities | | 245 | (1 261) |
| Income tax | **17.1** | 3 839 | (6 345) |
| **Other comprehensive income not subject to reclassification to profit or loss:** | | **(274 261)** | **17 697** |
| Actuarial gains/(losses) related to provisions for post-employment benefits | | (338 594) | 21 847 |
| Income tax | **17.1** | 64 333 | (4 150) |
| **Other comprehensive income, net of tax** | | **(290 384)** | **43 488** |
| **Total comprehensive income** | | **895 176** | **1 389 973** |
| | | | |
| **Net profit:** | | | |
| Attributable to equity holders of the parent | | 1 180 893 | 1 308 318 |
| Attributable to non-controlling interests | | 4 667 | 38 167 |
| **Total comprehensive income:** | | | |
| Attributable to equity holders of the parent | | 890 879 | 1 349 123 |
| Attributable to non-controlling interests | | 4 297 | 40 850 |
| | | | |
| **Earnings per share (in PLN):** | **32** | | |
| – basic and diluted, for net profit attributable to equity holders of the parent | | 0.67 | 0.75 |

*Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.*

*(in PLN '000)*

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | **18** | 24 850 942 | 25 127 639 |
| Goodwill | **19** | 195 155 | 247 057 |
| Intangible assets | **20** | 1 604 634 | 1 160 005 |
| Investments in joint ventures | **21** | 414 584 | 44 398 |
| Other financial assets | **22** | 377 383 | 587 166 |
| Other non-financial assets | **23** | 657 943 | 354 704 |
| Deferred tax asset | **17.3** | 62 108 | 46 039 |
| | | **28 162 749** | **27 567 008** |
| **Current assets** | | | |
| Intangible assets | **24** | 733 048 | 1 156 550 |
| Inventories | **25** | 527 596 | 509 224 |
| Corporate income tax receivable | **17.4** | 26 489 | 31 890 |
| Trade and other receivables | **26** | 1 969 169 | 2 134 641 |
| Other financial assets | **22** | 27 539 | 15 878 |
| Other non-financial assets | **27** | 353 989 | 270 429 |
| Cash and cash equivalents | **28** | 1 420 909 | 636 909 |
| Non-current assets and assets of a disposal group classified as held for sale | **29** | 1 337 705 | 33 041 |
| | | **6 396 444** | **4 788 562** |
| **TOTAL ASSETS** | | **34 559 193** | **32 355 570** |

*Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.*

*(in PLN '000)*

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued

| | Note | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Issued capital | **31.1** | 8 762 747 | 8 762 747 |
| Reserve capital | **31.3** | 10 393 686 | 9 037 699 |
| Revaluation reserve from valuation of hedging instruments | **31.5** | (143 019) | (126 651) |
| Foreign exchange differences from translation of foreign entities | | (1 386) | (1 631) |
| Retained earnings/(Accumulated losses) | **31.4** | (1 045 580) | (344 999) |
| | | **17 966 448** | **17 327 165** |
| **Non-controlling interests** | 31.6 | **30 116** | **466 334** |
| **Total equity** | | **17 996 564** | **17 793 499** |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | **35** | 7 422 332 | 5 500 532 |
| Liability under finance lease | **36.2** | 46 443 | 61 643 |
| Trade and other payables | | 48 986 | 7 827 |
| Derivative instruments | **37** | 93 501 | 87 573 |
| Provisions for employee benefits | **38** | 1 948 323 | 1 497 814 |
| Other provisions | **39** | 165 278 | 141 408 |
| Accruals, deferred income and government grants | **40** | 662 072 | 668 487 |
| Deferred tax liability | **17.3** | 1 357 157 | 1 339 057 |
| | | **11 744 092** | **9 304 341** |
| **Current liabilities** | | | |
| Current portion of interest-bearing loans and borrowings | **35** | 631 530 | 284 633 |
| Current portion of liabilities under finance lease | **36.2** | 13 461 | 17 327 |
| Trade and other payables | | 1 866 865 | 2 023 537 |
| Derivative instruments | **37** | 102 615 | 73 358 |
| Provisions for employee benefits | **38** | 158 954 | 162 368 |
| Other provisions | **39** | 1 081 415 | 1 563 019 |
| Accruals, deferred income and government grants | **40** | 245 520 | 239 639 |
| Corporate income tax payable | **17.4** | 13 518 | 79 035 |
| Other non-financial liabilities | **41** | 619 689 | 814 814 |
| Liabilities of a disposal group classified as held for sale | **29** | 84 970 | – |
| | | **4 818 537** | **5 257 730** |
| **Total liabilities** | | **16 562 629** | **14 562 071** |
| **TOTAL EQUITY AND LIABILITIES** | | **34 559 193** | **32 355 570** |

*Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.*

*(in PLN '000)*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## Year ended 31 December 2014

| | Note | Equity attributable to the equity holders of the parent | | | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | | Issued capital | Reserve capital | Revaluation reserve from valuation of hedging instruments | Foreign exchange differences from translation of foreign entities | Retained earnings/ (Accumulated losses) | Total | | |
| **As at 1 January 2014** | | **8 762 747** | **9 037 699** | **(126 651)** | **(1 631)** | **(344 999)** | **17 327 165** | **466 334** | **17 793 499** |
| Profit for the period | | – | – | – | – | 1 180 893 | **1 180 893** | 4 667 | **1 185 560** |
| Other comprehensive income | | – | – | (16 368) | 245 | (273 891) | **(290 014)** | (370) | **(290 384)** |
| **Total comprehensive income for the year** | | **–** | **–** | **(16 368)** | **245** | **907 002** | **890 879** | **4 297** | **895 176** |
| Appropriation of prior year profits | **31.3** | – | 1 355 987 | – | – | (1 355 987) | **–** | – | **–** |
| Dividends | **31.6, 33** | – | – | – | – | (332 984) | **(332 984)** | (1 163) | **(334 147)** |
| Mandatory squeeze-out | **31.6, 34** | – | – | – | – | 5 261 | **5 261** | (32 567) | **(27 306)** |
| Acquisition of non-controlling interests | **31.6, 34** | – | – | – | – | 76 938 | **76 938** | (407 596) | **(330 658)** |
| Change in non-controlling interests due to mergers | **31.6, 34** | – | – | – | – | (811) | **(811)** | 811 | **–** |
| **As at 31 December 2014** | | **8 762 747** | **10 393 686** | **(143 019)** | **(1 386)** | **(1 045 580)** | **17 966 448** | **30 116** | **17 996 564** |

## Year ended 31 December 2013

| | Note | Equity attributable to the equity holders of the parent | | | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | | Issued capital | Reserve capital | Revaluation reserve from valuation of hedging instruments | Foreign exchange differences from translation of foreign entities | Retained earnings/ (Accumulated losses) | Total | | |
| **As at 1 January 2013** | | **8 762 747** | **7 953 021** | **(153 703)** | **(370)** | **(255 014)** | **16 306 681** | **493 339** | **16 800 020** |
| Profit for the period | | – | – | – | – | 1 308 318 | **1 308 318** | 38 167 | **1 346 485** |
| Other comprehensive income | | – | – | 27 052 | (1 261) | 15 014 | **40 805** | 2 683 | **43 488** |
| **Total comprehensive income for the year** | | **–** | **–** | **27 052** | **(1 261)** | **1 323 332** | **1 349 123** | **40 850** | **1 389 973** |
| Appropriation of prior year profits | | – | 1 084 678 | – | – | (1 084 678) | **–** | – | **–** |
| Dividends | **31.6, 33** | – | – | – | – | (350 510) | **(350 510)** | (8 328) | **(358 838)** |
| Mandatory squeeze-out | **31.6** | – | – | – | – | 71 | **71** | (2 083) | **(2 012)** |
| Acquisition of non-controlling interests | **31.6** | – | – | – | – | 20 772 | **20 772** | (55 772) | **(35 000)** |
| Change in non-controlling interests due to mergers | **31.6** | – | – | – | – | 1 672 | **1 672** | (1 672) | **–** |
| Settlement of PKE Broker Sp. z o.o. merger | **31.6** | – | – | – | – | (644) | **(644)** | – | **(644)** |
| **As at 31 December 2013** | | **8 762 747** | **9 037 699** | **(126 651)** | **(1 631)** | **(344 999)** | **17 327 165** | **466 334** | **17 793 499** |

*Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.*

*(in PLN '000)*

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit before taxation** | | **1 498 215** | **1 683 621** |
| **Adjustments for:** | | | |
| Share in (profit)/loss of joint ventures | | 936 | 2 709 |
| Depreciation and amortization | | 1 796 917 | 1 727 069 |
| (Gain)/loss on foreign exchange differences | | 7 257 | 847 |
| Interest and dividens, net | | 286 733 | 220 283 |
| (Gain)/loss on investing activities | | 44 543 | 317 714 |
| Change in receivables | | 111 716 | 924 417 |
| Change in inventories | | (43 868) | 186 768 |
| Change in payables excluding loans and borrowings | | (234 014) | (328 877) |
| Change in other non-current and current assets | | (178 409) | (492 481) |
| Change in deferred income, government grants and accruals | | (67 333) | (115 596) |
| Change in provisions | | (295 463) | 423 730 |
| Income tax paid | | (308 393) | (466 637) |
| Other | | (930) | (4 485) |
| **Net cash from operating activities** | | **2 617 907** | **4 079 082** |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property, plant and equipment and intangible assets | | 47 800 | 29 785 |
| Purchase of property, plant and equipment and intangible assets | **43.1** | (3 464 578) | (3 933 673) |
| Proceeds from sale of other financial assets | **43.1** | 38 264 | 4 237 |
| Advance payments for acquisition of shares in a subsidiary | | – | (232 500) |
| Purchase of other financial assets | | (6 684) | (4 920) |
| Dividends received | | 3 931 | 18 323 |
| Interest received | | 1 068 | 40 |
| Repayment of loans granted | | 11 700 | 46 800 |
| Loans granted | | (18 050) | (108 800) |
| Other | | (184) | 220 |
| **Net cash used in investing activities** | | **(3 386 733)** | **(4 180 488)** |
| **Cash flows from financing activities** | | | |
| Payment of finance lease liabilities | | (20 622) | (14 911) |
| Proceeds from loans and borrowings | | – | 452 325 |
| Repayment of loans and borrowings | **43.2** | (169 971) | (141 226) |
| Issue of debt securities | **43.2** | 3 653 234 | – |
| Redemption of debt securities | **43.2** | (1 148 200) | – |
| Dividends paid to equity holders of the parent | **33** | (332 984) | (350 510) |
| Dividends paid to non-controlling interests | **33** | (1 233) | (8 047) |
| Interest paid | **43.2** | (273 392) | (229 431) |
| Acquisition of non-controlling interests | **43.2** | (125 402) | (37 021) |
| Subsidies received | | 63 139 | 89 024 |
| Other | | (8 820) | (9 303) |
| **Net cash from (used in) financing activities** | | **1 635 749** | **(249 100)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **866 923** | **(350 506)** |
| Net foreign exchange difference | | (177) | (1 858) |
| **Cash and cash equivalents at the beginning of the period** | **28** | **541 148** | **891 654** |
| **Cash and cash equivalents at the end of the period, of which:** | **28** | **1 408 071** | **541 148** |
| restricted cash | **28** | 116 568 | 121 129 |

*Accounting principles (policy) and notes to the consolidated financial statements constitute an integral part hereof.*

# INTRODUCTION

## 1. General information about the TAURON Polska Energia S.A. Capital Group and its Parent

The TAURON Polska Energia S.A. Capital Group ("the Group", "the Capital Group". "the TAURON Group") is composed of TAURON Polska Energia S.A. ("Parent", "Company") and its subsidiaries located in Katowice at ul. ks. Piotra Ściegiennego 3. The Company operates as a joint-stock company incorporated by a notarized deed on 6 December 2006. Until 16 November 2007 the Company had operated under the name Energetyka Południe S.A.

The Parent has been entered in the Register of Entrepreneurs of the National Court Register kept by the District Court for Katowice-Wschód, Business Division of the National Court Register, Entry No. KRS 0000271562. The Parent was assigned statistical number REGON: 240524697.

Duration of the Parent and companies in the Capital Group is unlimited. The operations are based on relevant concessions granted to individual companies of the Group.

The core business of the TAURON Group includes the following segments: Mining, Generation, Renewable Sources of Energy, Distribution, Sale, Heat, Customer Service and other operations, as discussed in detail in Note 10 to these consolidated financial statements.

The consolidated financial statements of the Group cover the financial year ended 31 December 2014 and include comparable data for the year ended 31 December 2013.

These consolidated financial statements were approved for publication on 10 March 2015.

### *Composition of the Management Board*

As at 31 December 2014 the composition of the Company's Management Board was as follows:

- Dariusz Lubera – President of the Management Board;
- Aleksander Grad – Vice-President of the Management Board;
- Katarzyna Rozenfeld – Vice-President of the Management Board;
- Stanisław Tokarski – Vice-President of the Management Board;
- Krzysztof Zawadzki – Vice-President of the Management Board.

As at the date of approval of these consolidated financial statements for publication the composition of the Management Board has not changed. Changes in the composition of the Management Board in the year ended 31 December 2014 have been presented in the Management Board's report on the activities of the TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2014 (Section 6.11.1).

## 2. Composition of the TAURON Capital Group

As at 31 December 2014, TAURON Polska Energia S.A. directly and indirectly held the following shares in key subsidiaries:

*(in PLN '000)*

| Item | Company name | Registered office | Segment | Interest in the share capital and in the decision-making body held by TAURON |
|---|---|---|---|---|
| 1 | TAURON Wydobycie S.A. | Jaworzno | Mining | 100.00% |
| 2 | TAURON Wytwarzanie S.A. | Katowice | Generation | 100.00% |
| 3 | TAURON Ekoenergia Sp. z o.o.[1] | Jelenia Góra | Renewable sources of energy | 100.00% |
| 4 | TAURON Dystrybucja S.A. | Kraków | Distribution | 99.71% |
| 5 | TAURON Dystrybucja Serwis S.A.[2] | Wrocław | Distribution | 99.71% |
| 6 | TAURON Dystrybucja Pomiary Sp. z o.o.[2] | Tarnów | Distribution | 99.71% |
| 7 | TAURON Sprzedaż Sp. z o.o. | Kraków | Sales | 100.00% |
| 8 | TAURON Sprzedaż GZE Sp. z o.o. | Gliwice | Sales | 100.00% |
| 9 | TAURON Czech Energy s.r.o. | Ostrawa, Czech Republic | Sales | 100.00% |
| 10 | TAURON Ciepło Sp. z o.o.[3] | Katowice | Heat | 100.00% |
| 11 | TAURON Obsługa Klienta Sp. z o.o. | Wrocław | Customer service | 100.00% |
| 12 | Kopalnia Wapienia Czatkowice Sp. z o.o. | Krzeszowice | Other | 100.00% |
| 13 | Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. w likwidacji[4] | Tarnów | Other | 100.00% |
| 14 | TAURON Sweden Energy AB (publ) | Sztokholm, Sweden | Other | 100.00% |

[1] On 2 January 2014, a business combination under common control of TAURON Ekoenergia Sp. z o.o., MEGAWAT MARSZEWO Sp. z o.o. and BELS INVESTMENT Sp. z o.o. was registered.

[2] TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Serwis S.A. and TAURON Dystrybucja Pomiary Sp. z o.o. through a subsidiary TAURON Dystrybucja S.A. Additionally, TAURON Polska Energia S.A. uses shares held by TAURON Dystrybucja S.A.

[3] On 30 April 2014, a business combination under common control of Enpower Service Sp. z o.o. and TAURON Ciepło S.A. was registered. At the same time, the name of the acquirer has been changed to TAURON Ciepło Sp. z o.o.

[4] On 2 July 2 the company was put under liquidation.

Additionally, as at 31 December 2014, TAURON Polska Energia S.A. held direct and indirect shares in the following major jointly-controlled entities:

| Item | Company name | Registered office | Segment | Interest in the share capital and in the decision-making body held by TAURON |
|---|---|---|---|---|
| 1 | Elektrociepłownia Stalowa Wola S.A.[1] | Stalowa Wola | Heat | 50.00% |
| 2 | Elektrownia Blachownia Nowa Sp. z o.o.[1] | Kędzierzyn Koźle | Generation | 50.00% |
| 3 | TAMEH HOLDING Sp. z o.o. | Dąbrowa Górnicza | Generation | 50.00% |
| 4 | TAMEH POLSKA Sp. z o.o.[2] | Dąbrowa Górnicza | Generation | 50.00% |
| 5 | TAMEH Czech s.r.o.[2] | Ostrawa, Czech Republic | Generation | 50.00% |

[1] TAURON Polska Energia S.A. holds indirect interest in Elektrociepłownia Stalowa Wola S.A. and Elektrownia Blachownia Nowa Sp. z o.o. through a subsidiary TAURON Wytwarzanie S.A.

[2] TAURON Polska Energia S.A. holds indirect interest in TAMEH POLSKA Sp. z o.o. and TAMEH Czech s.r.o. through a jointly-controlled entity TAMEH HOLDING Sp. z o.o.

# STATEMENT OF COMPLIANCE WITH IFRS

## 3. Statement of compliance

These consolidated financial statements have been prepared in compliance with the requirements of the International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU").

The IFRS consist of standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee.

The Group companies and the Parent keep their accounting records and prepare financial statements in compliance with the International Financial Reporting Standards ("IFRS"), except for TAURON Czech Energy s.r.o. and TAURON Sweden Energy AB (publ), which keep their accounting records and prepare financial statements in line with accounting policies applicable in the Czech Republic and Sweden, respectively.

The consolidated financial statements include amendments not recognized in the accounting records of the Group companies, introduced in order to achieve compliance of the consolidated financial statements with IFRS.

## 4. Going concern

The consolidated financial statements have been prepared in accordance with the going concern principle regarding the Group companies, except for Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation. As at the date of approving these financial statements no circumstances have been detected that could put the going concern operation of the remaining Group's companies at risk.

## 5. Functional and presentation currency

The Polish zloty has been used as the presentation currency of these consolidated financial statements and the functional currency of the Parent and subsidiaries covered by the consolidated financial statements, except for TAURON Czech Energy s.r.o. and TAURON Sweden Energy AB (publ). The functional currency of TAURON Czech Energy s.r.o. is the Czech koruna ("CZK"), and the functional currency of TAURON Sweden Energy AB (publ) is euro ("EUR"). Individual items of the financial statements of TAURON Czech Energy s.r.o. are translated to the presentation currency of the TAURON Group using applicable exchange rates.

These consolidated financial statements have been presented in the Polish zloty ("PLN") and all figures are in PLN thousand, unless stated otherwise.

# SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (POLICIES) APPLIED

## 6. Material values based on professional judgment and estimates

When applying accounting policy to the issues mentioned below, professional judgment of the management, along with accounting estimates, have been of key importance; they have impacted figures disclosed in the financial statements and in the explanatory notes. Assumptions underlying the estimates have been based on the Management Board's best knowledge of current and future actions and events in individual areas. Detailed information regarding assumptions adopted is presented in notes to these consolidated financial statements.

Presented below are the main assumptions concerning the future and other key uncertainties as at the end of the reporting period posing the risk of material adjustment of the carrying amount of assets and liabilities in the next financial year.

***Impairment of assets***

In accordance with IAS 36, the Group carried out impairment tests for operating segments, including goodwill and impairment tests for non-current assets and intangible assets as at 31 December 2014. The tests required estimating the value in use of the segments, based on future cash flows generated thereby, adjusted to the present value using a discount rate. Impairment tests of production assets for individual cash generating units ("CGU") took into account changes in macroeconomic and sector assumptions, low sales prices of electricity, changes in useful lives of production units in the Generation segment and a decision not to carry out a planned biomass investment project in Elektrownia Stalowa Wola.

Following the tests, the Group recognized an impairment loss of PLN 54 901 thousand for property, plant and equipment of the Generation segment. The assumptions and significant information concerning impairment tests have been presented in Notes 18, 19 and 20 hereto.

***Provision for gas emission liabilities***

According to the accounting policy adopted, the provision for liabilities arising from emission of gas included in the allowance distribution plan is charged to operating expenses if the actual emission level exceeds the volume of emission allowances received free of charge and held by the TAURON Group, including allocation of free-of-charge emission allowances to installations belonging to individual operating segments. The provision for costs of covering the deficit is established in the amount of allowances acquired or contracted to cover the allowance deficit and in relation to unsecured allowance deficit (if any); the provision is determined based on market prices as at the end of the reporting period.

In 2014, the Group adjusted the estimated provision for gas emission liabilities for 2013 recognized as at 31 December 2013 in the amount of PLN 461 123 thousand by PLN 2 239 thousand. In 2014 the provision recognized was utilized due to surrendering allowances, with no effect on the profit.

In April 2014 the Group was awarded 1 275 401 requested allowances due to generation of heat and 11 925 960 allowances due to electricity generation. In the calculation of provisions for gas emission liabilities for the year 2014 the Group has accounted for the entire amount of received allowances first. Then, 964 995 heat allowances for 2014 received free of charge and recorded on the accounts of the National Emission Allowance Register have been accounted for in the entire amount. Pursuant to the Ordinance of the Council of Ministers of 10 April 2014 *on the list of electricity generating facilities covered by the system of trading in greenhouse gas emission allowances in the settlement period beginning on 1 January 2013, indicating the number of allowances awarded*, electricity allowances granted for 2014 with relation to the facilities of the TAURON Group were accounted for in the calculation of the provision for the obligation to surrender emission allowances for 2014.

As the allowances awarded and allocated to the Generation segment exceed the actual emission in 2014, the Group has not recognized a provision for gas emission liabilities for the Generation segment for 2014. The actual emission of the Heat segment in 2014 was higher than the allowances received free of charge, hence a provision of PLN 8 130 thousand was recognized for the shortage which will be covered with purchased allowances. The estimated provision equals the carrying amount of allowances intended for surrendering due to emission in 2014 disclosed in current intangible assets.

Additional information concerning emission allowances has been provided in Note 30 to the consolidated financial statements and details of changes in provisions – in Note 39.1.

*(in PLN '000)*

***Estimation of the revenue from the sale of electricity and distribution services in the Sales segment***

Following the prudence principle at each reporting date the Group estimates the revenue from sale of electricity and distribution services for the reporting period, which will be billed in the following period due to fact that the settlement cycle specified in agreements with individual buyers is one month longer. Additional sales are assessed using a weighted average sales price of electricity.

Electricity meters showing the electricity volume sold to individual buyers are read and invoices are issued in periods not corresponding to reporting periods. Therefore, the Group companies from the Sales segment make appropriate estimates of sales as each reporting date.

Additional assessment of the revenue from the sale of electricity and distribution services has been discussed in Note 9.28 Sales revenue.

As at 31 December 2014 additionally assessed revenue from sale of electricity and distribution services in the Sales segment reached PLN 148 659 thousand, and taking into accont the reversal of the previous year estimations, the impact on the current year profit or loss amounted to minus PLN 24 740 thousand.

***Depreciation and amortization rates***

The depreciation and amortization rates and charges are based on projected economic useful life of property, plant and equipment and intangible assets and estimates regarding their residual value.

Every year the Group companies review the adopted useful lives based on the current estimates. Following the review of useful lives of fixed assets and intangible assets carried out in 2014 amortization and depreciation costs were reduced in 2014 (PLN 31 772 thousand), with the following impact on individual segment costs:

- a decrease in amortization and depreciation costs in the Mining segment of PLN 3 247 thousand;
- a decrease in amortization and depreciation costs in the Generation segment of PLN 22 444 thousand;
- a decrease in amortization and depreciation costs in the Renewable Sources of Energy segment of PLN 2 733 thousand;
- a decrease in amortization and depreciation costs in the Distribution segment of PLN 6 500 thousand;
- an increase in amortization and depreciation costs in the Heat segment of PLN 3 152 thousand.

The review of the economic useful lives in other segments did not considerably affect depreciation and amortization costs in 2014.

***Measurement of provisions for employee benefits***

Provisions for employee benefits have been estimated using actuarial methods. Moreover, the Group recognized provisions for benefits resulting from Voluntary Redundancy Programs. A detailed description of the provisions in question has been provided in Note 38.

Key actuarial assumptions made as at the reporting date for the purpose of the provision calculation:

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Discount rate (%) | 2.25% | 4.00% |
| Estimated inflation rate (%) | 2.35% | 2.50% |
| Employee rotation rate (%) | 1.25% – 10.63% | 1.03% – 11.94% |
| Estimated salary increase rate (%) | 1.40% – 2.79% | 2.00% – 2.90% |
| Estimated electricity price increase rate (%) | 4.80% | 3.50% |
| Estimated increase rate for contribution to the Social Fund (%) | 4.50% | 4.50% |
| Remaining average employment period | 9.00 – 15.30 | 7.44 – 15.30 |

As at 31 December 2014 the Group carried out sensitivity analysis of measurement results to changes in the financial discounting rates and changes in the planned increases in the base amounts in the range of -0,5 p.p./+0,5 p.p.

*(in PLN '000)*

Carrying amounts of individual provisions and provisions calculated based on changed assumptions have been presented below:

| Provision title | Carrying amount | Financial discount rate | | Planned base increases | |
|---|---|---|---|---|---|
| | | -0.5 p.p. | +0.5 p.p. | -0.5 p.p. | +0.5 p.p. |
| Provision for retirement, disability and similar benefits | 357 017 | 372 800 | 328 605 | 328 514 | 372 766 |
| Employee electricity rates | 769 975 | 831 244 | 698 445 | 695 842 | 833 372 |
| Costs of appropriation to Social Benefits Fund | 170 242 | 185 383 | 154 976 | 154 387 | 185 908 |
| Coal allowances | 67 661 | 74 265 | 61 941 | 64 793 | 70 650 |
| Jubilee bonuses | 679 510 | 699 436 | 640 353 | 640 997 | 700 822 |
| **Total** | **2 044 405** | **2 163 128** | **1 884 320** | **1 884 533** | **2 163 518** |

The table below presents carrying amounts of individual provisions and how these carrying amounts would change with different assumptions applied:

| Provision title | Carrying amount | Deviations | | | |
|---|---|---|---|---|---|
| | | Financial discount rate | | Planned base increases | |
| | | -0.5 p.p. | +0.5 p.p. | -0.5 p.p. | +0.5 p.p. |
| Provision for retirement, disability and similar benefits | 357 017 | 15 783 | (28 412) | (28 503) | 15 749 |
| Employee electricity rates | 769 975 | 61 269 | (71 530) | (74 133) | 63 397 |
| Costs of appropriation to Social Benefits Fund | 170 242 | 15 141 | (15 266) | (15 855) | 15 666 |
| Coal allowances | 67 661 | 6 604 | (5 720) | (2 868) | 2 989 |
| Jubilee bonuses | 679 510 | 19 926 | (39 157) | (38 513) | 21 312 |
| **Total** | **2 044 405** | **118 723** | **(160 085)** | **(159 872)** | **119 113** |

Discount rate reduction by 0.5 percentage point and application of a discount rate of 1.75% would result in an increase in the provision for employee benefits from PLN 2 044 405 thousand to PLN 2 163 128 thousand, i.e. by PLN 118 723 thousand, where PLN 19 926 thousand would be charged to profit or loss and the effect of the remaining change, i.e. PLN 98 797 thousand would be recognized in other comprehensive income.

Discount rate increase of 0.5 percentage point and application of a discount rate of 2.75% would result in a decrease in the provision for employee benefits from PLN 2 044 405 thousand to PLN 1 884 320 thousand, i.e. by PLN 160 085 thousand, where PLN 39 157 thousand would be charged to profit or loss (an increase) and the effect of the remaining change, i.e. PLN 120 928 thousand would be recognized in other comprehensive income (an increase).

***Provision for the obligation to surrender energy certificates***

Due to the sales of electricity to end users, as at 31 December 2014 the Group was required to surrender a number of certificates of electricity generated using renewable sources and in gas, methane and other cogeneration as well as energy efficiency certificates.

As at 31 December 2014, the Group recognized a short-term provision for the obligation to surrender energy certificates for cancellation of PLN 914 926 thousand, as compared to PLN 905 561 thousand as at 31 December 2013.

For the portion covered by energy certificates as at the reporting date with the value of PLN 724 918 thousand disclosed as current intangible assets the Group recognized a provision in the carrying amount of these certificates. The Group intends to purchase certificates in order to fulfil a portion of the estimated obligation to surrender certificates of energy produced in cogeneration of PLN 17 372 thousand. The remaining portion of the obligation to surrender certificates of energy produced in cogeneration and energy efficiency certificates of PLN 172 636 thousand will be fulfilled by payment of a substitution fee.

***Write-downs of inventories of energy certificates***

In the year ended 31 December 2014 the Group recognized write-downs of inventories for the entire value of 77 000 certificates of energy generated using renewable sources due to the risk that the certificates will not be awarded to TAURON Wytwarzanie S.A., which reduced the Group's profit by PLN 13 750 thousand.

At the same time, the Group used write-downs of inventories of PLN 45 763 thousand recognized in 2013 for certificates of energy generated in cogeneration fuelled with gaseous fuels and from other cogeneration, received before the amended Energy Law of 14 March 2014 came into force. The write-downs were utilized because, in accordance with Article 5.2 of the Act in question, companies in the Group cannot surrender the certificates, what is more, the certificates are no longer admitted for trading on the Polish Power Exchange, hence they will not bring any economic benefits to the Group.

***Deferred tax asset***

Deferred tax asset is measured using tax rates to be applied as at the moment of its probable realization, assuming tax regulations effective as at the balance sheet date. The Group recognizes the deferred tax asset based on the assumption that it will generate tax profit sufficient to apply the asset. Deterioration of future tax performance could make the assumption groundless.

Based on the forecasts prepared for the Tax Capital Group ("TCG"), according to which taxable income will be earned in 2015 and in subsequent years, it has been concluded that there is no risk that the deferred tax asset recognized in these consolidated financial statements will not be realized.

***Measurement of provision for mine decommissioning costs***

The provision is recognized for mines included in the Group based on estimated costs of liquidating buildings and reclaiming land after completion of the exploitation process. The provisions are estimated based on analysis prepared using deposit exploitation projections (for mines) and technical and business analysis.

Provision for mine decommissioning costs has been presented in detail in Note 42 to the consolidated financial statements, and the changes in the provision – in Note 39.2.2.

***Measurement of derivatives***

Fair value of currency forwards is based on discounted future cash flows from the concluded transactions based on the difference between the forward price and transaction price. The forward price is calculated based on the fixing of the National Bank of Poland and the curve implied by FX Swap transactions.

Fair value of interest rate swaps is based on discounted future cash flows from the concluded transactions based on the difference between the forward price and the transaction price. The forward price is calculated based on a zero coupon yield curve.

The fair value of forwards for acquisition and sale of power, emission allowances and other goods (currently: Gasoil) is based on prices quoted in an active market.

The fair value of hedging derivatives subject to hedge accounting and derivatives measured at fair value through profit or loss as described above has been presented in Note 49.1.

***Allowances of receivables***

As at the balance sheet date, the Group checks its receivables or groups of receivables for objective evidence of impairment. If the recoverable amount of an asset is lower than its carrying amount, an entity recognizes an allowance up to the level of the current value of planned cash flows.

Detailed information on allowances for trade and other receivables has been presented in Note 50.1.1 hereto.

## 7. New accounting standards and interpretations

The following revised standards issued by the International Accounting Standards Board ("IASB") and the interpretation issued by the International Financial Reporting Interpretations Committee ("IFRIC")have been endorsed by the European Union ("EU"), but are not yet effective:

- IFRIC 21 *Levies* (published on 20 May 2013, endorsed by the EU on 13 June 2014). IFRIC 21 is an interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – applicable in the EU to annual periods beginning on or after 17 June 2014;
- Revised IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions* published by the IASB on 21 November 2013, endorsed by the EU on 17 December 2014 and applicable in the EU to annual periods beginning on or after 1 February 2015;
- *Annual Improvements to IFRS (Cycle 2010–2012)* – published by the IASB on 12 December 2013, endorsed by the EU on 17 December 2014 and applicable in the EU to annual periods beginning on or after 1 February 2015;
- *Annual Improvements to IFRS (Cycle 2011–2013)* – published by the IASB on 12 December 2013, endorsed by the EU on 18 December 2014 and applicable in the EU to annual periods beginning on or after 1 January 2015.

New standards and revised standards issued by the International Accounting Standards Board ("IASB") which have not been endorsed by the European Union and are not yet effective:

- IFRS 9 *Financial Instruments* was published by the IASB on 24 July 2014 and applies to annual periods beginning on or after 1 January 2018. The standard introduces a business model-based approach to classification and measurement of financial assets and the characteristics of cash flows. IFRS 9 provides a new loss impairment model which requires a more timely disclosure of expected credit losses. The new model also assumes a standardized impairment approach applied to all financial instruments. Moreover, IFRS 9 includes an enhanced general hedge accounting model. The amendments are aimed at adjusting the principles of recognizing risk management issues in financial statements and enable more adequate presentation of actions taken in the financial statements.
- IFRS 14 *Regulatory Deferral Accounts* was published by the IASB on 30 January 2014 and applies to annual periods beginning on or after 1 January 2016. IFRS 14 has been introduced as a transitional standard for first-time adopters;
- IFRS 15 *Revenue from Contracts with Customers* was published by the IASB on 28 May 2014 and applies to annual periods beginning on or after 1 January 2017. IFRS specifies how and when an IFRS reporter will recognize revenue and requires such entities to provide users of financial statements with more informative, relevant disclosures. The Standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of interpretations concerning revenue recognition;
- Revised IFRS 10 *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* were published by the IASB on 11 September 2014 and apply to annual periods beginning on or after 1 January 2016;
- Revised IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investment Entities: Applying the Consolidation Exception* published on 18 December 2014 and applicable to annual periods beginning on or after 1 January 2016;
- Revised IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations* – published by the IASB on 6 May 2014 and applicable to annual periods beginning on or after 1 January 2016. The amendments provide new guidelines on accounting for acquisitions of interests in joint operations constituting businesses;
- Revised IAS 1 *Presentation of Financial Statements – Disclosure Initiative* published on 18 December 2014 and applicable to annual periods beginning on or after 1 January 2016;
- Revised IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization* published by the IASB on 12 May 2014 and applicable to annual periods beginning on or after 1 January 2016;
- Revised IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture: Bearer Plants* published by the IASB on 30 June 2014 and applicable to annual periods beginning on or after 1 January 2016;
- Revised IAS 27 *Separate Financial Statements: Equity Method in Separate Financial Statements* – published by the IASB on 12 August 2014 and applicable to annual periods beginning on or after 1 January 2016;
- *Annual Improvements to IFRS (Cycle 2012–2014)* – published by the IASB on 25 September 2014, applicable to annual periods beginning on or after 1 January 2016.

At the same time, hedge accounting of the portfolio of financial assets and liabilities remains beyond the scope of EU-approved regulations.

The Group has analyzed the impact of the abovementioned standards, revised standards and interpretations on the accounting policies applied and carried out preliminary analysis of the impact of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* published in 2014.

Preliminary analysis of IFRS 15's impact on the accounting policies applied has shown that the new standard changes the method of accounting for contracts with customers, in particular if services and goods are provided under a single contract, which may be particularly important for the Sales segment. The new guidelines of IFRS 15 may result in the need to change the systems, but before the standard enters into force the Group intends to carry out a five-step analysis of contracts with customers including contract (or contract group) identification, indication of individual liabilities, determining prices, assigning them to individual liabilities and revenue recognition. The new standard requires considerably more detailed disclosure of sales and revenue in financial statements.

Preliminary analysis of IFRS 9's impact on the accounting policies applied indicates one change important for the Group, i.e. replacing the existing classification and measurement models under IAS 39 with a single classification model assuming two categories only, i.e. amortized cost or fair value. IFRS 9 classification complies with the business model applied to manage financial assets. Additionally, the standard introduces a new hedge accounting model which requires detailed risk management disclosures.

According to the Management Board, the introduction of other aforementioned standards, revised standards and interpretations will not materially affect the accounting principles (policies) adopted by the Group. In view of the significant scope of changes, the Group has further analyzed the impact of IFRS 15 and IFRS 9 on the consolidated financial statements.

The Group has not decided to early adopt any standards or interpretations which have been published but not entered into force yet.

## 8. Changes to accounting policies

The accounting principles (policies) adopted for the preparation of these consolidated financial statements are consistent with those adopted for the preparation of the consolidated financial statements of the Group for the year ended 31 December 2013, except for the following new and revised standards applicable to annual periods beginning on 1 January 2014:

- IFRS 10 *Consolidated financial statements;*
- IFRS 11 *Joint Arrangements;*
- IFRS 12 *Disclosure of Interests in Other Entities;*
- IAS 27 *Separate Financial Statements;*
- IAS 28 *Investments in Associates and Joint Ventures*;
- Revised IFRS 10, IFRS 11 and IFRS 12 *Transition Disclosures;*
- Revised IFRS 10, IFRS 12 and IAS 27 *Investment Vehicles*;
- Revised IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*;
- Revised IAS 36 *Impairment of Assets: Disclosure of Recoverable Amount of Non-financial Assets*;
- Revised IAS 39 *Financial Instruments: Recognition and Measurement – Novation of derivatives and continuation of hedge accounting*.

The Company analyzed the impact of the aforementioned standards, revised standards on the accounting policies applied by the Group.

The Company finds new IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements* particularly important for the Group. Consequently, the Company has carried out analysis of these standards' impact on measurement and presentation principles applied to shares in jointly controlled entities disclosed in the consolidated financial statements. The following conclusions have been drawn from the analysis:

- no factors indicating that the Company independently controls Elektrociepłownia Stalowa Wola S.A., Elektrownia Blachownia Nowa Sp. z o.o. and TAMEH HOLDING Sp. z o.o. have been identified. As independent power over the investee is a *sine qua non* condition for control, as defined in the IFRS 10, according to the Company, TAURON Polska Energia S.A. does not control these entities and these companies should not be consolidated using the full method;
- According to the Company, its investments in Elektrociepłownia Stalowa Wola S.A., Elektrownia Blachownia Nowa Sp. z o.o. and TAMEH HOLDING Sp. z o.o. constitute joint arrangements in line with IFRS 11, which should be classified as joint ventures and disclosed in the consolidated financial statements using the equity method. Therefore, the measurement and presentation of these investees is not changed.

According to the Management Board the application of the remaining standards and revised standards in question has not materially impacted the existing accounting policy.

*(in PLN '000)*

## 9. Significant accounting policies

These consolidated financial statements have been prepared on the historical cost basis, except for derivative instruments and financial assets available for sale which are measured at fair value.

### 9.1. Consolidation principles

The consolidated financial statements cover the financial data of TAURON Polska Energia S.A. and its subsidiaries prepared for individual entities for the years ended 31 December 2014 and 31 December 2013. The financial statements of the subsidiaries (including adjustments required to ensure compliance with IFRS) are prepared for the same reporting period as those of the Parent, using consistent accounting principles and based on a uniform accounting policy for similar business transactions and economic events.

All material balances and transactions between the Group companies, including unrealized gains on transactions within the Group, have been eliminated in full.

Subsidiaries have been included in consolidation since the date of assuming control by the Group and are eliminated from consolidation as of the date of control loss. The Parent exercises control over an entity when it holds, directly or indirectly through its subsidiaries, more than a half of the votes in the entity, unless it can be proven that such voting rights are not equivalent to exercising control. The investor controls the investee if the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns. The investor may also control the investee if the Parent holds less than a majority of the voting rights of the subsidiary.

### 9.2. Translation of items denominated in foreign currencies

Foreign currency transactions are translated into PLN at initial recognition at the exchange rate applicable as at the transaction date. As at the end of the reporting period:

- Monetary items denominated in foreign currencies are translated at the closing rate as at the date (the average exchange rate published by the National Bank of Poland as at the date);
- Non-monetary items measured at cost and denominated in foreign currencies are translated at the exchange rate of the initial transaction date (the rate of the bank used by the enterprise); and
- Non-monetary items measured at fair value and denominated in foreign currencies are translated at the exchange rate of the fair value determining date.

Exchange differences from translation are recognized in the financial revenue (or expenses), or, in cases specified in the accounting principles (policy), in the assets. Non-monetary assets and liabilities recognized at historical cost denominated in a foreign currency are disclosed at the historical exchange rate applicable as of the transaction date.

Exchange rates applied for the purpose of balance sheet measurement:

| Currency | 31 December 2014 | 31 December 2013 |
|---|---|---|
| USD | 3.5072 | 3.0120 |
| EUR | 4.2623 | 4.1472 |
| CZK | 0.1537 | 0.1513 |

### 9.3. Property, plant and equipment

Property, plant and equipment are measured at cost less depreciation charges and impairment losses. The initial value of fixed assets includes their cost increased by all expenses directly related to the purchase and bringing the asset to a usable condition. The cost also includes projected cost of disassembly of property, plant and equipment, their removal, and restoration of their current location to its initial condition, the obligation for which an entity incurs at the moment of installing the asset or its using for purposes other than production of inventories. Costs incurred after the date of commissioning, such as costs of maintenance and repair, are charged to profit or loss, when incurred.

All material elements included in an asset but with various useful lives (components) are identified and separated as at the date of acquisition of a property, plant and equipment item. Components also include costs of overhauls, periodic inspections, if their amount is material; and costs of replacing their key parts.

The Group recognizes specialized spare parts and service equipment as separate items of property, plant and equipment if their useful life exceeds one year. Other spare parts and service equipment are recognized as inventories and recognized through profit or loss upon use, except for costs of parts replacement qualified as an overhaul of an asset item.

Depreciation charges are calculated at cost of the given asset less its residual value. Depreciation begins when a given asset is available for use. Depreciation of fixed assets is based on a depreciation plan determining the projected useful life of each asset. The depreciation method applied reflects the manner of consuming economic benefits generated by the asset.

Specialized spare parts and service equipment recognized as property, plant and equipment are depreciated over the remaining useful life of the asset they refer to.

The following average useful life periods are assumed for fixed assets:

| Asset group | Average remaining depreciation period (number of years) |
|---|---|
| Buildings, premises, civil and water engineering structures | 16 years |
| Plant and machinery | 12 years |
| Other tangible fixed assets | 4 years |

Depreciation method and rate, as well as the residual value are verified at least at the end of each financial year. Any changes resulting from the review are recognized as estimate changes. Property, plant and equipment are tested for impairment if there is any indication of impairment. Depreciation charges are recognized in profit or loss in an appropriate category corresponding to the function of a given asset item.

An item of property, plant and equipment may be derecognized from the statement of financial position after its disposal or when the entity does not expect any economic benefits from the further use of the asset. All gains or losses arising from derecognition of an asset from the statement of financial position are recognized in profit or loss in the period of such derecognition.

Fixed assets under construction are measured at cost less impairment losses. Fixed assets under construction are not depreciated until completion of the construction and commissioning. The value of fixed assets under construction includes financial expenses subject to capitalization. The issue is described in detail in Note 9.7.

Segment fixed assets used directly for production and ensuring continuity of the production process, which are of key importance to the Group, include:

- in the Generation segment: boilers with accessories, turbines with generators, transformers and thermal stations as well as equipment used for purposes of fuel unloading and transportation, pumping stations and sulfur-recovery facilities;
- in the Distribution segment: power lines and stations. Power lines are located on the area of 58,000 square meters, with the total length of ca. 258,000 km;
- in the Heat segment: thermal stations, equipment used for purposes of fuel unloading and transportation as well as pumping stations and water treatment facilities;
- in the Mining segment: mechanized lining, pit shafts and dip-headings. Fixed assets key for processing are located in the mine walls and the coal processing plant;
- in the Renewable Sources of Energy segment: wind farms, water turbine sets as well as weirs and dams.

### 9.4. Goodwill

Goodwill from business combination is initially recognized at cost constituting the surplus

- of the sum of:
  - consideration made and
  - all non-controlling interest in the acquiree
- over the net value of identifiable assets acquired and liabilities assumed as at the acquisition date.

As at the acquisition date the goodwill acquired is allocated to each cash-generating unit that derives benefits from synergy effects. Each cash-generating unit with allocated goodwill:

- corresponds to the lowest level in the TAURON Group with goodwill monitored for internal management purposes, and
- is not larger than one operating segment of the TAURON Group defined in line with IFRS 8 *Operating Segments* before aggregation for financial reporting purposes.

Following the initial recognition the goodwill is recognized at cost less any accumulated impairment losses. Goodwill is not subject to amortization. Impairment tests are carried out on an annual basis or more frequently, if any indications of impairment occur. The test consists in comparing a recoverable amount of a cash-generating unit with allocated goodwill against its carrying amount.

### 9.5. Intangible assets

Intangible assets include identifiable non-cash assets without a tangible form, such as acquired property rights classified as non-current assets, suitable for business use, with projected useful life exceeding one year, intended for internal use.

Intangible assets are measured at cost at initial recognition. Following the initial recognition, intangible assets are measured at cost less accumulated amortization charges and impairment losses.

Intangible assets with determined useful life are amortized over the period of their estimated use and tested for impairment each time when impairment indications occur. The period and method of amortization of intangible assets with determined useful life are verified at least at the end of each financial year. Changes in the expected useful life or the manner of consuming the economic benefits derived from a given intangible asset are regarded as changes in the estimated values. Amortization charges of intangible assets with determined useful life are recognized in profit or loss in an appropriate cost category corresponding to the function of a given intangible asset item.

Intangible assets with undetermined useful life and those unused are tested for impairment annually.

All intangible assets produced by the Group, except for development expenses, are not capitalized and therefore they are recognized in profit or loss for the period in which the related costs were incurred.

The following average useful life periods are assumed for intangible assets:

| Asset group | Average remaining amortization period (number of years) |
|---|---|
| Development expenses | 2 years |
| Software, concessions, patents, licenses and similar items | 3 years |
| Other | 9 years |

Special intangible asset items of the Group include energy certificates, emission allowances and acquired right of perpetual usufruct of land, which is not amortized because its residual value is close to the carrying amount, and the transmission service easement.

#### 9.5.1. Energy certificates

Certificates of energy generated using renewable sources and in cogeneration acquired or received due to production, designated for internal purposes and, acquired for surrendering purposes due to the sale of electricity to end buyers are classified to intangible assets.

Certificates of energy generated using renewable sources, in cogeneration or from natural gas sources designated for internal purposes acquired or received due to production are classified to intangible assets and measured at cost or fair value at the date of receipt.

The Group classifies energy certificates as non-current or current intangible assets. If the Group intends to surrender energy certificates acquired or received from production in order to meet the obligation to surrender certificates for a given year, it classifies such items to current intangible assets, while if it plans to meet the obligation in the following years, it recognizes them under non-current intangible assets. Certificates are classified based on the intended use at the acquisition date, still in justified cases they may be reclassified to or from the current or the non-current category.

#### 9.5.2. Greenhouse gas emission allowances

Intangible assets of the Group include greenhouse gas emission allowances acquired with the intention to meet the obligation resulting from emission of greenhouse gases.

Greenhouse gas emission allowances are recognized at acquisition price. Emission allowances granted free of charge under the National Allowance Distribution Plan have been recognized at a nominal value, i.e. zero value.

The Group classifies greenhouse gas emission allowances as non-current or current intangible assets. If the Group intends to surrender greenhouse gas emission allowances acquired or received in order to meet its obligation for the current year, it classifies them as current intangible assets, while if it plans to meet the obligation in the following years, it recognizes them under non-current intangible assets. Allowances are classified based on the intended use at the acquisition date, still in justified cases they may be reclassified to or from the current or the non-current category.

### 9.6. Impairment of non-financial non-current assets

At each balance sheet date, the Group evaluates whether any circumstances indicating impairment of non-financial non-current assets have occurred. Should such evidence be detected, or should an annual impairment test be required, the Group estimates the recoverable amount of the given asset or cash-generating unit to which the asset belongs.

The recoverable amount of an asset or cash-generating unit item corresponds to the higher of:

- fair value less costs to sell or
- value in use.

The recoverable amount is determined for each asset except for assets not generating cash flows independent of those generated by other assets within the given asset group.

If the carrying amount of an asset exceeds its recoverable amount, impairment occurs and the amount of the asset is reduced to the recoverable amount determined.

When estimating the value in use, projected cash flows are discounted to the current value with the discount rate not including tax effects, which reflects current market estimates of time value of money and risk typical for the given type of assets. Impairment losses on assets used in continuing operations are charged to the classes of expenses corresponding to the function of the given impaired asset.

At each balance sheet date, the Group evaluates whether any circumstances indicating that the impairment loss recognized in previous periods for the given asset is redundant or requires reduction. If such evidence occurs, the Group estimates the recoverable amount of the asset. The previously recognized impairment loss is reversed only when, after recognition of the latest impairment loss, the estimates used to calculate the recoverable value of the asset have changed. In such a case, the carrying amount of the asset is increased to its recoverable amount.

The increased amount cannot exceed the carrying amount of the asset to be calculated (after reduction by accumulated depreciation) if in previous years no impairment loss was recognized for this asset. Reversal of the impairment loss is immediately recognized as revenue in profit or loss. Following the reversal of an impairment loss, in subsequent periods, the depreciation charge on the given asset is adjusted in a manner allowing regular write-down of its reviewed carrying amount reduced by the residual value over the remaining useful life of the asset.

### 9.7. Borrowing costs

Borrowing costs are capitalized as part of the cost of fixed and intangible assets, for qualifying assets. Borrowing costs include interest calculated using effective interest rate method and financial charges due to finance lease agreement. The TAURON Group capitalizes an effective hedge for contracts classified to hedge accounting concluded with relation to construction of fixed assets and intangible assets.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Such a period has been assumed to last 12 months.

Borrowing costs that may be directly attributable to the acquisition, construction or production of a qualifying asset are costs which could have been avoided had the outlays for the acquisition, construction or production of a qualifying assets not been incurred.

Such costs may include:

- costs related to borrowings taken out with the intention to acquire or construct a given investment task (investment loans, special purpose loans) – specific borrowings;
- costs related to financing without a determined purpose, intended for financing a qualifying asset (financing other than investment loans) – general borrowings.

Borrowings other than specific borrowings are accounted for as general borrowings for the purpose of calculating borrowing costs eligible for capitalization, to the extent to which borrowing costs could have been avoided if liabilities resulting from borrowings were repaid in cash.

After the completion of a qualifying asset that has been financed using specific borrowings, specific borrowings and related costs of financing are not taken into account when determining borrowing costs eligible for capitalization.

General borrowing costs eligible for capitalization are determined applying capitalization rate to expenditure incurred for qualifying assets. Capitalization rate equals the weighted average rate of all borrowing costs related to borrowings of a given period other than specific borrowings.

Capitalization is considered completed if substantially all actions necessary to prepare a given asset item for intended use have been completed.

### 9.8. Share in joint venture

Shares in joint ventures where the Group exercises a joint control are accounted for using the equity method. Prior to calculating the share in net assets of a joint venture, relevant amendments are introduced to make the financial data of these entities compliant with IFRS applied by the Group.

Assessment of investment in joint ventures for impairment takes place when impairment indications occur or when an impairment loss recognized in previous years is no longer required.

### 9.9. Financial assets

Categories of financial assets:

- financial assets measured at fair value through profit or loss (FVTPL);
- loans and receivables;
- assets available for sale (AFS);
- assets held to maturity.

***Financial assets measured at fair value through profit or loss (FVTPL)***

Assets qualified as FVTPL meet one of the following conditions:

- they are qualified as held for trading. Financial assets are qualified as held for trading if:
  - they have been acquired principally for the purpose of being sold in the short term;
  - they are a part of a portfolio of defined financial instruments managed as a group and probable to generate profit in a short term; or
  - they are derivatives except for those classified as hedges and financial guarantees;
- In accordance with IAS 39, they have been qualified as such upon initial recognition. At initial recognition financial assets may be classified as measured at fair value through profit or loss if they meet criteria defined in IAS 39.

Financial assets measured at fair value through profit or loss are measured at fair value taking into account their market price at the balance sheet date and excluding transactional expenses. Changes in the value of financial instruments are recognized in the statement of comprehensive income as financial revenue or expenses, as appropriate.

***Loans and receivables***

Loans and receivables are financial assets with determined or determinable due amounts, which are not quoted on the active market. They are classified as current assets if their maturity as at the balance sheet date does not exceed 12 months. Loans and receivables whose maturity as at the balance sheet date exceeds 12 months are classified as non-current assets. They are recognized at amortized cost.

***Assets available for sale***

All other financial assets are classified as assets available for sale. AFS assets are recognized at fair value as at each balance sheet date. Fair value of investments not quoted on an active market is determined by reference to the current market value of another instrument with basically the same characteristics or based on projected cash flows generated by the investment asset (measured in accordance with DCF method). Financial assets available for sale are measured at acquisition price less impairment losses if they are not traded on an active market and if their fair value cannot be reliability estimated using alternative methods.

A positive or negative difference between the fair value of AFS assets and their acquisition price reduced by deferred tax, is recognized in revaluation reserve, except for:

- impairment loss;
- exchange gains/losses regarding monetary assets;
- interest calculated based on an effective interest rate.

Dividends on equity instruments in the AFS portfolio are recognized in profit or loss once the Group's title to the payment has been determined.

### 9.10. Impairment of financial assets

As at the balance sheet date, the Group checks if any objective evidence of impairment of financial assets or groups of financial assets exists.

***Financial assets measured at amortized cost***

If there is objective evidence that an impairment loss on loans granted and receivables measured at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future losses due to irrecoverable receivables that have not been incurred yet) discounted at the original effective interest rate (i.e. the interest rate computed at initial recognition). The carrying amount of the asset is reduced through an impairment loss. The amount of the loss is recognized in profit or loss for the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is derecognized. The reversal is recognized in profit or loss to the extent the carrying amount of the asset does not exceed its amortized cost as of the reversal date.

***Financial assets carried at cost***

If there is objective evidence of impairment of an unquoted equity instrument which is not measured at fair value (as the fair value cannot be determined reliably) or a derivative that is linked to and must be settled by delivery of such unquoted equity instrument, the amount of the impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets.

***Financial assets available for sale***

If there is objective evidence for impairment of a financial asset available for sale, the amount being the difference between the asset's cost (less any principal and interest repaid) and its present fair value, less any impairment losses on the asset recognized previously in profit or loss, is derecognized from equity and reclassified to profit or loss. A reversal of impairment loss on equity instruments classified as available for sale may not be recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument available for sale increases and the increase may be related objectively to an event occurring after the impairment was recognized in profit or loss, the amount of the reversed loss is reclassified to profit or loss.

### 9.11. Derivative financial instruments

The Group hedges foreign currency risk using currency forward contracts.

The Group also concludes forward and future contracts for purchase and sale of emission allowances and energy. Transactions concluded and held for own use are not included in the scope of IAS 39. Transactions concluded for speculation purposes comply with the definition of a financial instrument and in line with IAS 39 are measured at the end of a reporting period.

This type of derivatives is measured at fair value. Derivatives are recognized as assets if their amount is positive, and as liabilities, if their amount is negative.

In order to hedge interest rate risk the Group uses interest rate swaps, which has been discussed in detail in Note 9.12.

In order to hedge interest rate risk and currency risk the Group uses Coupon Cross Currency Swap derivative.

### 9.12. Hedge accounting

In order to hedge interest rate risk the Group uses interest rate swaps. Such transactions are subject to hedge accounting, where cash flow hedges related to bonds issued are applied.

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction which could affect profit or loss.

A cash flow hedge is accounted for in the following manner:

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

More specifically, a cash flow hedge is accounted for as follows:

- the separate component of equity associated with the hedged item is adjusted to the lesser of the following (in absolute amounts):
  - the cumulative gain or loss on the hedging instrument from inception of the hedge; and
  - the cumulative change in fair value (present value) of the expected future cash flows on the hedged item from inception of the hedge;
- any remaining gain or loss on the hedging instrument or designated component of it (that is not an effective hedge) is recognized in profit or loss; and
- if the documentation of hedge accounting for a particular hedging relationship excludes from the assessment of hedge effectiveness a specific component of the gain or loss or related cash flows on the hedging instrument, that excluded component of gain or loss is recognized in profit or loss, if it has not been classified to AFS financial assets.

Recognized in other comprehensive income gain or loss from revaluation of the hedging instrument is recognized directly in profit or loss for the period in the same period during which the hedged item affects profit or loss or it is included in initial cost or other carrying amount of an asset or liability item, if a hedged item results in the occurrence of a non-financial asset or liability.

At the inception of the hedge the hedging relationship and the risk management objective and strategy for undertaking the hedge are documented formally.

The hedge's effectiveness is assessed on an on-going basis to determine if the hedge has been highly effective in all reporting periods for which it had been established.

### 9.13. Other non-financial assets

The Group recognizes prepayments in other non-financial assets.

Prepayments are determined in the amount of incurred, reliably measured expenses pertaining to future periods, which will result in future inflow of economic benefits to the entity. Prepayments are recognized based on the elapsed time or performances. The time and method of settlement are justified by the nature of the settled expenses, in line with the prudence principle.

At the end of the reporting period, the Group reviews prepayments to check whether the level of certainty regarding economic benefits to be achieved after the end of the current reporting period is sufficient to classify the given item as an asset.

Prepayments include in particular costs of production preparation in coal mines, including costs of reinforcing working faces and costs of drilling drifts not classified as property, plant and equipment.

Other non-financial assets include in particular receivables due under public law (except for income tax settlements, which are presented separately in the statement of financial position), a surplus of assets over liabilities due to the Company's Social Benefit Fund and prepayments for future purchases of property, plant and equipment, intangible assets and inventories. Prepayments are presented in line with the assets they refer to, as current or non-current assets, respectively. Prepayments, as non-monetary items, are not discounted.

### 9.14. Inventories

Inventories are measured at the lower of: cost or the net realizable value.

Costs incurred in order to bring each inventory item to its current location and condition are recognized in the value of inventories. The value of inventories is determined as follows:

- Goods for resale and materials – at cost determined using the weighted average method;
- Finished goods and work in progress – at costs of direct materials and labor and a mark-up of indirect production costs determined based on a standard use of production capacities, excluding borrowing costs.

Release of inventories are measured using the weighted average method.

The Group's inventories also include greenhouse gas emission allowances and certificates of energy generated using renewable sources, gas sources and in cogeneration intended for sale. Energy certificates received free of charge due to energy generation from renewable sources, gas and cogeneration are recognized at fair value at the date when their receipt became certain.

Acquisition cost applied as at the balance sheet date cannot exceed the net realizable value of the items.

### 9.15. Trade and other receivables

Trade receivables are recognized at the amounts initially disclosed in the invoices, except for events of material impact of time value of money, less any impairment losses.

Impairment losses on receivables are charged to operating expenses or financial expenses, according to the type of receivables.

If the impact of the time value of money is material, the amount receivable is determined through discounting of projected future cash flows to their present value with the discount rate reflecting the current time value of money in the market. If the discounting is reversed, increases in receivables over time are recognized as financial revenue.

### 9.16. Cash and cash equivalents

Cash and short-term deposits disclosed in the statement of financial position include in particular cash at bank and in hand, as well as short-term deposits with primary maturity up to three months.

Balance of cash and cash equivalents disclosed in the consolidated statement of cash flows includes the cash and cash equivalents as defined above. For overdrafts covered by the cash management process, in line with IAS 7 *Statement of Cash Flows* the balance of cash reduced by outstanding overdraft liabilities is recognized in the statement of cash flows.

### 9.17. Issued capital

Issued capital is recognized in the consolidated financial statements in the amount determined in the by-laws and recorded in the court register of the Parent.

### 9.18. Interest-bearing loans and borrowings

Upon initial recognition, interest-bearing loans and borrowings are disclosed at fair value reduced by costs related to obtaining of a loan or borrowing.

Following initial recognition interest-bearing loans and borrowings are measured at amortized cost using the effective interest rate method.

Amortized cost includes costs incurred to arrange a loan or borrowing and discounts or premiums received when settling the liability.

Gains and losses are recognized in profit or loss when the liability is derecognized from the statement of financial position and as a result of the application of the effective interest rate method.

### 9.19. Trade payables and other financial liabilities

Current trade payables are recognized at the amount payable. Other financial liabilities include liabilities due to payroll and purchase of fixed assets, which are measured at amount due.

Financial liabilities measured at fair value through profit or loss include held-for-trading financial liabilities. The Group classifies derivative instruments to liabilities measured at fair value through profit or loss, unless they are considered effective hedges.

Financial liabilities measured at fair value through profit or loss are measured at fair value including their market value as at the end of the reporting period without transaction costs. Changes in the fair value of these instruments are charged to profit or loss as financial expense or revenue.

Other financial liabilities not classified as financial instruments measured at fair value through profit or loss are measured at amortized costs using the effective interest method.

The Group excludes a financial liability from its statement of financial position upon its expiration, i.e. when the obligation defined in the agreement has been fulfilled, cancelled or has expired.

### 9.20. Provisions for employee benefits

In accordance with compensation policies, employees of the Group companies are entitled to the following post-employment benefits:

- retirement and disability benefits – paid on a one-off basis, when an employee retires or is vested with the right to receive disability benefits;
- death benefits;
- cash equivalent resulting from special tariff for energy sector employees;
- in-kind benefits granted in coal or as a cash equivalent;
- benefits from the company's Social Benefits Fund.

Jubilee benefits are paid to employees of Group companies after a specified number of years of service.

The present value of such liabilities is calculated by an independent actuary at each balance sheet date. The accrued liabilities equal to discounted future payments, including employee rotation and pertain to the time remaining until the end of the reporting period. Demographic and employee turnover data are based on historical information.

Actuarial gains and losses on post-employment benefits are fully charged to other comprehensive income, while actuarial gains or losses on jubilee benefits are changed to costs of the period.

Other increases and decreases in provisions are charged to operating expenses in case of employees, to other operating expenses/revenue in case of pensioners and individuals entitled to disability allowances and to financial expense in case of the portion pertaining to interest related to provision discounting.

In accordance with IAS 19 *Employee Benefits the* Group recognizes provisions for termination benefits under voluntary redundancy schemes. The benefits are measured based on the expected number of employees willing to resign and the estimated benefit amount.

### 9.21. Other provisions

Provisions are recognized if the Group has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Costs related to provision recognized are recognized in profit or loss for the period, in costs, depending on the circumstances to which the future liabilities relate.

The discount rate is determined before tax, i.e. it reflects the current market assessment regarding the time value of money and the risk related to the specific liability. The discount rate is not charged with risk by which estimates of future cash flows have been adjusted. Where discounting is used, the increase in the provision due to the passage of time is recognized as a financial expense.

#### 9.21.1. Provision for the obligation to surrender energy certificates

Pursuant to the Energy Law and regulations of the Minister of Economy energy companies training in and selling electricity to end users are obliged to acquire property rights under energy certificates and to present them for redemption or to pay a substitution fee. If in a given year the volume share of electricity specified in the energy certificates in the total sales of electricity to end buyers complies with limits provided for in regulations of the Minister of Economy – such an obligation is considered met.

At the end of each reporting period the Group recognizes a provision for costs of acquiring energy certificates so as to fulfil the obligation to present the certificates for redemption or to make a substitution fee.

Provision for the obligation to surrender renewable energy certificates is recognized:

- in the portion corresponding to energy certificates held at the end of the reporting period – in the value of certificates held;
- in the portion not covered by energy certificates held at the end of the reporting period – first, in the amount resulting from futures and forwards for the purchase of certificates with the intention to fulfil the obligation for the current year; then in the market value of certificates necessary to fulfil the obligation at the end of the reporting period or in the amount of the substitution fee – in accordance with the intention concerning the method of fulfilling the obligation.

The provision is charged to operating expenses.

The provision is settled and the certificates are redeemed when the President of the Energy Regulatory Office redeems the certificates or when the substitution fee has been paid.

#### 9.21.2. Provision for gas emission liabilities

Provision for liabilities arising from emission of gas included in the EU Emissions Trading System (EU ETS) is recognized only when the actual emission level in a given year exceeds the volume of emission allowances awarded to the Group free of charge. Group companies included in the EU ETS are obliged to surrender emission allowances for each emitted ton of carbon dioxide to 30 April in the following year.

The provision is charged to operating expenses (taxes and charges) in the following amount:

- in the portion covered by allowances as at the end of the reporting period – for allowances received free of charge – in zero amount, and in case of allowances acquired – at cost;
- in the portion not covered by allowances held at the end of the reporting period – first, in the amount resulting from futures and forwards for the purchase of emission allowances with the intention to fulfil the obligation for the current year; then in the market value of allowances necessary to fulfill the obligation at the end of the reporting period or in the amount of a possible fine – in accordance with the intention concerning the method of fulfilling the obligation.

Emission allowances are awarded free of charge for the years 2013–2020 based on costs of investments, which is the condition for obtaining allowances.

In the current settlement period the Group companies surrender emission allowances received free of charge first, allowances from the previous settlement period and allowances acquired for surrendering in a given year are cancelled. The release of emission allowances classified to intangible assets is measured using the weighted-average method.

At the emission settlement date, emission allowances classified to current intangible assets with a corresponding entry in provision for gas emission obligations are derecognized.

#### 9.21.3. Provision for use of real estate where energy facilities are located without contract

The Group recognizes provisions for all claims filed by owners of real estate on which distribution systems and heat installations are located in amounts of probable cost of claims due to land owners until the end of the reporting period. The Group does not establish a provision for possible unlodged claims of owners of land with unregulated status.

#### 9.21.4. Provision for mine decommissioning costs

Provision for mine decommissioning costs is determined based on future decommissioning costs estimated by independent experts taking into account discounting effect and the amount determined in line with separate regulations of the Mine Decommissioning Fund. For coal mines a corresponding entry is made in line with IAS 16 as a fixed asset item of a mine and changes in estimates are disclosed in line with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, i.e. as provision adjustments and capitalized future mine decommissioning costs.

#### 9.21.5. Provision for restoration of land and dismantling and removal of fixed assets

Based on estimates of future costs of liquidation prepared by independent experts, taking into account discounting effect, the Group establishes a provision for estimated costs of dismantling, mainly in relation to wind farms, but also for liquidating fixed assets and reclaiming land where the fixed assets were located, in case a liability arises from the acquisition or use of property, plant and equipment items.

### 9.22. Other non-financial liabilities

Other non-financial liabilities include in particular VAT liabilities to the tax office, other liabilities due under public law (except for corporate income tax settlements, which are presented separately in the statement of financial position), a surplus of liabilities over assets of the company's Social Benefit Fund and liabilities arising from advance payments received to be settled through delivery of goods, services or fixed assets. Other non-financial liabilities are recognized at the amount payable.

### 9.23. Company Social Benefits Fund

The Act on social benefits fund of 4 March 1994 with subsequent amendments states that employers with headcount over 20 people are obliged to establish such a fund ("Fund"). The Capital Group entities have established their Social Benefits Fund and made relevant profit appropriations. The Fund is created to co-finance social activities of the Group, loans to employees and other social expenses.

The Group entities have offset the Fund assets with its liabilities to the Fund since such the assets do not constitute separate assets of the Group.

### 9.24. Lease

Finance leases transferring substantially all the risks and rewards of ownership of a lease object to the Capital Group are recognized in the statement of financial position as at the inception of the lease at the lower of: fair value of a leased asset or current value of minimum lease payments. Lease payments are split between financial expenses and a decrease in the balance of lease liabilities in order to obtain a fixed interest rate on the outstanding liability. Financial expenses are recognized directly in profit or loss.

Depreciation/amortization principles applied to assets leased are consistent with those applied to depreciation/amortization of assets held by the entity. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Leases whereby the lessor retains substantially all the risk and rewards of ownership of an asset are classified as operating leases. Operating lease payments and subsequent lease rents are charged to operating expenses using the straight line method over the lease term.

### 9.25. Taxes

***Tax Capital Group***

On 28 November 2011, the Head of the First Śląski Tax Office in Sosnowiec issued a decision registering a Tax Capital Group for the period of three fiscal years from 1 January 2012 to 31 December 2014.

A Tax Capital Group agreement for the years 2015–2017 was concluded on 22 September 2014. The Tax Capital Group was registered by the Head of the First Śląski Tax Office in Sosnowiec under a tax identification number NIP 2050004308 pursuant to a decision of 20 November 2014.

Major companies constituting the Tax Capital Group until 2014: TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., TAURON Dystrybucja S.A., TAURON Sprzedaż Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o. and TAURON Ciepło Sp. z o.o. In 2015 TAURON Wydobycie S.A. will also join the Tax Capital Group.

TAURON Polska Energia S.A., as the Company Representing the Tax Capital Group, is responsible to make monthly payments due to prepayments CIT of the Tax Capital Group in compliance with the CIT Act. The share of an individual entity from the Tax Capital Group in the monthly CIT prepayments is determined based on a percentage share in the tax base specified by a given entity in the tax base of the Tax Capital Group, excluding entities disclosing a tax loss. If the final amount of an individual entity's share is lower than the preliminary amount transferred to the Representing Company, the Representing Company returns the difference.

***Current tax***

Income tax recognized in profit or loss includes actual tax charges for the given reporting period of individual Tax Capital Group companies and other Group companies not included in the Tax Capital Group, determined in line with provisions of the CIT Act, any tax adjustments from previous years and a change in the deferred tax asset and deferred tax liability charged to profit or loss for the period.

***Deferred tax***

The entity recognizes a deferred tax asset and a deferred tax liability arising from temporary differences between the book value of assets and liabilities and their tax base, and in relation to a tax loss deductible in future.

The carrying amount of deferred tax assets is verified as at each balance sheet date. The company reduces the carrying amount of the deferred tax asset to the extent the generation of taxable income sufficient to use the deferred tax asset in part or in whole is not probable. Not recognized deferred tax assets are verified as at each balance sheet date and recognized to the extent their use is probable following generation of taxable income in future.

Deferred tax assets are recognized in the projected amount deductible in relation to temporary differences that in future shall reduce the income tax base and the deductible tax loss calculated in line with the prudence principle. Deferred tax assets are recognized only if there is probability of their being realized in future.

The deferred income tax liability is created in the amount of income tax payable in the future, arising from taxable temporary differences, i.e. differences that will increase the income tax base in the future.

Deferred tax assets and liabilities are measured with the application of tax rates expected to be applicable in the period of realization of the asset or release of the provision, with the consideration of tax rates (and tax regulations) that have been enacted or substantively enacted at the balance sheet date.

Income tax related to items not recognized in profit or loss, i.e. items recognized in other comprehensive income or directly in equity, is recognized in other comprehensive income or in equity, respectively.

The Group offsets its deferred tax assets and deferred tax liabilities only if it has an enforceable legal title to offset its current tax receivables with liabilities and the deferred income tax asset and liability are governed by the same tax authority.

Deferred tax asset and deferred tax liability of companies from the Tax Capital Group are netted off due to the fact that as of 1 January 2012 the companies have filed combined tax returns.

***VAT***

Revenue, expenses, assets and liabilities are recognized less VAT, except for:

- the situations when VAT paid at the purchase of assets or services is not recoverable – it is recognized as a portion of costs of the asset or as a cost item; and
- receivables and liabilities which are recognized together with VAT.

The net VAT, recoverable or due to the tax authorities is recognized in the statement of financial position as a portion of receivables or liabilities.

### 9.26. Business combinations

Business combinations of entities under common control are accounted for using pooling of interests method. The method is based on the assumption that the entities combined have been controlled by the same shareholder before the transaction and will be controlled by the entity after the transactions, therefore the continuity of common control is presented in the financial statements, while the changes in the net value of assets to reflect their fair value (or recognition of new assets) or goodwill measurement are not presented therein, as none of the entities combined is actually acquired. The financial statements have been prepared in such a manner so as to account for the combined entities as of the date they have become subjected to common control.

Entities acquired in May 2007 were controlled by the State Treasury, which implied that the Company and these entities were under common control of the State Treasury in time of a business combination. Therefore, in the opinion of the Company, the transaction meets the definition of a transaction under common control; hence it has been excluded from the scope of IFRS 3.

When accounting for business combinations other than combination of entities or businesses under common control the Group uses the acquisition method referred to in IFRS 3 *Business Combinations*. In such transactions one entity is identified as the acquirer. At the acquisition date the acquirer recognizes (separately from goodwill) identifiable assets acquired and liabilities assumed and any non-controlling interest in the acquiree. The acquirer measures identifiable assets acquired and liabilities assumed at fair value as at the acquisition date.

The major business combination accounted for by the Group using the acquisition method was the acquisition of shares in Górnośląski Zakład Elektroenergetyczny S.A. from Vattenfall AB on 13 December 2011.

### 9.27. Statement of comprehensive income

Revenue and expenses for a given period are presented in the Statement of comprehensive income. In accordance with applicable standards, in the statement of comprehensive income the Group discloses revenue and expenses for the period recognized directly in profit or loss and income and expenses recognized outside profit or loss, i.e. in other comprehensive income.

Change in hedging instruments, foreign exchange differences from translation of foreign entities and actuarial gains and losses on provisions for post-employment benefits, including the effects of income tax, are fully charged to other comprehensive income.

Profit or loss for a given year results from deducting expense from revenue, excluding items recognized in other comprehensive income.

### 9.28. Sales revenue

Revenue is recognized in the amount equal to the value of probable economic benefits to be gained by the Group in relation to the transaction and when the amount of the revenue can be reliably measured. Revenue is recognized at the fair value of the payment, received or due, following reduction by VAT, excise duty, other sales taxes, charges and discounts.

Revenue is recognized, if the material risks and rewards from the ownership of goods and products have been transferred to the buyer and when the revenue amount can be reliably measured and the cost amount can be reliably estimated.

Revenue also includes amounts due for the sale of goods for resale, finished goods, materials and services related to the core business and determined based on the net price, adjusted by granted rebates and discounts, and excise duty.

***Revenue from sales of electricity distribution services in the Distribution segment***

The Group's revenue from sales of services includes in particular revenue related to distribution operations and settlements of the connection fee.

Electricity distribution services are considered sold upon service provision to the client, as registered by the electricity meter, i.e.:

- for VAT invoices raised by reference to the meter reading – the reading date;
- for VAT invoices raised in a billing period exceeding one month, by reference to the forecast energy consumption – the forecast period;
- to ensure compliance with the matching principle, the Group also recognises revenue which, considering the billing system (the billing period agreed in contracts with clients exceeding one month), has not been measured and billed, as current year revenue. For purposes of sales of distribution services, the said revenue is estimated based on the average daily consumption of electricity in prior billing periods and the number of days in the analyzed billing period. Additional sales are measured at the weighted average sales price in the financial year.
- adjustments to sales revenue are recognized in the period of their identification or in the period to which they relate (only when material).

The Group recognizes revenue relating to fixed assets received free of charge due to rendering services of tolerance for removing power or heat infrastructure collision in sales revenue. Moreover, since 1 July 2009, the Group has also recognized transactions included in the scope of IFRIC 18 *Transfer of Assets from Customers* in this item. Revenue falling within the scope of IFRIC 18 *Transfer of Assets from Customers,* relating to fixed assets received from clients free of charge and used for connecting such clients to the infrastructure and providing them with constant access to supplies of services, or revenue relating to cash received from clients for acquisition or development of the said fixed assets (connection fees) is recognized as revenue from sales of services in the period when such assets are actually received from clients.

Revenue from illegal energy intake from the power grid (electricity or heat network) is recognized in core operating activities of the Group.

***Revenue from sales of electricity and distribution services in the Sales segment***

The Group companies operating in the Sales segment generate revenue from sales of electricity and distribution services to retail and wholesale clients (balancing market sales).

Revenue from sales is determined on the basis of the billed volume and price, including additional assessments. To ensure compliance with the matching principle, at each reporting date the Group, in line with the prudence principle, makes three types of estimates in relation to revenue from sales of electricity and distribution services:

- Additional assessment of sales of electricity and distribution services to clients, unbilled as at the reporting date

  Measurement and billing systems showing the electricity volume sold to retail clients are read and invoices are issued mainly in periods not corresponding to reporting periods. Therefore, the Group companies from the Sales segment make appropriate estimates of sales at each reporting date. For clients being parties to complex contracts, the additional assessment is made in the billing systems on the basis of the average daily consumption of electricity between the last actual reading date and the reporting date. As regards separate contracts, the additional assessment is made for clients the sales to which had not been billed at the reporting date as the measurement and billing system reading results had not been provided by the Distribution System Operators early enough to ensure that sales are billed at the reporting date.

- Additional assessment of sales of electricity and distribution services related to client migration to an integrated billing system

  Due to the launch of implementation of a centralized billing system, effective from 2014, at each reporting date additional assessments have been made in relation to earlier meter reading dates and changes to the client billing model. The additional assessment due to earlier reading dates adjusts the reduction in the volume of energy billed and a drop in revenue from sales of electricity. On the other hand, the change to the billing model minimizes the volume of energy billed on invoices, while increasing the volume of energy on forecast invoices. The related additional assessment reduces revenue from sales of electricity through forecast period realignment to the actual number of days between the billing date and the reporting date.

- Additional assessment of electricity sales resulting from reconciliation of the energy balance

  The Group companies from the Sales segment reconcile the energy balance by estimating the non-balancing sales or purchase volume at each reporting date. An amount increasing or reducing revenue from sales of electricity corresponding to the estimated non-balancing volume and the weighted average electricity purchase price determined on the basis of the daily-hourly price changes and the companies' demand for energy on the balancing market is entered in the accounting records.

***Revenue from wholesale of electricity in the Generation segment***

Wholesale of electricity from the generation units managed centrally and as part of trading operations requires the client and the supplier's notification of the volume of electricity declared per each hour to the Transmission System Operator through the centralized computerized Energy Market Information Exchange System, which volume a Generation segment company is obliged to provide under specific contracts as a supplier (sales of energy generated internally or purchased as part of trading operations) or ensure its provision (through energy purchases on the Balancing Market) and the client is obliged to accept. Both the price and volume per each hour is determined on the basis of transactions signed in advance or (in the case of the Polish Power Exchange) recorded electronically. The Transmission System Operator, which kind of guarantees volume settlements, ensures reliability of data concerning the supplied volume of energy. As billing is based on reports generated by the Transmission System Operator, all electricity wholesale invoices are raised following electricity supply, with a clearly determined volume and value of such energy.

Sales invoices relating to electricity supplied to the Balancing Market are raised on the basis of reports from the centralized system balancing sales in the Polish National Power System. Such settlements are made every decade. The invoicing procedure, including the price setting algorithms and principles as well as the due dates, is set out in the Transmission System Operation and Maintenance Instruction approved by the President of the Energy Regulatory Office.

Wholesale of electricity from generation units which are not managed centrally (local market generation units of less than 100MW) is subject to similar rules. However, it is the local market operator that is responsible for the settlements.

***Revenue from sales of heat in the Heat segment***

Heat is sold under heat sale contracts entered into with institutional clients and consumers.

Institutional clients incur fixed charges for power contracted in advance at rates specified in the tariff in force. Variable charges are imposed periodically, by reference to meter readings on an accrual basis. Meters are read between the first and the last reading date. Charges are imposed regularly, on a monthly basis. Fixed and variable charges are imposed on consumers once a month, in line with the meter reading schedule, on a specific meter reading date, at rates specified in the tariff in force.

Revenue is measured by reference to the tariff in force, the volume of power billed, heat, carrier, lease rate, excess amount and other actual consumption of products. It includes mainly charges for contracted power as well as fixed and variable transmission.

Heat is sold by reference to readings on an accrual basis. Therefore, an additional assessment of sales is made for accounting purposes from the reading date to the end of the month so as to determine the monthly sales volume from the first to the last day of the month. Additional assessments of sales are made separately for each reading point.

***Revenue from sales of coal in the Mining segment***

Sales of washed fine coal supplied under sales contracts to power and heat and power stations of the TAURON Group represent the intragroup market for the Mining segment. Entities operating in the sales network of the company from the Mining segment, i.e. Authorized Coal Sellers and Coal Sellers, play a strategic role in coal sales. Other sales are made in the form of intra-community supplies and retail sales.

Sales are made on a continuous basis in the form of railroad and truck sales, in accordance with the railroad supply schedule and truck sales advice notes. Sales are made when coal is handed over to the carrier, whether in truck or railroad transport.

Revenue from sales of coal is measured on the basis of sales values resulting from the billed volume and price. Revenue from sales of coal is adjusted, in particular, based on discounts, price reductions as well as accepted volume and quality complaints.

### 9.29. Operating expense

Operating expense includes:

- cost of goods, products, materials and services sold (cost of sales), incurred during a given reporting period, including any impairment losses on property, plant and equipment, intangible assets, receivables and inventories, adjusted by cost of manufacturing products for own purposes;
- total selling and distribution expenses as well as general and administrative expenses incurred in the reporting period (disclosed separately in the statement of comprehensive income).

Manufacturing costs that can be assigned directly to revenue generated by the Group impact its financial performance for the period to which the revenue pertains.

Manufacturing costs that can be only indirectly assigned to revenue or other benefits obtained by the Group impact its profit or loss in the portion pertaining to the given reporting period, and match the revenue or other economic benefits.

### 9.30. Earnings per share

Earnings per share for each period are calculated by dividing the net profit for the period attributable to ordinary shareholders of the Parent, by the weighted average number of ordinary shares in the period.

### 9.31. Statement of cash flows

The statement of cash flows is prepared in line with the indirect method.

# EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10. Information on operating segments

The Group presents segment information for the current and comparative reporting periods in accordance with IFRS 8 Operating segments.

The Group is organized and managed by segment, in accordance with the type of products and services offered. Each segment constitutes a strategic business entity offering different products and operating on different markets.

The Group settles transactions between segments as if they were made between unrelated parties i.e. using current market prices.

Revenue from transactions between segments is eliminated in the consolidation process.

After elimination of costs arising from intercompany transactions, general and administrative expenses of the Parent are presented under unallocated expenses. General and administrative expenses of the Parent are incurred for the benefit of the entire Group and cannot be directly attributed to a specific operating segment.

Segment assets do not include deferred tax, income tax receivables or financial assets, except for trade and other financial receivables and cash and cash equivalents, which do represent segment assets.

Segment liabilities do not include deferred tax, income tax liability or financial liabilities, except for trade payables, liabilities due to acquisition of fixed assets and intangible assets and payroll liabilities, which do represent segment liabilities.

None of the Group's operating segments has been combined with another segment to create the reporting operating segments.

The Management Board separately monitors operating results of the segments to take decisions on how to allocate the resources, to evaluate the effects of the allocation and to evaluate performance. Evaluation of performance is based on EBITDA and operating profit or loss. EBITDA is defined by the Group as EBIT increased by amortization/depreciation. EBIT is the profit/(loss) on continuing operations before deducting taxes, financial income and expenses. The Group's financing (including financial expense and revenue) and income tax are monitored at the Group level and they are not allocated to segments.

Additionally, the Group presents geographic areas of operations not included in segment reporting.

The Group's reporting format for the period from 1 January 2014 to 31 December 2014 and for the comparative period was based on the following operating segments:

| Operating segments | Core business | Subsidiaries/<br>Entities recognized with the equity method |
|---|---|---|
| **Mining**<br> | Hard coal mining | TAURON Wydobycie S.A. |
| **Generation**<br> | Generation of electricity using conventional sources, including combined heat and power generation, as well as generation of electricity using joint combustion of biomass and other energy acquired thermally. Key fuels used by the Generation Segment include hard coal, biomass, coal gas and coke-oven gas. | TAURON Wytwarzanie S.A.<br><br>*Elektrownia Blachownia Nowa Sp. z o.o.**<br>*TAMEH HOLDING Sp. z o.o.**<br>*TAMEH POLSKA Sp. z o.o.**<br>*TAMEH Czech s.r.o.** |
| **Renewable sources of energy**<br> | Generation of electricity using renewable sources, excluding generation of electricity using joint combustion of biomass, which, due to the specific nature of such generation, has been included in the Generation Segment. | TAURON Ekoenergia Sp. z o.o. |
| **Distribution**<br> | Distribution of electricity | TAURON Dystrybucja S.A.<br>TAURON Dystrybucja Serwis S.A.<br>TAURON Dystrybucja Pomiary Sp. z o.o. |
| **Sales**<br> | Wholesale trading in electricity, trading in emission allowances and energy certificates and sale of electricity to domestic end users or entities which further resell electricity. | TAURON Polska Energia S.A.<br>TAURON Sprzedaż Sp. z o.o.<br>TAURON Sprzedaż GZE Sp. z o.o.<br>TAURON Czech Energy s.r.o. |
| **Heat**<br> | Generation, distribution and sales of heat. | TAURON Ciepło Sp. z o.o.<br><br>*Elektrociepłownia Stalowa Wola S.A.** |
| **Customer service**<br> | Services to internal customers (i.e. entities from the TAURON Capital Group) in respect of sales process support, financial, accounting and IT services to selected Group companies. | TAURON Obsługa Klienta Sp. z o.o. |

* Entities recognized with the equity method

In addition to the key operating segments listed above, the TAURON Group also conducts operations in quarrying stone (including limestone) for the power industry, metallurgy, construction and highway engineering industry as well as in the area of production of sorbents for use in wet desulfurization installations and fluidized bed combustors (Kopalnia Wapienia Czatkowice Sp. z o.o.). The operations of TAURON Sweden Energy AB (publ) and Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation are also treated as other activities of the Group.

*(in PLN '000)*

On 2 January 2014, the division of TAURON Wytwarzanie S.A. (Generation segment) through separation of Zespół Elektrociepłowni Bielsko-Biała and its transfer to TAURON Ciepło S.A. (currently: TAURON Ciepło Sp. z o.o.), classified to the Heat segment, was registered. Comparable data were appropriately restated.

A business combination under common control of TAURON Ekoenergia Sp. z o.o., MEGAWAT MARSZEWO Sp. z o.o. and BELS INVESTMENT Sp. z o.o., companies from the Renewable sources of energy segment, was registered on the same day. Consequently, only one company – TAURON Ekoenergia Sp. z o.o. – operates in the segment now.

Pursuant to the agreement, on 10 December 2014 the TAURON Group contributed an organized part of an enterprise of Wytwarzanie S.A (Elektrownia Blachownia) and TAURON Ciepło Sp. z o.o. (Zakład Wytwarzania Nowa) to the joint arrangement with the ArcelorMittal Group, which has been discussed in detail in Note 11 to these consolidated financial statements. Both capital groups hold 50% of shares in TAMEH HOLDING Sp. z o.o. each, which holds 100% of shares in the following operating companies: TAMEH POLSKA Sp. z o.o. composed of: Zakład Wytwarzania Nowa, Elektrownia Blachownia, Elektrociepłownia in Kraków (EC Kraków) and in TAMEH Czech s r.o. Before the contribution date, i.e. 10 December 2010 the profit or loss and the assets and liabilities of Zakład Wytwarzania Nowa, constituting a part of TAURON Ciepło Sp. z o.o., were presented in the Heat segment, while the profit or loss and the assets and liabilities of Elektrownia Blachownia, being a part of TAURON Wytwarzanie S.A., were disclosed in the Generation segment. On the contribution date, the organized parts of the enterprise in question became a part of TAMEH POLSKA Sp. z o.o. and, as a joint-venture, they are measured using the equity method and recognized in the Generation segment.

### 10.1. Operating segments

Revenue, profits and losses, assets and liabilities of individual operating segments of the Group for the years ended 31 December 2014 and 31 December 2013 have been presented below.

| Year ended 31 December 2014 | Mining | Generation | Renewable sources of energy | Distribution | Sales | Heat | Customer service | Other | Unallocated items/ Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | | | |
| Sales to external customers | 486 545 | 1 610 564 | 78 910 | 2 678 276 | 12 352 225 | 1 139 515 | 17 433 | 77 295 | – | **18 440 763** |
| Inter-segment sales | 707 479 | 1 607 598 | 202 088 | 3 396 370 | 2 925 226 | 215 939 | 592 588 | 183 768 | (9 831 056) | **–** |
| **Segment revenue** | **1 194 024** | **3 218 162** | **280 998** | **6 074 646** | **15 277 451** | **1 355 454** | **610 021** | **261 063** | **(9 831 056)** | **18 440 763** |
| **Profit/(loss) of the segment** | **(6 829)** | **(189 247)** | **102 577** | **1 209 344** | **582 307** | **158 763** | **41 120** | **15 473** | **(11 442)** | **1 902 066** |
| Unallocated expenses | – | – | – | – | – | – | – | – | (71 953) | **(71 953)** |
| **EBIT** | **(6 829)** | **(189 247)** | **102 577** | **1 209 344** | **582 307** | **158 763** | **41 120** | **15 473** | **(83 395)** | **1 830 113** |
| Share in profit/(loss) of joint ventures | – | 1 247 | – | – | – | (2 183) | – | – | – | **(936)** |
| Net finance income (costs) | – | – | – | – | – | – | – | – | (330 962) | **(330 962)** |
| **Profit/(loss) before income tax** | **(6 829)** | **(188 000)** | **102 577** | **1 209 344** | **582 307** | **156 580** | **41 120** | **15 473** | **(414 357)** | **1 498 215** |
| Income tax expense | – | – | – | – | – | – | – | – | (312 655) | **(312 655)** |
| **Net profit/(loss) for the year** | **(6 829)** | **(188 000)** | **102 577** | **1 209 344** | **582 307** | **156 580** | **41 120** | **15 473** | **(727 012)** | **1 185 560** |
| **Assets and liabilities** | | | | | | | | | | |
| Segment assets | 1 742 510 | 7 984 019 | 1 985 920 | 15 012 125 | 3 715 551 | 2 775 525 | 267 663 | 191 933 | – | **33 675 246** |
| Investments in joint ventures | – | 409 108 | – | – | – | 5 476 | – | – | – | **414 584** |
| Unallocated assets | – | – | – | – | – | – | – | – | 469 363 | **469 363** |
| **Total assets** | **1 742 510** | **8 393 127** | **1 985 920** | **15 012 125** | **3 715 551** | **2 781 001** | **267 663** | **191 933** | **469 363** | **34 559 193** |
| Segment liabilities | 706 921 | 1 202 912 | 122 980 | 2 457 586 | 1 489 054 | 346 675 | 284 517 | 39 213 | – | **6 649 858** |
| Unallocated liabilities | – | – | – | – | – | – | – | – | 9 912 771 | **9 912 771** |
| **Total liabilities** | **706 921** | **1 202 912** | **122 980** | **2 457 586** | **1 489 054** | **346 675** | **284 517** | **39 213** | **9 912 771** | **16 562 629** |
| **EBIT** | **(6 829)** | **(189 247)** | **102 577** | **1 209 344** | **582 307** | **158 763** | **41 120** | **15 473** | **(83 395)** | **1 830 113** |
| **Depreciation/amortization** | **(105 241)** | **(441 085)** | **(77 589)** | **(947 792)** | **(25 906)** | **(149 644)** | **(43 045)** | **(6 685)** | **–** | **(1 796 987)** |
| **EBITDA** | **98 412** | **251 838** | **180 166** | **2 157 136** | **608 213** | **308 407** | **84 165** | **22 158** | **(83 395)** | **3 627 100** |
| **Other segment information** | | | | | | | | | | |
| Capital expenditure* | 188 897 | 403 503 | 115 951 | 1 934 781 | 5 928 | 335 575 | 96 346 | 8 611 | – | **3 089 592** |

* Capital expenditure includes expenditures for property, plant and equipment and intangible assets, excluding acquisition of greenhouse gas emission allowances and energy certificates.

*(in PLN '000)*

| Year ended 31 December 2013 (*adjusted figures*) | Mining | Generation | Renewable sources of energy | Distribution | Sales | Heat | Customer service | Other | Unallocated items/ Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | | | |
| Sales to external customers | 663 986 | 880 474 | 62 604 | 2 287 238 | 14 025 034 | 1 091 201 | 10 906 | 109 679 | – | **19 131 122** |
| Inter-segment sales | 733 520 | 3 693 791 | 141 891 | 3 710 232 | 3 992 559 | 246 521 | 481 677 | 200 533 | (13 200 724) | **–** |
| **Segment revenue** | **1 397 506** | **4 574 265** | **204 495** | **5 997 470** | **18 017 593** | **1 337 722** | **492 583** | **310 212** | **(13 200 724)** | **19 131 122** |
| **Profit/(loss) of the segment** | **65 786** | **(458 954)** | **92 978** | **1 295 639** | **864 579** | **110 909** | **26 837** | **10 816** | **(1 308)** | **2 007 282** |
| Unallocated expenses | – | – | – | – | – | – | – | – | (73 216) | **(73 216)** |
| **EBIT** | **65 786** | **(458 954)** | **92 978** | **1 295 639** | **864 579** | **110 909** | **26 837** | **10 816** | **(74 524)** | **1 934 066** |
| Share in profit/(loss) of joint ventures | – | (326) | – | – | – | (2 383) | – | – | – | **(2 709)** |
| Net finance income (costs) | – | – | – | – | – | – | – | – | (247 736) | **(247 736)** |
| **Profit/(loss) before income tax** | **65 786** | **(459 280)** | **92 978** | **1 295 639** | **864 579** | **108 526** | **26 837** | **10 816** | **(322 260)** | **1 683 621** |
| Income tax expense | – | – | – | – | – | – | – | – | (337 136) | **(337 136)** |
| **Net profit/(loss) for the year** | **65 786** | **(459 280)** | **92 978** | **1 295 639** | **864 579** | **108 526** | **26 837** | **10 816** | **(659 396)** | **1 346 485** |
| **Assets and liabilities** | | | | | | | | | | |
| Segment assets | 1 465 831 | 8 614 769 | 1 944 940 | 14 002 290 | 3 111 539 | 2 157 282 | 183 519 | 170 774 | – | **31 650 944** |
| Investments in joint ventures | – | 32 064 | – | – | – | 12 334 | – | – | – | **44 398** |
| Unallocated assets | – | – | – | – | – | – | – | – | 660 228 | **660 228** |
| **Total assets** | **1 465 831** | **8 646 833** | **1 944 940** | **14 002 290** | **3 111 539** | **2 169 616** | **183 519** | **170 774** | **660 228** | **32 355 570** |
| Segment liabilities | 612 791 | 1 481 329 | 112 000 | 2 380 849 | 1 786 932 | 345 216 | 214 010 | 42 372 | – | **6 975 499** |
| Unallocated liabilities | – | – | – | – | – | – | – | – | 7 586 572 | **7 586 572** |
| **Total liabilities** | **612 791** | **1 481 329** | **112 000** | **2 380 849** | **1 786 932** | **345 216** | **214 010** | **42 372** | **7 586 572** | **14 562 071** |
| **EBIT** | **65 786** | **(458 954)** | **92 978** | **1 295 639** | **864 579** | **110 909** | **26 837** | **10 816** | **(74 524)** | **1 934 066** |
| **Depreciation/amortization** | **(99 997)** | **(487 806)** | **(42 585)** | **(912 742)** | **(34 629)** | **(124 544)** | **(18 446)** | **(6 669)** | **–** | **(1 727 418)** |
| **EBITDA** | **165 783** | **28 852** | **135 563** | **2 208 381** | **899 208** | **235 453** | **45 283** | **17 485** | **(74 524)** | **3 661 484** |
| **Other segment information** | | | | | | | | | | |
| Capital expenditure* | 256 524 | 520 926 | 606 915 | 2 080 675 | 21 424 | 202 252 | 82 746 | 8 093 | – | **3 779 555** |

* Capital expenditure includes expenditures for property, plant and equipment and intangible assets, excluding acquisition of greenhouse gas emission allowances and energy certificates.

### 10.2. Geographic areas of operations

The majority of the Group's business operations is carried out in Poland. In the years ended 31 December 2014 and 31 December 2013 export sales amounted to PLN 487 453 thousand and PLN 542 150 thousand, respectively.

*(in PLN '000)*

## 11. Sales revenue

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Sale of goods for resale, finished goods and materials without elimination of excise** | **12 648 676** | **13 413 345** |
| Excise | (453 850) | (448 585) |
| **Sale of goods for resale, finished goods and materials, of which:** | **12 194 826** | **12 964 760** |
| Electricity | 10 503 015 | 11 148 161 |
| Heat energy | 629 766 | 657 396 |
| Property rights arising from energy certificates | 213 062 | 156 791 |
| Greenhouse gas emission allowances | 4 469 | 63 608 |
| Compensation for termination of PPAs | – | (18 886) |
| Coal | 470 519 | 628 091 |
| Furnace blast | 159 422 | 147 565 |
| Compressed air | 71 122 | 70 322 |
| Milling products | 31 813 | 27 654 |
| Gas | 23 586 | 2 710 |
| Other goods for resale, finished goods and materials | 88 052 | 81 348 |
| **Rendering of services, of which:** | **6 193 716** | **6 114 597** |
| Distribution and trade services | 5 816 878 | 5 701 653 |
| Connection fees | 122 594 | 158 695 |
| Maintenance of road lighting | 111 634 | 98 002 |
| Revenue due to power and heat collisions | 20 463 | 31 928 |
| Charges for illegal electricity consumption | 6 618 | 8 095 |
| Other services | 115 529 | 116 224 |
| **Other revenue** | **52 221** | **51 765** |
| **Total sales revenue** | **18 440 763** | **19 131 122** |

## 12. Cost of goods, products, materials and services sold

### 12.1. Expenses by type

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Costs by type** | | |
| Depreciation of property, plant and equipment and amortization of intangible assets | (1 796 987) | (1 727 418) |
| Impairment of property, plant and equipment and intangible assets | (51 636) | (280 954) |
| Materials and energy | (2 199 889) | (2 443 547) |
| Maitenance and repair services | (416 141) | (423 395) |
| Distribution services | (1 541 950) | (1 287 692) |
| Other external services | (736 375) | (803 000) |
| Taxes and charges | (692 189) | (1 075 581) |
| Employee benefits expense | (2 795 472) | (2 668 301) |
| Inventory write-downs | (9 934) | 50 075 |
| Allowance for doubtful debts | (36 218) | (49 662) |
| Other | (129 784) | (117 509) |
| **Total costs by type** | **(10 406 575)** | **(10 826 984)** |
| Change in inventories, prepayments, accruals and deferred income | 61 872 | 82 674 |
| Cost of goods produced for internal purposes | 597 273 | 508 524 |
| Selling and distribution expenses | 549 164 | 553 502 |
| Administrative expenses | 664 187 | 645 406 |
| Cost of goods for resale and materials sold | (6 977 984) | (6 953 583) |
| **Cost of sales** | **(15 512 063)** | **(15 990 461)** |

*(in PLN '000)*

### 12.2. Employee benefits expenses

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Wages and salaries | (2 003 756) | (2 013 486) |
| Social security costs | (394 979) | (400 116) |
| Jubilee bonuses | (137 866) | (26 714) |
| Social Fund | (59 782) | (60 125) |
| Post-employment benefit expenses, of which: | (72 537) | (62 065) |
| Provision for retirement, disability and similar benefits | (7 513) | (8 810) |
| Coal allowances and special electricity rates and charges | (1 514) | (1 829) |
| Social Benefits Fund | (1 858) | 3 835 |
| Contributions to employee retirement plans | (61 652) | (55 261) |
| Voluntary termination scheme | (42 809) | (36 101) |
| Other employee benefit expenses | (83 743) | (69 694) |
| **Employee benefits expenses, of which:** | **(2 795 472)** | **(2 668 301)** |
| Items included in cost of sales | (1 841 096) | (1 673 918) |
| Items included in selling and distribution expenses | (276 414) | (242 707) |
| Movement in stock of finished goods | (93 151) | (184 226) |
| Items included in administrative expenses | (358 789) | (360 811) |
| Items included in cost of goods produced for internal purposes | (226 022) | (206 639) |

The costs resulting from provisions for jubilee bonuses increased in the year ended 31 December 2014 because the discount rate assumed in the actuarial valuation had been changed form from 4% to 2.25%, as discussed in detail in Note 38.1 to these consolidated financial statements. Actuarial gains and losses on provisions for jubilee bonuses are fully charged to expenses for the period.

### 12.3. Depreciation and amortization charges and impairment losses

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Items included in cost of sales:** | **(1 748 760)** | **(1 912 652)** |
| Depreciation of property, plant and equipment | (1 660 950) | (1 602 453) |
| Impairment of property, plant and equipment | (49 443) | (266 822) |
| Amortization of intangible assets | (37 573) | (29 245) |
| Impairment of intangible assets | (794) | (14 132) |
| **Items included in selling and distribution expenses:** | **(42 786)** | **(27 801)** |
| Depreciation of property, plant and equipment | (28 513) | (15 315) |
| Amortization of intangible assets | (14 273) | (12 486) |
| **Items included in administrative expenses:** | **(41 505)** | **(52 222)** |
| Depreciation of property, plant and equipment | (23 049) | (25 067) |
| Impairment of property, plant and equipment | (1 327) | – |
| Amortization of intangible assets | (17 057) | (27 155) |
| Impairment of intangible assets | (72) | – |
| **Items included in cost of goods produced for internal purposes:** | **(15 572)** | **(15 697)** |
| Depreciation of property, plant and equipment | (15 380) | (15 388) |
| Amortization of intangible assets | (192) | (309) |
| **Total depreciation/amortization expense and impairment, of which:** | **(1 848 623)** | **(2 008 372)** |
| Depreciation and amortization | (1 796 987) | (1 727 418) |
| Impairment | (51 636) | (280 954) |

*(in PLN '000)*

## 13. Other operating income

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Penalties, fines, compensations received or receivable | 27 530 | 51 517 |
| Derecognized provisions for non-contractual use of real estate | 46 588 | 8 297 |
| Reversal of other provisions | 61 112 | 6 077 |
| Subsidies/grants and revenue representing the equivalent of amortization/depreciation charges on subsidies/grants to fixed assets or fixed assets received free of charge | 25 335 | 20 998 |
| Surplus of shares taken up in a joint venture over the value of contributed assets | 38 965 | – |
| Reduction in estimated provisions for existing pensioners and disability pensioners related to a change in benefit payment principles | – | 17 326 |
| Reversal of impairment losses recognised for other assets | 4 334 | 2 107 |
| Court proceedings costs, litigation and enforcement costs received or receivable | 2 253 | 3 674 |
| Statute-barred/forgiven liabilities | 7 721 | 2 886 |
| Other | 19 468 | 14 554 |
| **Total other operating income** | **233 306** | **127 436** |

In the year 2014 the Group recognized considerable revenue due to reversal of other provisions: provision for restoration of land and dismantling and removal of fixed assets, provision for counterparty claims, court disputes and other provisions, as discussed in detail in Note 39.2 to these consolidated financial statements.

Following the transaction of taking up shares in a joint venture TAMEH HOLDING Sp. z o.o. with the value of PLN 374 883 thousand in return for contributing assets in the form of Elektrownia Blachownia and Zakład Wytwarzania Nowa with the value of PLN 335 918 thousand, the gain of PLN 38 965 thousand was recognized. The transaction was discussed in detail in Note 21 to these consolidated financial statements.

## 14. Other operating expenses

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Recognition of provisions for non-contractual use of real estate | (35 614) | (39 263) |
| Recognition of other provisions | (27 414) | (27 129) |
| Loss on the disposal of property, plant and equipment / intangible assets | (10 224) | (5 274) |
| Costs of electrical and other damages to non-current assets | (7 378) | (10 779) |
| Social activity costs | (1 647) | (2 048) |
| Court fees, litigation and enforcement costs | (8 561) | (6 602) |
| Penalties, fines, compensations | (4 098) | (3 998) |
| Recognition of impairment losses against other assets | (1 667) | (6 483) |
| Delegated employees | (4 271) | (4 142) |
| Donations | (2 439) | (2 131) |
| Membership fees | (2 726) | (2 252) |
| Write-off for abandoned investments and production as well as liquidated materials | (1 826) | (7 297) |
| Rescue action costs | – | (3 414) |
| Adjustment of property tax for previous years | (1 129) | (1 134) |
| Other | (9 548) | (13 177) |
| **Total other operating expenses** | **(118 542)** | **(135 123)** |

*(in PLN '000)*

## 15. Finance income

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Income from financial instruments, of which:** | **78 447** | **96 696** |
| Interest income | 51 315 | 69 914 |
| Dividends | 3 931 | 18 323 |
| Reversal of write-downs | 292 | 3 014 |
| Gain on the disposal of investments | 22 909 | 4 506 |
| Net revenue from realized derivative instruments | – | 939 |
| **Other finance income** | **7 751** | **2 561** |
| **Total finance income** | **86 198** | **99 257** |

Gain on disposal of investment results mainly from the sale of shares in Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA Jaworzno III Sp. z o.o. – gain on disposal of investment amounted to PLN 22 788 thousand. Transaction details have been presented in Note 49.1 to these consolidated financial statements.

## 16. Finance costs

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Financial instrument costs, of which:** | **(328 847)** | **(271 402)** |
| Interest costs | (285 474) | (237 021) |
| Recognition of impairment losses | (2 170) | (18 304) |
| Revaluation of financial instruments | (12 236) | (1 049) |
| Foreign exchange losses | (14 340) | (2 364) |
| Commission relating to borrowings and debt securities | (14 013) | (12 664) |
| Net costs from realized derivative instruments | (614) | – |
| **Other finance costs, of which:** | **(88 313)** | **(75 591)** |
| Interest on employee benefits | (64 096) | (65 125) |
| Other finance costs | (24 217) | (10 466) |
| **Total finance costs** | **(417 160)** | **(346 993)** |

Revaluation of financial instruments covers measurement of derivatives held by the Parent. The increase in costs arising from measurement of derivatives results mainly from negative measurement of an interest rate swap (IRS), partially hedging interest cash flows related to Tranche A bonds, which were redeemed on 29 December 2014. Until early redemption, the accounting treatment of the instrument complied with the hedge accounting principles. After closing the hedged item, the IRS was no longer subject to hedge accounting principles and its carrying amount of PLN 13 380 thousand was recognized in profit/loss for the period.

## 17. Income tax

### 17.1. Tax expense

Key components of the tax expense for the financial years ended 31 December 2014 and 31 December 2013 are as follows:

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Current income tax** | **(238 340)** | **(397 641)** |
| Current income tax expense | (258 363) | (401 918) |
| Adjustments to current income tax from previous years | 20 023 | 4 277 |
| **Deferred tax** | **(74 315)** | **60 505** |
| **Income tax expense in profit/(loss)** | **(312 655)** | **(337 136)** |
| **Income tax expense relating to other comprehensive income** | **68 172** | **(10 495)** |

*(in PLN '000)*

### 17.2. Reconciliation of the effective tax rate

Reconciliation of income tax to gross profit/loss before tax at the statutory tax rate, with income tax calculated at the effective tax rate of the Capital Group for the years ended 31 December 2014 and 31 December 2013:

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Profit/(loss) before taxation** | **1 498 215** | **1 683 621** |
| **Tax at Poland's statutory tax rate of 19%** | **(284 661)** | **(319 888)** |
| Adjustments to income tax from previous years | 20 023 | 4 277 |
| Tax non-deductible costs, of which: | (68 213) | (35 284) |
| Recognition of non-deductible provisions and write-downs/allowances | (12 879) | (9 829) |
| National Disabled Persons Rehabilitation Fund (PFRON) | (4 766) | (4 556) |
| Permanent differences on costs related to tangible assets | (26 317) | (2 599) |
| Representation expenses | (1 723) | (1 455) |
| Other | (22 528) | (16 845) |
| Income not included in taxable profit, of which: | 25 286 | 16 668 |
| Dividends | 721 | 3 480 |
| Reversal of non-deductible provisions and write-downs/allowances | 9 750 | 4 762 |
| Other | 14 815 | 8 426 |
| Changes in deferred tax estimates | (192) | 1 757 |
| Dividend tax | (159) | (69) |
| Other | (4 739) | (4 597) |
| **Tax at the effective rate of 20.9% (2013 – 20.0%)** | **(312 655)** | **(337 136)** |
| Income tax (expense) in profit/(loss) | (312 655) | (337 136) |

### 17.3. Deferred income tax

Deferred income tax results from:

| | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|
| ***Deferred tax liability*** | | |
| – difference between tax base and carrying amount of fixed and intangible assets | 2 037 038 | 2 030 622 |
| – difference between tax base and carrying amount of financial assets | 21 505 | 21 551 |
| – different timing of recognition of sales revenue for tax purposes | 59 105 | 36 847 |
| – recognition of estimated revenue from sale of power distribution services | 8 326 | 40 294 |
| – difference between tax base and carrying amount of property rights arising from energy certificates | 47 490 | 29 688 |
| – other | 14 487 | 16 469 |
| **Deferred tax liability** | **2 187 951** | **2 175 471** |
| ***Deferred tax assets*** | | |
| – difference between tax base and carrying amount of fixed and intangible assets | 5 620 | 7 317 |
| – difference between tax base and carrying amount of inventories | 5 130 | 2 748 |
| – power infrastructure received free of charge and received connection fees | 62 177 | 67 401 |
| – provisions | 667 464 | 672 754 |
| – difference between tax base and carrying amount of financial assets | 27 323 | 29 594 |
| – difference between tax base and carrying amount of financial liabilities | 20 680 | 6 239 |
| – valuation of hedging instruments | 34 377 | 30 354 |
| – different timing of recognition of cost of sales for tax purposes | 38 632 | 35 149 |
| – other accrued expenses | 3 467 | 17 647 |
| – tax losses | 12 758 | – |
| – other | 15 274 | 13 250 |
| **Deferred tax assets** | **892 902** | **882 453** |
| **After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:** | | |
| **Deferred tax asset** | **62 108** | **46 039** |
| **Deferred tax liability** | **(1 357 157)** | **(1 339 057)** |

*(in PLN '000)*

As at 31 December 2014 and as at 31 December 2013 deferred tax asset and deferred tax liability of companies from the Tax Capital Group, described in detail in Note 9.25 hereto, were netted off due to the fact that as of 1 January 2012 these companies have filed combined tax returns.

**Change in deferred tax liability**

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Opening balance** | **2 175 471** | **2 160 699** |
| *Change in the balance:* | | |
| corresponding to profit/loss | 42 968 | 14 579 |
| contribution | (12 397) | – |
| reclassification to disposal group classified as held for sale | (18 910) | – |
| other changes | 819 | 193 |
| **Closing balance** | **2 187 951** | **2 175 471** |

**Change in deferred tax asset**

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Opening balance** | **882 453** | **817 147** |
| *Change in the balance:* | | |
| corresponding to profit/loss | (31 347) | 75 084 |
| corresponding to other comprehensive income | 68 172 | (10 495) |
| contribution | (16 627) | – |
| reclassification to disposal group classified as held for sale | (11 585) | – |
| other changes | 1 836 | 717 |
| **Closing balance** | **892 902** | **882 453** |

### 17.4. Income tax receivables and payables

As at 31 December 2014 the Group had the following income tax assets and liabilities:

- income tax receivables of PLN 26 489 thousand, where PLN 8 390 thousand is income tax receivables of the Tax Capital Group;
- income tax liabilities of PLN 13 518 thousand, where the entire amount does not relate to the Tax Capital Group companies.

Moreover, the Tax Capital Group has a receivable of PLN 22 250 thousand related to filing the application to acknowledge tax excess payment and tax return correction for the year 2013, fully covered with an impairment allowance resulting from pending court proceedings. The receivable in question results from adjustment of component repairs recognized by Group companies, as discussed in detail in Note 45 to the consolidated financial statements.

*(in PLN '000)*

## 18. Property, plant and equipment

### Year ended 31 December 2014

| | Land | Buildings, premises and civil engineering structures | Plant and machinery | Other | Assets under construction | Property, plant and equipment, total |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| **Opening balance** | **114 112** | **17 385 870** | **14 909 785** | **738 450** | **1 213 948** | **34 362 165** |
| Direct purchase | – | – | 107 | 32 | 2 818 951 | **2 819 090** |
| Transfer of assets under construction | 4 511 | 1 409 386 | 1 208 791 | 96 797 | (2 719 485) | **–** |
| Sale, disposal | (615) | (6 231) | (13 159) | (13 421) | (37) | **(33 463)** |
| Liquidation | – | (44 419) | (196 767) | (9 842) | – | **(251 028)** |
| Received free of charge | 10 | 14 620 | 748 | 72 | – | **15 450** |
| Transfers to assets held for sale | (80) | (488 270) | (793 781) | (868) | (21 192) | **(1 304 191)** |
| Contribution | – | (179 107) | (298 531) | (2 773) | (60 296) | **(540 707)** |
| Overhaul expenses | – | 205 | 12 612 | – | 91 867 | **104 684** |
| Write-off of discontinued investments | – | – | – | – | (1 733) | **(1 733)** |
| Items generated internally | – | – | – | – | 47 445 | **47 445** |
| Cost of disassembly of wind farms and decommissioning of mines | – | 86 061 | 3 145 | – | – | **89 206** |
| Other movements | (796) | 17 341 | (13 863) | 154 | (5 205) | **(2 369)** |
| Foreign exchange differences from translation of foreign entities | – | – | 4 | 6 | – | **10** |
| **Closing balance** | **117 142** | **18 195 456** | **14 819 091** | **808 607** | **1 364 263** | **35 304 559** |
| **ACCUMULATED DEPRECIATION** | | | | | | |
| **Opening balance** | **(645)** | **(4 360 059)** | **(4 490 207)** | **(377 855)** | **(5 760)** | **(9 234 526)** |
| Depreciation for the period | – | (802 467) | (840 332) | (85 093) | – | **(1 727 892)** |
| Increase of impairment | (135) | (50 575) | (32 172) | (2 115) | (22) | **(85 019)** |
| Decrease of impairrment | 322 | 12 794 | 20 064 | 1 164 | 459 | **34 803** |
| Sale, disposal | – | 2 427 | 11 361 | 11 608 | – | **25 396** |
| Liquidation | – | 33 287 | 190 786 | 8 890 | – | **232 963** |
| Transfers to assets held for sale | – | 45 919 | 43 679 | 836 | – | **90 434** |
| Contribution | – | 70 684 | 136 587 | 1 989 | – | **209 260** |
| Other movements | – | (1 673) | 2 769 | (129) | – | **967** |
| Foreign exchange differences from translation of foreign entities | – | – | (2) | (1) | – | **(3)** |
| **Closing balance** | **(458)** | **(5 049 663)** | **(4 957 467)** | **(440 706)** | **(5 323)** | **(10 453 617)** |
| **NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD** | **113 467** | **13 025 811** | **10 419 578** | **360 595** | **1 208 188** | **25 127 639** |
| **NET CARRYING AMOUNT AT THE END OF THE PERIOD** | **116 684** | **13 145 793** | **9 861 624** | **367 901** | **1 358 940** | **24 850 942** |

*(in PLN '000)*

### Year ended 31 December 2013

| | Land | Buildings, premises and civil engineering structures | Plant and machinery | Other | Assets under construction | Property, plant and equipment, total |
|---|---|---|---|---|---|---|
| **COST** | | | | | | |
| **Opening balance** | **72 024** | **15 389 230** | **12 633 180** | **641 240** | **2 034 339** | **30 770 013** |
| Direct purchase | – | – | 28 | 344 | 3 499 017 | **3 499 389** |
| Transfer of assets under construction | 38 834 | 1 961 089 | 2 374 464 | 112 884 | (4 487 271) | **–** |
| Sale, disposal | (62) | (3 598) | (17 135) | (10 214) | (47) | **(31 056)** |
| Liquidation | (12) | (60 393) | (94 406) | (7 505) | – | **(162 316)** |
| Received free of charge | – | 28 793 | 126 | – | – | **28 919** |
| Transfers to assets held for sale | – | (4 104) | (146) | 33 | 197 | **(4 020)** |
| Received for use under rental, lease or similar agreements | – | 36 169 | 139 | – | – | **36 308** |
| Overhaul expenses | – | 200 | 2 221 | – | 130 063 | **132 484** |
| Write-off of discontinued investments | – | – | – | – | (7 014) | **(7 014)** |
| Items generated internally | – | – | – | – | 39 408 | **39 408** |
| Cost of disassembly of wind farms and decommissioning of mines | – | 39 471 | 4 600 | – | – | **44 071** |
| Other movements | 3 328 | (987) | 6 730 | 1 695 | 5 256 | **16 022** |
| Foreign exchange differences from translation of foreign entities | – | – | (16) | (27) | – | **(43)** |
| **Closing balance** | **114 112** | **17 385 870** | **14 909 785** | **738 450** | **1 213 948** | **34 362 165** |
| **ACCUMULATED DEPRECIATION** | | | | | | |
| **Opening balance** | **(645)** | **(3 596 281)** | **(3 558 914)** | **(306 975)** | **(6 555)** | **(7 469 370)** |
| Depreciation for the period | – | (770 276) | (804 655) | (83 292) | – | **(1 658 223)** |
| Increase of impairment | – | (39 191) | (227 181) | (1 473) | – | **(267 845)** |
| Decrease of impairment | – | 94 | 225 | 29 | 795 | **1 143** |
| Sale, disposal | – | 785 | 14 809 | 7 837 | – | **23 431** |
| Liquidation | – | 41 704 | 87 327 | 6 257 | – | **135 288** |
| Transfers to assets held for sale | – | 2 683 | 132 | (15) | – | **2 800** |
| Other movements | – | 423 | (1 959) | (224) | – | **(1 760)** |
| Foreign exchange differences from translation of foreign entities | – | – | 9 | 1 | – | **10** |
| **Closing balance** | **(645)** | **(4 360 059)** | **(4 490 207)** | **(377 855)** | **(5 760)** | **(9 234 526)** |
| **NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD** | **71 379** | **11 792 949** | **9 074 266** | **334 265** | **2 027 784** | **23 300 643** |
| **NET CARRYING AMOUNT AT THE END OF THE PERIOD** | **113 467** | **13 025 811** | **10 419 578** | **360 595** | **1 208 188** | **25 127 639** |

Recognition and derecognition of impairment losses for property, plant and equipment had the following impact on operating segment performance.

| | Year ended 31 December 2014 | | | | Year ended 31 December 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Generation | Distribution | Other | Total | Generation | Distribution | Other | Total |
| Increase of impairment | (72 441) | (12 556) | (22) | **(85 019)** | (262 396) | (5 449) | – | **(267 845)** |
| Decrease of impairrment | 33 865 | 929 | 9 | **34 803** | 208 | 932 | 3 | **1 143** |
| **Total impact on the profit for the period** | **(38 576)** | **(11 627)** | **(13)** | **(50 216)** | **(262 188)** | **(4 517)** | **3** | **(266 702)** |

In the year ended 31 December 2014 the Group has purchased property, plant and equipment in the amount of PLN 2 819 090 thousand. Major purchases were related to investments in the following operating segments:

| Purchase of property, plant and equipment by segment | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Distribution | 1 883 562 | 2 031 472 |
| Generation | 298 733 | 392 425 |
| Heat | 288 933 | 154 594 |
| Mining | 185 682 | 251 268 |
| Renewable sources of energy | 115 938 | 606 915 |

Key investment projects carried out by the Group in the financial year 2014 have been presented in Section 1.4.3.2. of the Management Board's Report on the activities of the Capital Group for 2014.

The carrying amount of plant and machinery used as at 31 December 2014 based on finance lease and hire purchase contracts was PLN 45 126 thousand (as at 31 December 2013, it was PLN 51 677 thousand). Assets used based on lease and hire purchase contracts are pledged to secure related liabilities due to finance lease and hire purchase contracts or are property of the lessor.

The carrying amount of buildings and structures used as at 31 December 2014 based on finance lease and hire purchase contracts was PLN 50 857 thousand (as at 31 December 2013, it was PLN 55 786 thousand). Assets used based on lease and hire purchase contracts are pledged to secure related liabilities due to finance lease and hire purchase contracts or are property of the lessor.

In 2014, the Group capitalized interest in the value of fixed assets under construction and intangible assets not commissioned for use, of PLN 46 275 thousand (as compared to PLN 73 138 thousand in 2013). Lower capitalization results from commissioning major investment projects in the second half of 2013: regaining full production capacity in Elektrociepłownia Bielsko-Biała and construction of Wicko and Marszewo wind farms. As a result, the capitalization of borrowing costs on these investments has been discontinued.

**Impairment tests**

Taking into account the indications that the market value of the Company's net assets has recently been below their carrying amount as well as the general situation in the power sector, the Group tested its property, plant and equipment for impairment as at 31 December 2014.

The tests required estimating the value in use of cash generating units, based on their future cash flows discounted to the current value with the discount rate.

The impairment test for property, plant and equipment was carried out the level of individual companies, except for:

- TAURON Wytwarzanie S.A. – where cash generating units were identified based on the cost nature and analysis of the applied methods of contracting and allocating generation from particular generation units. Consequently, the test was performed for cash-generating units understood as generation units or groups of generation units;
- TAURON Ekoenergia Sp. z o.o. – where water power plant and wind power plants were tested for impairment separately, and
- TAURON Ciepło Sp. z o.o. – where the activities related to generation of heat and electricity in professional and systemic thermal-electric power plants were separated as well as transmission and distribution of heat (former thermal energetics companies).

Key assumptions made to estimate the value in use of property, plant and equipment:

- The adopted price path of power coal, other coal sizes and gaseous fuels;
- The adopted electricity wholesale price path for the years 2015–2024, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring $CO_2$ emission allowances;
- Emission limits for generating electricity specified in the regulation of the Ministry of Economy, adjusted by capital expenditure incurred and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted by the level of operations, i.e. generation of heat;
- Green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates;
- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional on the Regulatory Asset Value;
- The adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- Sales volumes taking into account GDP growth and increased market competition;
- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- Maintenance of the production capacity of the existing non-current assets as a result of replacement investments;
- The level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.70% to 10.03% in nominal terms before tax.

*(in PLN '000)*

The impairment test of assets carried out as at 31 December 2014 showed that a portion of assets in the Generation segment related to Elektrownia Stalowa Wola, covering in particular shared assets, will not be used as much as planned, becasue the planned extention of the unit generating electricity using renewable sources has not been carried out, hence an additional impairment loss of PLN 54 901 thousand should be recognized. The recoverable amount for this group of assets corresponds to the value in use, which was estimated using an after-tax discount rate of 7.37%. Impairment loss has been charged to cost of sales.

As at 31 December 2013 the impairment loss on property, plant and equipment in ineffective generation units amounted to PLN 262 187 thousand.

## 19. Goodwill

As at the acquisition date the goodwill acquired is allocated to each cash-generating unit that derive benefits from synergy effects. Operating segment, as defined in IFRS 8 *Operating Segments*, is the lowest level in the Group with attributable goodwill and with goodwill monitored for internal management purposes in the Group.

| Goodwill in segment | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|
| Mining | 13 973 | 13 973 |
| Renewable sources of energy | – | 51 902 |
| Distribution | 25 602 | 25 602 |
| Heat | 155 580 | 155 580 |
| **Total** | **195 155** | **247 057** |

As at 31 December 2014, a carrying amount impairment test was performed for the net assets increased by goodwill for individual operating segments: Mining, Renewable Sources of Energy, Distribution and Heat.

Goodwill in the Renewable Sources of Energy segment of PLN 51 902 thousand was reclassified in relation to the planned disposal of wind farms to a disposal group, classified as held for sale in line with IFRS 5 (detailed information available in Note 29).

The recoverable amount in each segment was determined based on the value in use.

The key assumptions affecting the estimated value in use of the tested segments are:

***Mining***

- The adopted price path of power coal and other coal sizes;
- The adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- Maintenance of the production capacity of the existing non-current assets as a result of replacement investments.

***Renewable Sources of Energy***

- Green energy generation volume in line with generation capacity and a price path for electricity selected based on the wholesale price for black energy from the preceding year and prices of certificates in accordance with regulations in force;
- Maintenance of the production capacity of the existing non-current assets as a result of replacement investments.

***Distribution***

- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional on the Regulatory Asset Value;
- Maintenance of the electricity distribution capacity of the existing non-current assets as a result of replacement investments.

***Heat***

- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- Green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates;

- Emission limits for generating electricity and heat in line with regulations of the Council of Ministers;
- Maintenance of the heat generation, distribution and sales capacity of the existing non-current assets as a result of replacement investments.

The assumptions were also used to estimate the value in use of other intangible assets.

The test was performed based on the present value of estimated operating cash flows. The calculations were based on detailed projections for the period from 2015 to 2024 and the estimated residual value. The basis for cash flow calculations is the planned EBIT for 2015–2024 and depreciation/amortization for this period. The EBIT value results from the long-term plan of the Group companies covering the period until 2024. For purposes of the impairment test in the Renewable Sources of Energy and Heat segments detailed projections covering the whole period of their operations were used and the residual value was not determined. Using projections longer than five years results in particular from the long-term nature of investment processes in the power industry. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the legal environment known as at the date of the test.

The values determined reflect the past experience and are consistent with information from external sources.

The discount rate used for calculation reflects the weighted average cost of capital (WACC), taking into account the risk-free rate determined by reference to the yield on 10-year treasury bonds (4.3%) and the risk premium for operations appropriate for the power industry (5.5%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at the level of 2.5% and it corresponds to the estimated long-term inflation rate.

Discount rates used for calculation of the value in use for each segment, before tax:

- Mining: 10.03%
- Renewable Sources of Energy: 8.91%
- Distribution: 8.26%
- Heat: 7.87%

Sensitivity analyses conducted reveal that the projected wholesale prices of electricity and the adopted discount rates are the key factors exerting an effect on the estimated value in use of cash generating units.

According to the Company's forecasts, no rationally possible and highly probable change in any key assumption made in the analyses will decrease the recoverable amount of the net assets plus goodwill to a level below their carrying amount.

The results of the test did not indicate the necessity to recognize any impairment losses on goodwill of any of the cash generating units.

*(in PLN '000)*

## 20. Non-current intangible assets

### Year ended 31 December 2014

| | Development expenses | Perpetual usufruct | Software, concessions, patents, licenses and similar items | Energy certificates | Greenhouse gas emission allowances | Other intangible assets | Intangible assets not made available for use | Intangible assets, total |
|---|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | | |
| **Opening balance** | **4 030** | **810 712** | **379 236** | **20 250** | **34 528** | **109 979** | **84 633** | **1 443 368** |
| Direct purchase | – | – | 175 | 152 946 | 226 566 | – | 118 198 | **497 885** |
| Transfer of intangible assets not made available for use | – | 5 452 | 105 783 | – | – | 43 677 | (154 912) | **–** |
| Sale, disposal | – | (1 389) | – | – | – | – | – | **(1 389)** |
| Liquidation | – | (77) | (7 504) | – | – | (240) | – | **(7 821)** |
| Produced internally | – | – | – | 50 384 | – | – | – | **50 384** |
| Reclassifications | – | – | – | (16 183) | 4 009 | – | – | **(12 174)** |
| Contribution | – | (22 178) | (3 704) | – | – | – | – | **(25 882)** |
| Transfers to assets held for sale | – | (2 837) | – | – | – | (173) | – | **(3 010)** |
| Other movements | 640 | (13) | 1 293 | – | – | 527 | 5 515 | **7 962** |
| Foreign exchange differences from translation of foreign entities | – | – | 12 | – | – | – | 2 | **14** |
| **Closing balance** | **4 670** | **789 670** | **475 291** | **207 397** | **265 103** | **153 770** | **53 436** | **1 949 337** |
| **ACCUMULATED AMORTIZATION** | | | | | | | | |
| **Opening balance** | **(3 442)** | **(14 449)** | **(242 012)** | **–** | **–** | **(23 460)** | **–** | **(283 363)** |
| Amortization for the period | (380) | – | (56 304) | – | – | (12 411) | – | **(69 095)** |
| Increase of impairment | – | (3 083) | (88) | – | – | – | – | **(3 171)** |
| Decrease of impairment | – | 2 235 | 116 | – | – | – | – | **2 351** |
| Sale, disposal | – | – | – | – | – | – | – | **–** |
| Liquidation | – | – | 7 454 | – | – | 236 | – | **7 690** |
| Contribution | – | – | 2 051 | – | – | – | – | **2 051** |
| Other movements | – | – | (1 158) | – | – | – | – | **(1 158)** |
| Foreign exchange differences from translation of foreign entities | – | – | (8) | – | – | – | – | **(8)** |
| **Closing balance** | **(3 822)** | **(15 297)** | **(289 949)** | **–** | **–** | **(35 635)** | **–** | **(344 703)** |
| **NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD** | **588** | **796 263** | **137 224** | **20 250** | **34 528** | **86 519** | **84 633** | **1 160 005** |
| **NET CARRYING AMOUNT AT THE END OF THE PERIOD** | **848** | **774 373** | **185 342** | **207 397** | **265 103** | **118 135** | **53 436** | **1 604 634** |

### Year ended 31 December 2013

| | Development expenses | Perpetual usufruct | Software, concessions, patents, licenses and similar items | Energy certificates | Greenhouse gas emission allowances | Other intangible assets | Intangible assets not made available for use | Intangible assets, total |
|---|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | | |
| **Opening balance** | **3 898** | **812 667** | **345 194** | **–** | **95 874** | **91 351** | **39 048** | **1 388 032** |
| Direct purchase | – | – | – | 20 250 | 235 139 | – | 108 135 | **363 524** |
| Transfer of intangible assets not made available for use | – | 5 043 | 38 196 | – | – | 18 103 | (61 342) | **–** |
| Sale, disposal | – | (2 286) | – | – | – | – | – | **(2 286)** |
| Liquidation | – | (382) | (5 878) | – | – | (12) | – | **(6 272)** |
| Reclassifications | – | – | – | – | (296 200) | – | – | **(296 200)** |
| Transfers to assets held for sale | – | (889) | – | – | – | – | – | **(889)** |
| Other movements | 132 | (3 441) | 1 779 | – | (285) | 537 | (1 200) | **(2 478)** |
| Foreign exchange differences from translation of foreign entities | – | – | (55) | – | – | – | (8) | **(63)** |
| **Closing balance** | **4 030** | **810 712** | **379 236** | **20 250** | **34 528** | **109 979** | **84 633** | **1 443 368** |
| **ACCUMULATED AMORTIZATION** | | | | | | | | |
| **Opening balance** | **(3 263)** | **(573)** | **(189 764)** | **–** | **–** | **(12 176)** | **–** | **(205 776)** |
| Amortization for the period | (155) | – | (57 711) | – | – | (11 329) | – | **(69 195)** |
| Increase of impairment | (24) | (13 877) | (231) | – | – | – | – | **(14 132)** |
| Decrease of impairment | – | – | – | – | – | – | – | **–** |
| Sale, disposal | – | – | – | – | – | – | – | **–** |
| Liquidation | – | – | 5 539 | – | – | 5 | – | **5 544** |
| Other movements | – | 1 | 132 | – | – | 40 | – | **173** |
| Foreign exchange differences from translation of foreign entities | – | – | 23 | – | – | – | – | **23** |
| **Closing balance** | **(3 442)** | **(14 449)** | **(242 012)** | **–** | **–** | **(23 460)** | **–** | **(283 363)** |
| **NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD** | **635** | **812 094** | **155 430** | **–** | **95 874** | **79 175** | **39 048** | **1 182 256** |
| **NET CARRYING AMOUNT AT THE END OF THE PERIOD** | **588** | **796 263** | **137 224** | **20 250** | **34 528** | **86 519** | **84 633** | **1 160 005** |

*(in PLN '000)*

***Impairment tests***

Taking into account the indications that the market value of the Company's net assets has recently been below their carrying amount as well as the general situation in the power sector, the Group tested its intangible assets for impairment as at 31 December 2014.

The value in use of intangible assets was estimated using the assumptions adopted to goodwill testing, as described in Note 19.

## 21. Shares in joint ventures

***Elektrociepłownia Stalowa Wola S.A.***

Elektrociepłownia Stalowa Wola S.A. is a special purpose vehicle set up in 2010 on the initiative of TAURON Polska Energia S.A. and PGNiG S.A.

As a joint venture it is accounted for using the equity method in the consolidated financial statements. TAURON Polska Energia S.A. holds an indirect interest amounting to 50% in the share capital of this company and 50% in its governing body through TAURON Wytwarzanie S.A.

Under the agreements of 20 June 2012 among PGNiG S.A., TAURON Polska Energia S.A. and Elektrociepłownia Stalowa Wola S.A., TAURON Polska Energia S.A. granted loans to Elektrociepłownia Stalowa Wola S.A. with a view to satisfying the necessary conditions for provision of funding to Elektrociepłownia Stalowa Wola S.A. by the European Bank for Reconstruction and Development and the European Investment Bank. The outstanding amounts of these loans as at the balance sheet date have been presented below:

| | As at 31 December 2014 | | As at 31 December 2013 | |
|---|---|---|---|---|
| | Principal | Interest | Principal | Interest |
| Subordinated loan | 177 000 | 21 331 | 177 000 | 12 310 |
| VAT loan | 5 850 | 12 | – | – |
| **Total loans granted to Elektrociepłownia Stalowa Wola S.A., of which:** | **182 850** | **21 343** | **177 000** | **12 310** |
| Non-current | 177 000 | 21 331 | 177 000 | 12 310 |
| Current | 5 850 | 12 | – | – |

As at the end of the reporting period, the amount disbursed under the subordinated loan agreement was PLN 177 000 thousand, i.e. the maximum contractual amount. The loan with interest due is to be finally repaid no later than by the end of 2032.

In the year ended 31 January 2014, the interest income due to loans granted reached PLN 9 139 thousand. The Group presented interest income due to loans granted of Elektrociepłownia Stalowa Wola S.A. in the portion corresponding to unrelated investors' interests in the joint venture in the consolidated financial statements.

***Elektrownia Blachownia Nowa Sp. z o.o.***

On 5 September 2012 TAURON Wytwarzanie S.A., subsidiary, and KGHM Polska Miedź S.A. established a special purpose vehicle named Elektrownia Blachownia Nowa Sp. z o.o. with the registered address in Kędzierzyn Koźle. The Company was set up to perform a comprehensive investment project including preparation, construction and operation of a combined cycle gas and steam unit with the capacity of ca. 850 MWe on the land of TAURON Wytwarzanie S.A. – Oddział Elektrownia Blachownia.

As a joint venture Elektrownia Blachownia Nowa Sp. z o.o. is accounted for in the consolidated financial statements using the equity method. TAURON Polska Energia S.A. holds an indirect interest amounting to 50% in the share capital of this company and 50% in its governing body through TAURON Wytwarzanie S.A.

On 30 December 2013 TAURON Polska Energia S.A., KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. concluded an agreement, based on which the construction of gas and steam power unit in Elektrownia Blachownia Nowa Sp. z o.o. has been suspended. The decision resulted from the current situation in the electricity and gas market entailing higher investment risk, which made the entities review and optimize the project. In the year ended 31 December 2014 no further developments in the project implementation occurred.

The parties undertook to ensure further business operations of Elektrownia Blachownia Nowa Sp. z o.o., securing deliverables provided thus far, in particular updating project documentation and ensuring on-going monitoring of the energy market and regulatory environment in view of the possibility to restart project performance as soon as possible. The parties agreed that the decision to recommence the project will be adopted in the form of a separate agreement which is expected to be concluded by 31 December 2016.

*(in PLN '000)*

***TAMEH HOLDING Sp. z o.o. and subsidiaries***

On 9 July 2014, TAURON Polska Energia S.A. established TAMEH HOLDING Sp. z o.o. and TAMEH POLSKA Sp. z o.o., both companies registered in Dąbrowa Górnicza. The entities were set up to carry out a shared project of the TAURON Group and ArcelorMittal Group.

On 11 August 2014, the TAURON Group entered into an agreement with the ArcelorMittal Group. The shareholders agreement states that TAMEH HOLDING Sp. z o.o. will carry out investment and operational projects related to industrial power sector. The agreement was concluded for the period of 15 years with possible term extension.

On 26 November 2014 a resolution concerning an increase in the issued capital of TAMEH POLSKA Sp. z o.o. was adopted. 96.83% of shares in the increased capital of TAMEH POLSKA Sp. z o.o. was taken by the Company and covered with a contribution-in-kind of an organized part of the following enterprises: TAURON Wytwarzanie S.A. (Elektrownia Blachownia) and TAURON Ciepło Sp. z o.o. (Zakład Wytwarzania Nowa). The remaining portion of shares was taken up by companies from the ArcelorMittal Group and covered with a contribution-in-kind in the form an organized part of the enterprise of ArcelorMittal Poland S.A. (Elektrociepłownia Kraków).

On 10 December 2014, the spin-off of TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. in the form of separation of organized parts of enterprises contributed to TAMEH POLSKA Sp. z o.o. was registered. As a result, the issued capital of TAURON Ciepło Sp. z o.o. was reduced from PLN 1 375 226 thousand to PLN 1 098 349 thousand, i.e. by PLN 276 877 thousand. The spin-off of TAURON Wytwarzanie S.A. did not entail a reduction in the issued capital.

On 11 December 2014, the Company sold 50% of shares in TAMEH HOLDING Sp. z o.o. with the value of PLN 41 thousand to ArcelorMittal Poland S.A. On the same day, the Extraordinary Shareholders' Meeting of TAMEH HOLDING Sp. z o.o. adopted a resolution to increase the issued capital of the entity from PLN 5 thousand to PLN 658 681 thousand. On 19 December 2014, the increase in the issued capital of TAMEH HOLDING Sp. z o.o. was registered. TAURON Polska Energia S.A. took up 50% of shares in the increased capital of TAMEH HOLDING Sp. z o.o. in return for contributing shares held in TAMEH POLSKA Sp. z o.o. At the same time, ArcelorMittal Group companies took up 50% of the shares, having contributed shares held in TAMEH POLSKA Sp. z o.o. and ArcelorMittal Energy Ostrava s.r.o. (currently: TAMEH Czech s.r.o.)

The value of shares in TAMEH HOLDING Sp. z o.o. was PLN 374 883 thousand. The purchase price for shares taken up was increased by acquisition costs of PLN 873 thousand. The net assets transferred by the Group amounted to PLN 335 918 thousand.

Following the transactions concluded, each capital group holds 50% of shares in TAMEH HOLDING Sp. z o.o. TAMEH HOLDING Sp. z o.o. holds 100% of shares in TAMEH POLSKA Sp. z o.o. composed of: Zakład Wytwarzania Nowa, Elektrownia Blachownia, Elektrociepłownia in Kraków (EC Kraków) and 100% of shares in TAMEH Czech s.r.o.

Investments in joint ventures measured using the equity method as at 31 December 2014 and for the year ended 31 December 2014 have been presented below:

| | Elektrociepłownia Stalowa Wola S.A. | Elektrownia Blachownia Nowa Sp. z o.o. | TAMEH HOLDING Sp. z o.o.* | As at 31 December 2014 |
|---|---|---|---|---|
| Non-current assets | 973 128 | 27 351 | 985 875 | **1 986 354** |
| Current assets | 53 283 | 36 920 | 319 756 | **409 959** |
| Non-current liabilities (-) | (900 635) | – | (34 085) | **(934 720)** |
| Current liabilities (-) | (92 570) | (59) | (433 758) | **(526 387)** |
| Total net assets | 33 206 | 64 212 | 837 788 | **935 206** |
| Share in net assets | 16 603 | 32 106 | 418 894 | **467 603** |
| Elimination of transactions with Group companies | (11 127) | – | – | **(11 127)** |
| **Invetment in joint ventures** | **5 476** | **32 106** | **377 002** | **414 584** |
| Share in revenue of joint ventures | 54 | 490 | 17 446 | **17 990** |
| **Share in profit/(loss) of joint ventures** | **(2 183)** | **42** | **1 205** | **(936)** |

* The above information about TAMEH HOLDING Sp. z o.o. and its subsidiaries are of a preliminary nature, because the acquisition of subsidiaries by TAMEH HOLDING Sp. z o.o. has not been finally accounted for.

*(in PLN '000)*

The investment in joint venture TAMEH HOLDING Sp. z o.o. differs from the share in net assets owned by the Group, as a result of the fact that the purchase price of shares in TAMEH HOLDING Sp. z o.o. was calculated considering fair value of the assets contributed to the joint venture by the companies of ArcelorMittal Group.

Investments in joint-ventures measured using the equity method as at 31 December 2013 and for the year ended 31 December 2013 have been presented below:

| | Elektrociepłownia Stalowa Wola S.A. | Elektrownia Blachownia Nowa Sp. z o.o. | As at 31 December 2013 |
|---|---|---|---|
| Non-current assets | 728 455 | 27 710 | **756 165** |
| Current assets | 9 588 | 36 624 | **46 212** |
| Non-current liabilities (-) | (697 185) | – | **(697 185)** |
| Current liabilities (-) | (3 203) | (64) | **(3 267)** |
| Total net assets | 37 655 | 64 270 | **101 925** |
| Share in net assets | 18 786 | 32 064 | **50 850** |
| Elimination of transactions with Group companies | (6 452) | – | **(6 452)** |
| **Invetment in joint ventures** | **12 334** | **32 064** | **44 398** |
| Share in revenue of joint ventures | 110 | 540 | **650** |
| **Share in profit/(loss) of joint ventures** | **(2 383)** | **(326)** | **(2 709)** |

## 22. Other financial assets

| | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|
| Shares in unlisted and listed companies | 112 396 | 125 303 |
| Advance payment for acquisition of shares | – | 232 500 |
| Bonds, T-bills and other debt securities | 23 622 | 1 890 |
| Deposits | 35 823 | 30 831 |
| Loans granted | 198 331 | 189 310 |
| Other long-term receivables | 30 530 | 20 747 |
| Other | 4 220 | 2 463 |
| **Total** | **404 922** | **603 044** |
| Non-current | 377 383 | 587 166 |
| Current | 27 539 | 15 878 |

A decrease in other financial assets results mainly from the settlement of the amount paid to Kompania Węglowa S.A. for the shares acquired in TAURON Wydobycie S.A. in December 2013 (i.e. PLN 232 500 thousand) due to the acquisition of non-controlling interest, in relation to meeting the conditions precedent for the transfer of the title to acquired shares in TAURON Wydobycie S.A.

## 23. Other non-current non-financial assets

| | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|
| Prepayments for assets under construction and intangible assets | 407 845 | 109 818 |
| Other prepayments | 6 564 | 46 322 |
| Costs of preparing production in hard coal mines | 243 534 | 198 564 |
| **Total** | **657 943** | **354 704** |

The increase in other non-financial assets of PLN 303 239 thousand in the year ended 31 December 2014 results mainly from the fact that TAURON Wytwarzanie S.A. transferred the prepayment of PLN 321 819 thousand for construction of a power unit with the capacity of 910 MW in Elektrownia Jaworzno.

*(in PLN '000)*

## 24. Current intangible assets

### Year ended 31 December 2014

| | Energy certificates | Greenhouse gas emission allowances | Current intangible assets, total |
|---|---|---|---|
| **COST** | | | |
| **Opening balance** | **695 427** | **461 123** | **1 156 550** |
| Direct purchase | 554 863 | 22 794 | **577 657** |
| Generated internally | 269 290 | – | **269 290** |
| Cancellation | (838 186) | (463 362) | **(1 301 548)** |
| Reclassification | 43 524 | (12 425) | **31 099** |
| **Closing balance** | **724 918** | **8 130** | **733 048** |
| **ACCUMULATED AMORTIZATION** | | | |
| **Opening balance** | **–** | **–** | **–** |
| **Closing balance** | **–** | **–** | **–** |
| **NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD** | **695 427** | **461 123** | **1 156 550** |
| **NET CARRYING AMOUNT AT THE END OF THE PERIOD** | **724 918** | **8 130** | **733 048** |

### Year ended 31 December 2013

| | Energy certificates | Greenhouse gas emission allowances | Current intangible assets, total |
|---|---|---|---|
| **COST** | | | |
| **Opening balance** | **649 473** | **61 626** | **711 099** |
| Direct purchase | 613 145 | 173 566 | **786 711** |
| Generated internally | 168 419 | – | **168 419** |
| Cancellation | (888 413) | (70 269) | **(958 682)** |
| Sales | (8 354) | – | **(8 354)** |
| Reclassification | 161 157 | 296 200 | **457 357** |
| **Closing balance** | **695 427** | **461 123** | **1 156 550** |
| **ACCUMULATED AMORTIZATION** | | | |
| **Opening balance** | **–** | **–** | **–** |
| **Closing balance** | **–** | **–** | **–** |
| **NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD** | **649 473** | **61 626** | **711 099** |
| **NET CARRYING AMOUNT AT THE END OF THE PERIOD** | **695 427** | **461 123** | **1 156 550** |

*(in PLN '000)*

## 25. Inventories

| | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|
| **Historical cost** | | |
| Raw materials | 285 135 | 337 940 |
| Semi-finished goods and work-in-progress | 123 228 | 117 257 |
| Finished goods | 117 798 | 18 509 |
| Goods for resale | 707 | 1 479 |
| Property rights arising from energy certificates | 20 055 | 84 800 |
| Emission allowances | 1 761 | – |
| **Total** | **548 684** | **559 985** |
| **Write-downs to net realisable value** | | |
| Raw materials | (7 305) | (4 829) |
| Finished goods | (12) | (169) |
| Goods for resale | (21) | – |
| Property rights arising from energy certificates | (13 750) | (45 763) |
| **Total** | **(21 088)** | **(50 761)** |
| **Net realisable value** | | |
| Raw materials | 277 830 | 333 111 |
| Semi-finished goods and work-in-progress | 123 228 | 117 257 |
| Finished goods | 117 786 | 18 340 |
| Goods for resale | 686 | 1 479 |
| Property rights arising from energy certificates | 6 305 | 39 037 |
| Emission allowances | 1 761 | – |
| **Total** | **527 596** | **509 224** |
| | | |
| **Movement in write-downs to net realisable value** | | |
| **Opening balance** | **(50 761)** | **(93 313)** |
| Recognition | (21 441) | (47 868) |
| Reversal | 5 633 | 90 409 |
| Utilization | 45 763 | 11 |
| Other | (282) | – |
| **Closing balance** | **(21 088)** | **(50 761)** |

The key write-downs on inventories cover energy certificates. Recognition and utlisation of write-downs of energy certificates have been discussed in Note 6 to the consolidated financial statements.

## 26. Trade and other receivables

Current trade and other receivables as at 31 December 2014 and 31 December 2013 have been presented in the table below.

| | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|
| Trade receivables | 1 664 191 | 1 862 717 |
| Receivables from sales of fixed and intangible assets | 483 | 8 355 |
| Receivables claimed at court | 20 328 | 20 342 |
| Loans granted | 6 368 | – |
| Other receivables | 277 799 | 243 227 |
| **Total** | **1 969 169** | **2 134 641** |

As at 31 December 2014 long-term trade and other receivables disclosed as other financial assets under non-current assets in the statement of financial position amounted to PLN 30 530 thousand and included long-term trade receivables of PLN 38 thousand and other long-term receivables of PLN 30 492 thousand.

As at 31 December 2013 long-term trade and other receivables amounted to PLN 20 747 thousand and included long-term trade receivables of PLN 434 thousand and other long-term receivables of PLN 20 313 thousand (as described in Note 22 to the consolidated financial statements).

*(in PLN '000)*

## 27. Other current non-financial assets

| | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|
| **Costs settled over time, including:** | **87 478** | **108 103** |
| Property and tort insurance | 16 795 | 15 962 |
| IT, telecom and postal services | 18 624 | 18 605 |
| Costs of preparing production in hard coal mines | 38 079 | 38 847 |
| Other costs settled over time | 13 980 | 34 689 |
| **Other current non-financial assets including:** | **266 511** | **162 326** |
| Prepayment for intangible assets | – | 40 475 |
| Prepayments for deliveries | 116 299 | 1 238 |
| Receivables from input VAT | 106 629 | 55 883 |
| Receivables from excise duty | 22 138 | 55 534 |
| Other tax receivables | 4 188 | 104 |
| Surplus of Social Fund assets over Social Fund liabilities | 5 212 | 2 822 |
| Other current assets | 12 045 | 6 270 |
| **Total** | **353 989** | **270 429** |

Prepayments for deliveries increased because TAURON Wytwarzanie S.A. purchased coal for PLN 115 344 thousand deposited at the premises of the supplier – Kompania Węglowa S.A.

## 28. Cash and cash equivalents

Cash in bank bears a floating interest rate determined based on interest on overnight deposits. Short-term deposits are made for various periods, from one day to one month, depending on the Group's current demand for cash and bear interest that is calculated according to applicable interest rates.

The balance of cash and cash equivalents disclosed in the statement of cash flows includes:

| | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|
| Cash at bank and in hand | 410 082 | 153 103 |
| Short-term deposits (up to 3 months) | 1 009 991 | 482 206 |
| Other | 836 | 1 600 |
| **Total cash and cash equivalents presented in the statement of financial position, of which:** | **1 420 909** | **636 909** |
| restricted cash | 116 568 | 121 129 |
| Bank overdraft | (11 918) | (93 645) |
| Foreign exchange and other differences | (920) | (2 116) |
| **Total cash and cash equivalents presented in the statement of cash flows** | **1 408 071** | **541 148** |

The difference between the balance of cash recognized in the statement of financial position and that disclosed in the statement of cash flows results mainly from bank overdrafts and exchange gains and losses on measurement of cash on currency accounts.

The overdraft balance decreased mainly because as at 31 December 2014 the Group did not use any external financing in the form of cash pool overdrafts, while as at 31 December 2013 the financing amounted to PLN 88 515 thousand.

Balance of restricted cash includes mainly cash on the account used for settling electricity trading on the Polish Power Exchange, i.e. Towarowa Giełda Energii S.A., of PLN 37 341 thousand held by the Parent and cash on a bank account for bid bonds and deposits of PLN 72 138 thousand.

## 29. Non-current assets and a disposal group classified as held for sale

A disposal group includes the assets and liabilities of four existing wind farms classified as held for sale in relation to the Group's implementation of the off-balance sheet asset financing policy aimed at selling (with the buy-back option) of a majority interest in the existing wind farms to a financial investor and refinancing the existing debt allocated to the wind farms using bank debt when the Company becomes a minority shareholder. Funds obtained in the aforesaid procedure may be used for purposes of other investment projects.

*(in PLN '000)*

The majority interest in the wind farm assets is planned to be sold at the end of the first half of 2015. For purposes of the said transaction, the wind farm assets will be transferred from TAURON Ekoenergia Sp. z o.o. to an existing entity, Marselwind Sp. z o.o., 100% of shares in which are held by TAURON Polska Energia S.A. The spin-off of TAURON Ekoenergia Sp. z o.o. will be carried out under Article 529.1.4 of the Code of Commercial Companies through separating and transferring assets forming an organized part of the enterprise (four wind farms) onto Marselwind Sp. z o.o. in return for shares in the acquirer, all of which will be taken up by TAURON Polska Energia S.A.

Main categories of assets and liabilities of the disposal group classified as held for sale as at 31 December 2014:

| | As at 31 December 2014 |
|---|---|
| Property, plant and equipment | 1 208 545 |
| Goodwill and other intangible assets | 52 077 |
| Other non-current non-financial assets | 36 678 |
| Trade and other short-term receivables | 1 937 |
| Other current non-financial assets | 21 695 |
| **Total assets of a disposal group** | **1 320 932** |
| Other long-term provisions | 58 336 |
| Deferred income tax liability | 7 325 |
| Trade and other short-term payables | 10 484 |
| Other short-term provisions | 1 038 |
| Deferred income and government grants (short-term) | 7 787 |
| **Total liabilities directly related to the disposal group** | **84 970** |
| **Net assets of a disposal group classified as held for sale** | **1 235 962** |

Non-current assets and the disposal group, classified as held for sale, as presented in the statement of financial position as at 31 December 2014 and 31 December 2013:

| | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|
| Disposal group | 1 320 932 | – |
| Other non-current assets | 16 773 | 33 041 |
| **Non-current assets and assets of a disposal group classified as held for sale** | **1 337 705** | **33 041** |
| **Liabilities of a disposal group classified as held for sale** | **84 970** | **–** |

A change in the balance of other non-current assets classified as held for sale in the year ended 31 December 2014 is mainly related to completion of the sale of assets of the closed Elektrownia Halemba, which had been classified as non-current assets held for sale as at 31 December 2013. The total proceeds from sale amounted to PLN 12 800 thousand. The carrying amount of the assets sold was PLN 17 866 thousand. Consequently, the Group recognized a loss on sale of assets of PLN 5 066 thousand. At the same time, the provision for Elektrownia Halemba ash pile restoration of PLN 12 791 thousand was reversed following the sale.

## 30. Carbon dioxide emission allowances

The third phase of the EU Emissions Trading System (EU ETS) has started on 1 January 2013. The third phase assumes a single EU-wide cap on emissions, to be reduced by 1.74% p.a. until 2020. In accordance with the Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community, auctioning has become the key method of obtaining EUA emission allowances, replacing the previous principles of the EU ETS. Individual EU Member States will auction over 40% of allowances awarded in 2013–2020. The remaining allowances will be allocated free of charge to: energy-intensive sectors (exposed to the risk of carbon leakage), other sectors (in line with the strategy to gradually eliminate free allocation) – pursuant to Article 10a of the Directive, and power sectors in selected Member States, including Poland, qualifying for derogation under Article 10c ("derogation allowances"). Derogation allowances are awarded in the years 2013–2020, based on costs of investments, which are a condition for obtaining allowances.

*(in PLN '000)*

In 2014 the TAURON Group was awarded 1 275 401 registered allowances due to generation of heat and 11 925 960 allowances due to electricity generation under requests for free-of-charge allowanced filed in accordance with Article 10a of the Directive and requests for derogation allowances. Moreover, 964 995 allowances due to generation of heat for 2014 were awarded to the Group and registered in 2014.

In the financial and factual reports filed by the TAURON Group in 2014, which concerned investment task performance covered by KPI for the settlement period from 1 July 2013 to 30 June 2014, the value of free-of-charge allowances related to modernization of the electricity generation process for 2014, i.e. 6 197 006 EUA were balanced. The Group expects that the allowances will have been registered by April 2015.

**Balance of carbon dioxide emission allowances in the years ended 31 December 2014 and 31 December 2013**

| $CO_2$ emissions allowances | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Allowances recorded at the beginning of the financial year** | **23 566 799** | **25 646 311** |
| Allowances surrendered (previous year's emissions) | | |
| in Generation Segment | (17 277 731) | (17 850 011) |
| in Heat Segment | (4 381 680) | (3 977 648) |
| Allocation of free-of-charge allowances | 14 166 356 | – |
| Allowances purchased on the secondary market | 47 027 230 | 45 991 345 |
| Allowances sold on the secondary market | (36 123 000) | (26 243 198) |
| Other changes – transferred to TAMEH | (99 738) | – |
| **Allowances recorded at the end of the financial year** | **26 878 236** | **23 566 799** |
| Allowances intended for surrender for a given year: | (14 110 585) | |
| in Generation Segment | (12 620 750) | |
| in Heat Segment | (1 489 835) | |

As at 31 December 2014 the Group held 26 878 236 units on accounts of the National Emission Allowance Register, where 14 110 585 were allocated for surrendering due to emissions in 2014. The related provision was estimated at PLN 8 130 thousand and is considerably lower than that recognized as at 31 December 2013, when it reached PLN 461 123 thousand, because in 2014 the provision was mainly related to free-of-charge allowances awarded.

In the new settlement period covering the years from 2013 to 2020, when the formal Installation Group established in line with the law ceased to exist, carbon dioxide emission allowances have been managed under new agreements stating that the Company is responsible for managing the allowances portfolios of the subsidiaries: TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. The Company's competencies include trading in and surrendering allowances for the Group while the responsibilities of the Group companies include determining emissions of individual installations and reporting to competent bodies as well as having annual emission report reviewed by an independent reviewer.

## 31. Issued capital and other capitals

### 31.1. Issued capital

**Issued capital as at 31 December 2014**

| 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 | 7 947 194 | cash/in-kind contribution |
| BB | registered shares | 163 110 632 | 5 | 815 553 | in-kind contribution |
| | **Total** | **1 752 549 394** | | **8 762 747** | |

As at 31 December 2014, the value of issued capital, the number of shares and the par value of shares did not change compared to 31 December 2013.

*(in PLN '000)*

**Shareholding structure as at 31 December 2014 (to the best of the Company's knowledge)**

| Shareholder | Number of shares | Value of shares | Percentage of share capital | Percentage of total vote |
|---|---|---|---|---|
| State Treasury | 526 848 384 | 2 634 242 | 30.06% | 30.06% |
| KGHM Polska Miedź S.A. | 182 110 566 | 910 553 | 10.39% | 10.39% |
| ING Otwarty Fundusz Emerytalny | 88 742 929 | 443 715 | 5.06% | 5.06% |
| Other shareholders | 954 847 515 | 4 774 237 | 54.49% | 54.49% |
| **Total** | **1 752 549 394** | **8 762 747** | **100.00%** | **100.00%** |

### 31.2. Shareholders' rights

The voting rights of the shareholders holding more than 10% of the total votes in the Company has 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 voting right limitation mentioned above 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 entitling to more than 25% of the total votes in the Company.

Information concerning the limitations in exercising the voting rights has been presented in item 6.6 of the Management Board's report on the activities of the TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2014.

### 31.3. Reserve capital

In the year ended 31 December 2014, the reserve capital was increased by PLN 1 355 987 thousand. Pursuant to a resolution of the Ordinary General Shareholders' Meeting of 15 May 2014 on distribution of profit for 2013, the amount in question was allocated to reserve capital.

### 31.4. Retained earnings and accumulated losses and restrictions on dividend payment

PLN 1 149 138 thousand composed mainly of the profit of the Company for 2014, which has reached PLN 1 146 443 thousand and has not been distributed by the date of approving these financial statements, is subject to distribution. The item has been presented in detail in Note 32.5 of the separate financial statements of the Company for 2014.

Previous year profit/loss arising from settlement of business combinations with subsidiaries and actuarial gains and losses related to provisions for post-employment benefits recognized through other comprehensive income are not distributable.

As at 31 December 2014 and as at the date of approving these financial statements for publication no other dividend restriction occurred.

### 31.5. Revaluation reserve from valuation of hedging instruments

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Opening balance** | **(126 651)** | **(153 703)** |
| Remeasurement of hedging instruments | (21 171) | 30 904 |
| Remeasurement of hedging instruments charged to profit or loss | 964 | 2 493 |
| Deferred income tax | 3 839 | (6 345) |
| **Closing balance** | **(143 019)** | **(126 651)** |

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from bonds issued. As at 31 December 2014 the Group concluded hedging transactions subject to specific risk management policy. Pursuant to a decision of the Financial Risk Management Committee of 30 January 2012, in March 2012 the Parent hedged the interest rate risk arising from bonds issued under the Bond Issue Scheme, by entering into an interest rate swap (IRS) transaction for a term of 5 years. The aforementioned transaction was concluded due to fluctuations in the projected future cash flows from interest payments resulting from the issue of bonds in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows. Following early redemption of Tranche A bonds carried out on 29 December 2014 and discussed in detail in Note 35.2 to these consolidated financial statements, the Company no longer applied hedge accounting to a portion of IRS contracts hedging the bonds redeemed. The Company applies hedge accounting to the remaining transactions.

*(in PLN '000)*

As at 31 December 2014 the Company recognized PLN (143 019) thousand of revaluation reserve from valuation of hedging instruments. It represents a liability arising from measurement of interest rate swaps as at the end of the reporting period, totaling PLN 180 933 thousand, adjusted by a portion of measurement relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The profit/loss for the period was charged with PLN 75 699 thousand, where PLN 74 735 thousand was the amount paid in respect of hedges used in relation to closed interest periods and PLN 964 thousand resulted from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period. The aforementioned costs of hedging IRS transactions increased financial expenses arising from interest on bonds issued in the statement of comprehensive income.

### 31.6. Non-controlling interest

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **At the beginning of period** | **466 334** | **493 339** |
| Dividends paid by subsidiaries | (1 163) | (8 328) |
| Share in actuarial gains/(losses) related to provisions for post-employment benefits | (370) | 2 683 |
| Acquisition of non-controlling interests by the Group | (407 596) | (55 772) |
| Mandatory squeeze-out | (32 567) | (2 083) |
| Share in subsidiaries' net profit or loss | 4 667 | 38 167 |
| Change in non-controlling interests due to mergers | 811 | (1 672) |
| **At the end of period** | **30 116** | **466 334** |

## 32. Earnings per share

| Earnings per share (in PLN) | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Basic and diluted, for profit for the year attributable to equity holders of the parent | 0.67 | 0.75 |

Presented below is information about the earnings and number of shares which served as the basis for calculation of the basic and diluted earnings per share presented in the statement of comprehensive income.

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Net profit for the year attributable to equity holders of the parent | 1 180 893 | 1 308 318 |
| Number of ordinary shares | 1 752 549 394 | 1 752 549 394 |

## 33. Dividends paid and proposed

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Dividends paid in the period** | | |
| Dividends paid throughout the year by subsidiaries | (1 233) | (8 047) |
| Final dividends paid by the parent | (332 984) | (350 510) |
| **Total dividends** | **(334 217)** | **(358 557)** |

By the date of approval of these consolidated financial statements for publication, no decision had been taken concerning dividend payment from profit for 2014 for the Parent.

Dividend payment restrictions are described in Note 31.4 to these consolidated financial statements.

On 15 May 2014, the Ordinary General Shareholders' Meeting of the Company adopted a resolution to allocate PLN 332 984 thousand to dividend payment to the Company's shareholders (PLN 0.19 per share). The dividend was paid out from the net profit generated by the Company in 2013, which amounted to PLN 1 688 972 thousand. The record date was set at 14 August 2014 and the payment date at 4 September 2014.

*(in PLN '000)*

On 16 May 2013, the Ordinary General Shareholders' Meeting adopted a resolution to allocate PLN 350 510 thousand to dividend payment to the Company's shareholders (PLN 0.20 per share). The dividend was paid out from the net profit generated by the Company in 2012, which amounted to PLN 1 435 188 thousand. The record date was set at 3 June 2013 and the payment date at 18 June 2013.

Dividend per share paid out by the Parent for individual years was the following:

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Dividend paid per share (PLN) | 0.19 | 0.20 |

## 34. Acquisition of non-controlling interest and organizational changes

***Acquisition of non-controlling interests***

- **Purchase of shares in TAURON Wydobycie S.A.**

On 10 December 2013, an agreement concerning acquisition of 16 730 525 registered shares in TAURON Wydobycie S.A. by TAURON Polska Energia S.A. from Kompania Węglowa S.A. was signed. The shares in question represent 47.52% of the entity's issued capital and give 31.99% of the total voting rights at the General Shareholders' Meeting.

The total acquisition price was PLN 310 000 thousand. PLN 232 500 thousand was paid on the day of concluding the agreement, while PLN 77 500 thousand – on 22 January 2014 after the conditions precedent for transferring the ownership of shares in TAURON Wydobycie S.A. were fulfilled. In the same day the title to shares in TAURON Wydobycie S.A. held by Kompania Węglowa S.A. was transferred onto the Company.

Under the agreement TAURON Polska Energia S.A. held 100% of shares in TAURON Wydobycie S.A., which gave 100% of votes at the entity's General Shareholders' Meeting, where 47.52% of shares representing 31.99% of votes were held by TAURON Polska Energia S.A. directly and the remaining 52.48% of shares representing 68.01% of votes at the General Shareholders' Meeting of TAURON Wydobycie S.A. were at the Company's disposal under the agreement on the use of shares in TAURON Wydobycie S.A., held by TAURON Wytwarzanie S.A.

As a result of the transaction, non-controlling interest decreased by PLN 382 545 thousand, while retained earnings grew by PLN 72 545 thousand.

- **Acquisition of non-controlling interest in TAURON Ciepło S.A. and in TAURON Wytwarzanie S.A.**

Following mandatory acquisition of minority shareholders of TAURON Ciepło S.A. (before a business combination with Enpower Service Sp. z o.o.) and TAURON Wytwarzanie S.A. – TAURON Polska Energia S.A. became the sole shareholders of the entities in question.

The acquisition of minority shareholders caused a decrease in the value of non-controlling interest by PLN 25 051 thousand and an increase in retained earnings by PLN 4 393 thousand.

***Mandatory squeeze-out***

As a result of the squeeze-outs of treasury shares for redemption purposes continued in the TAURON Group, the value of non-controlling interest in TAURON Wytwarzanie S.A. and TAURON Dystrybucja S.A. and TAURON Ciepło Sp. z o.o. decreased by PLN 32 567 thousand, while retained earnings increased by PLN 5 261 thousand. As at the end of the reporting period the processes were completed in TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. Consequently, TAURON Polska Energia S.A. holds 100% of the issued capitals and governing bodies of these subsidiaries. Non-controlling interests remains in TAURON Dystrybucja S.A. only.

***Change in non-controlling interest due to reorganization***

- **Separation of TAURON Wytwarzanie S.A.**

On 2 January 2014, the division of TAURON Wytwarzanie S.A. through spin-off, pursuant to Article 529.1.4 of the Code of Commercial Companies, involving a transfer of separated assets, i.e. an organized part of the enterprise, i.e. Zespół Elektrociepłowni Bielsko-Biała, to TAURON Ciepło S.A. (at present: TAURON Ciepło Sp. z o.o.), was entered into the National Court Register.

As a result, the issued capital of TAURON Wytwarzanie S.A. was decreased from PLN 1 553 036 thousand to PLN 1 494 863 thousand, while the issued capital of TAURON Ciepło S.A. was increased from PLN 1 238 077 thousand to PLN 1 409 747 thousand.

As a result of the separation the interests in TAURON Wytwarzanie S.A. held by TAURON Polska Energia S.A. decreased to 99.76% (in the issued capital) and 99.79% (in the total number of votes at the General Shareholders' Meeting), while the interests in TAURON Ciepło S.A. held by TAURON Polska Energia S.A. increased to 96.57% (in the issued capital) and 97.14% (in the total number of votes at the General Shareholders' Meeting).

Consequently, the non-controlling interest increased by PLN 811 thousand and retained earnings dropped by the same amount.

***Reorganization changes and other events***

- **Business combination under common control of TAURON Ekoenergia Sp. z o.o., MEGAWAT MARSZEWO Sp. z o.o. and BELS INVESTMENT Sp. z o.o.**

On 2 January 2014, a business combination under common control of TAURON Ekoenergia Sp. z o.o. (the acquirer), MEGAWAT MARSZEWO Sp. z o.o. and BELS INVESTMENT Sp. z o.o. (the acquirees) was registered.

The business combination was carried out under Article 492.1.1 of the Code of Commercial Companies through the transfer of the acquirees' all assets onto the acquirer.

The business combination has not affected the consolidated financial statements.

- **Business combination under common control of Enpower Service Sp. z o.o. and TAURON Ciepło S.A.**

On 30 April 2014, a business combination under common control of Enpower Service Sp. z o.o. (the acquirer) and TAURON Ciepło S.A. (the acquiree) was registered. The business combination was carried out under Article 492.1.1 of the Code of Commercial Companies through the transfer of all assets of TAURON Ciepło S.A. to Enpower Service Sp. z o.o. At the same time, the name of the acquirer has been changed to TAURON Ciepło Sp. z o.o.

The business combination has not affected the consolidated financial statements.

- **Shares taken up in a joint venture TAMEH HOLDING Sp. z o.o.**

On 11 August 2014 the TAURON Group entered into an agreement with the ArcelorMittal Group. The agreement in question states that when conditions precedent have been met the entities became shareholders in TAMEH HOLDING Sp. z o.o. which carries out investment and operational projects related to industrial power sector. The agreement was concluded for the period of 15 years with possible term extension.

Pursuant to the agreement the TAURON Group contributed an organized part of an enterprise of TAURON Wytwarzanie S.A. (Elektrownia Blachownia) and TAURON Ciepło Sp. z o.o. (Zakład Wytwarzania Nowa) to the joint venture, which has been discussed in detail in Note 21 to these consolidated financial statements. Following the transactions concluded, both capital groups have held 50% of shares in TAMEH HOLDING Sp. z o.o. each. TAMEH HOLDING Sp. z o.o. holds 100% of shares in the following operating companies: TAMEH POLSKA Sp. z o.o. composed of: Zakład Wytwarzania Nowa, Elektrownia Blachownia, Elektrociepłownia in Kraków (EC Kraków) and in TAMEH Czech s r.o.

As a result of the transactions, the Group's profit has increased by PLN 38 965 thousand.

- **The Company's purchase of the remaining shares in TAURON Wydobycie S.A. and in Kopalnia Wapienia Czatkowice Sp. z o.o.**

On 28 August 2014 TAURON Polska Energia S.A. acquired the remaining shares in TAURON Wydobycie S.A. and in Kopalnia Wapienia Czatkowice Sp. z o.o. from its subsidiary – TAURON Wytwarzanie S.A. Consequently, as at 31 December 2014 TAURON Polska Energia S.A. directly held 100% of shares in TAURON Wydobycie S.A. and 100% of shares in Kopalnia Wapienia Czatkowice Sp. z o.o.

The event in question has not affected the consolidated financial statements.

- **Filing a liquidation bankruptcy petition for Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. in liquidation**

On 27 October 2014 a liquidation bankruptcy petition concerning Polska Energia Pierwsza – Kompania Handlowa Sp. z o.o. in liquidation with the registered office in Tarnów, in which the Company holds 100% of interests in the issued capital and 100% of votes at the General Shareholders' Meeting, was filed with the 5th Business Division of the District Court in Tarnów. The petition was submitted because the company's counterparties had presented potential future claims the value of which exceeds the value of the company's assets. In its decision of 11 December

*(in PLN '000)*

2014 the District Court in Tarnów rejected a bankruptcy petition with liquidation of assets filed by Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. in liquidation.

Before that, on 2 July 2014, the Extraordinary Shareholders Meeting of Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. had adopted a resolution to dissolve and liquidate the company. The decision to liquidate PE-PKH was taken for business reasons and is a part of the reorganization process. In 2014 the revenue generated by Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation represented ca. 1% of the revenue of the Capital Group.

- **Approval of a separation plan for TAURON Ekoenergia Sp. z o.o.**

On 3 November 2014 a separation plan for TAURON Ekoenergia Sp. z o.o. was approved. The spin-off will be carried out under Article 529.1.4 of the Code of Commercial Companies through separating and transferring an organized part of the enterprise (wind farms) of TAURON Ekoenergia Sp. z o.o. to the acquirer – Marselwind Sp. z o.o. in return for shares of the acquirer which will be taken up by TAURON Polska Energia S.A. As at 31 December 2014 assets and liabilities of wind farms were presented in the statement of financial position as a disposal group and classified as held for sale.

- **Shares taken up in TAURON Sweden Energy AB (publ)**

On 14 November 2014 TAURON Sweden Energy AB (publ) seated in Stockholm was registered. TAURON Polska Energia S.A. took up 100% of shares in the new entity, having contributed PLN 232 thousand (EUR 55 thousand) to capital.

## 35. Interest-bearing loans and borrowings

| | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|
| Loans | 1 232 032 | 1 484 643 |
| Bonds issued | 6 821 830 | 4 300 522 |
| **Total** | **8 053 862** | **5 785 165** |
| Current | 631 530 | 284 633 |
| Non-current | 7 422 332 | 5 500 532 |

### 35.1. Loans and borrowings

The balance of loans and borrowings received as at 31 December 2014 and 31 December 2013 has been presented in tables below.

**Loans and borrowings taken out as at 31 December 2014**

| Currency | Interest rate | Value of loans as at the balance sheet date | | of which maturing within (after the balance sheet date): | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | currency | PLN | less than 3 months | 3–12 months | 1–2 years | 2–3 years | 3–5 years | over 5 years |
| PLN | floating | 59 697 | 59 697 | 6 116 | 6 126 | 7 534 | 7 333 | 18 466 | 14 122 |
| | fixed | 1 153 997 | 1 153 997 | 20 443 | 112 289 | 132 733 | 132 733 | 265 464 | 490 335 |
| **Total PLN** | | **1 213 694** | **1 213 694** | **26 559** | **118 415** | **140 267** | **140 066** | **283 930** | **504 457** |
| EUR | floating | 2 796 | 11 918 | 11 918 | – | – | – | – | – |
| **Total EUR** | | **2 796** | **11 918** | **11 918** | **–** | **–** | **–** | **–** | **–** |
| **Total** | | | **1 225 612** | **38 477** | **118 415** | **140 267** | **140 066** | **283 930** | **504 457** |
| Interest increasing carrying amount | | | 6 420 | | | | | | |
| **Total loans and borrowings** | | | **1 232 032** | | | | | | |

*(in PLN '000)*

**Loans and borrowings taken out as at 31 December 2013**

| Currency | Interest rate | Value of loans as at the balance sheet date | | of which maturing within (after the balance sheet date): | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | currency | PLN | less than 3 months | 3–12 months | 1–2 years | 2–3 years | 3–5 years | over 5 years |
| PLN | floating | 183 124 | 183 124 | 103 249 | 24 622 | 7 763 | 7 532 | 14 642 | 25 316 |
| | fixed | 1 286 650 | 1 286 650 | – | 132 831 | 132 724 | 132 724 | 265 448 | 622 923 |
| **Total PLN** | | **1 469 774** | **1 469 774** | **103 249** | **157 453** | **140 487** | **140 256** | **280 090** | **648 239** |
| EUR | floating | 636 | 2 639 | 725 | 1 914 | – | – | – | – |
| | fixed | 1 216 | 5 043 | 5 043 | – | – | – | – | – |
| **Total EUR** | | **1 852** | **7 682** | **5 768** | **1 914** | **–** | **–** | **–** | **–** |
| **Total** | | | **1 477 456** | **109 017** | **159 367** | **140 487** | **140 256** | **280 090** | **648 239** |
| Interest increasing carrying amount | | | 7 187 | | | | | | |
| **Total loans and borrowings** | | | **1 484 643** | | | | | | |

Change in the balance of loans and borrowings excluding interest increasing the carrying amount in the year ended 31 December 2014 and 31 December 2013 has been presented below.

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Opening balance** | **1 477 456** | **1 205 637** |
| **Movement in bank overdrafts** | **(81 727)** | **(35 921)** |
| **Movement in loans (excluding bank overdrafts):** | **(170 117)** | **307 740** |
| Taken out | – | 452 325 |
| Repaid | (169 971) | (141 226) |
| Change in valuation | (146) | (3 359) |
| **Closing balance** | **1 225 612** | **1 477 456** |

As at 31 December 2014 the Group's liabilities arising from received loans and borrowings amounted to PLN 1 232 032 thousand and mainly resulted from:

- loans of PLN 1 160 411 thousand obtained from the European Investment Bank, including interest accrued of PLN 6 415 thousand (PLN 1 293 749 thousand as at 31 December 2013);
- overdraft of PLN 11 918 thousand (PLN 93 645 thousand as at 31 December 2013);
- loans and borrowings taken by the Group companies for investment or refunding purposes, including:
  - loan from the Regional Fund for Environmental Protection and Water Management taken out by TAURON Wytwarzanie S.A. to fund investment projects related to energy generation from renewable sources in the Jaworzno III power plant. As at the end of the reporting period the outstanding amount was PLN 32 000 thousand (PLN 36 000 thousand as at 31 December 2013);
  - loan from the Regional Fund for Environmental Protection and Water Management granted to TAURON Ciepło Sp. z o.o. to fund green investment projects. As at the balance sheet date the outstanding amount was PLN 21 747 thousand (PLN 24 290 thousand as at 31 December 2013).

***Concluding a credit facility agreement with the European Investment Bank***

On 22 July 2014 TAURON Polska Energia S.A. concluded another loan agreement with the European Investment Bank for the amount of PLN 295 000 thousand for financing an investment project related to energy production from renewable sources and energy distribution. By the date of approving these consolidated financial statements for publication no funds have been disbursed under this agreement.

### 35.2. Bonds issued

The tables below present the balances of the Group's liabilities arising from bonds issued, together with accrued interest, as at 31 December 2014 and 31 December 2013.

*(in PLN '000)*

### Bonds issued as at 31 December 2014

| Issuer | Tranche /Bank | Redemption date | Currrency | As at balance sheet date | | of which maturing within | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Interest accrued | Principal at amortised cost | up to 3 months | 3–12 months | 1–2 years | 2–3 years | 3–5 years | Over 5 years |
| TAURON Polska Energia S.A. | B | 12 December 2015 | PLN | 485 | 299 716 | – | 299 716 | – | – | – | – |
| | B | 30 January 2015 | PLN | 2 287 | 150 000 | 150 000 | – | – | – | – | – |
| | C | 12 December 2016 | PLN | 4 849 | 2 997 442 | – | – | 2 997 442 | – | – | – |
| | BGK* | 20 December 2019 | PLN | 115 | 99 797 | – | – | – | – | 99 797 | – |
| | | 20 December 2020 | PLN | 115 | 99 791 | – | – | – | – | – | 99 791 |
| | | 20 December 2021 | PLN | 115 | 99 787 | – | – | – | – | – | 99 787 |
| | | 20 December 2022 | PLN | 115 | 99 784 | – | – | – | – | – | 99 784 |
| | | 20 December 2023 | PLN | 115 | 99 781 | – | – | – | – | – | 99 781 |
| | | 20 December 2024 | PLN | 115 | 99 781 | – | – | – | – | – | 99 781 |
| | | 20 December 2025 | PLN | 115 | 99 780 | – | – | – | – | – | 99 780 |
| | | 20 December 2026 | PLN | 115 | 99 777 | – | – | – | – | – | 99 777 |
| | | 20 December 2027 | PLN | 115 | 99 776 | – | – | – | – | – | 99 776 |
| | ING** | 4 November 2019 | PLN | 7 953 | 1 748 810 | – | – | – | – | 1 748 810 | – |
| TAURON Sweden Energy AB (publ) | | 3 December 2029 | EUR | 1 923 | 709 276 | – | – | – | – | – | 709 276 |
| **Total debentures** | | | | **18 532** | **6 803 298** | **150 000** | **299 716** | **2 997 442** | **–** | **1 848 607** | **1 507 533** |

* Bank Gospodarstwa Krajowego
** ING Bank Śląski

### Bonds issued as at 31 December 2013

| Issuer | Tranche | Redemption date | Currrency | As at balance sheet date | | of which maturing within | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Interest accrued | Principal at amortised cost | up to 3 months | 3–12 months | 1–2 years | 2–3 years | 3–5 years | Over 5 years |
| TAURON Polska Energia S.A. | A | 29 December 2015 | PLN | 252 | 847 060 | – | – | 847 060 | – | – | – |
| | B | 12 December 2015 | PLN | 592 | 299 426 | – | – | 299 426 | – | – | – |
| | B | 30 January 2015 | PLN | 2 300 | 150 000 | – | – | 150 000 | – | – | – |
| | C | 12 December 2016 | PLN | 5 918 | 2 994 974 | – | – | – | 2 994 974 | – | – |
| **Total debentures** | | | | **9 062** | **4 291 460** | **–** | **–** | **1 296 486** | **2 994 974** | **–** | **–** |

Change in the balance of bonds excluding interest increasing the carrying amount in the year ended 31 December 2014 and in the comparable period has been presented below.

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Opening balance** | **4 291 460** | **4 288 247** |
| Issue* | 3 649 150 | – |
| Redemption | (1 148 200) | – |
| Change in valuation | 10 888 | 3 213 |
| **Closing balance** | **6 803 298** | **4 291 460** |

*Costs of issue have been included.

Bonds were issued by the Parent in a dematerialized form. These are unsecured coupon bonds with a floating interest rate plus a fixed margin. Interest is WIBOR 6M-based and is payable on a semi-annual basis.

Changes concerning bonds issued by TAURON Polska Energia S.A. in the year ended 31 December 2014.

- Pursuant to the agreement concluded in 2013 with Bank Gospodarstwa Krajowego, the Company issued bonds with the total par value of PLN 900 000 thousand, with redemption dates falling annually, from 20 December 2019 to 20 December 2027 in equal portions of PLN 100 000 thousand;
- On 4 November 2014, the Company issued five-year unsecured bonds for the amount of PLN 1 750 000 thousand under Bond Issue Scheme with the value up to PLN 5 000 000 thousand as of July 2013. The interest is floating

*(in PLN '000)*

based on WIBOR 6M plus a 0.9 mark-up with a 6-month interest period. The underwriting syndicate is composed of the following banks: ING Bank Śląski S.A. (lead underwriter), mBank S.A. and Bank Pekao S.A.;

- Additionally, on 24 January 2014, Tranche E short-term bonds with the par value of PLN 200 000 thousand and maturing on 24 February 2014 were issued by the Company. Another issue of Tranche E bonds with the redemption date of 28 April 2014 and the value of PLN 100 000 thousand took place on 28 March 2014.
- On 29 December 2014 the Company carried out early redemption of Tranche A bonds with the par value of PLN 848 200 thousand and the original maturity date of 29 December 2015.

After the end of the reporting period, on 30 January 2015, the Company redeemed Tranche B bonds with the par value of PLN 150 000 thousand at their maturity.

In March 2012 the Company hedged a portion of interest cash flows related to bonds issued under Tranche C and a portion of Tranche A having entered into IRS contracts. These instruments were subject to hedge accounting. Following early redemption of Tranche A bonds carried out on 29 December 2014, the Company no longer applied hedge accounting to IRS contracts hedging the bonds redeemed. The Company still applies hedge accounting to the remaining IRS contracts hedging Tranche C bonds.

On 3 December 2014, TAURON Sweden Energy AB (publ), a subsidiary, issued bonds with the par value of EUR 168 000 thousand. The issue value of bonds was EUR 166 572 thousand. Interest is fixed and payable on annual basis. The Company granted a corporate guarantee to TAURON Sweden Energy AB (publ) to secure the bonds in question. The guarantee is valid in the entire bond period, i.e. until 3 December 2029, and amounts to EUR 168 000 thousand.

The contracts signed by the Company with banks include legal and financial covenants which are commonly used in such transactions. As at 31 December 2014, none of these covenants were breached and the contractual provisions were complied with.

## 36. Lease

### 36.1. Operating lease liabilities

The Parent uses a real estate in Katowice at ul. ks. Piotra Ściegiennego 3 based on a lease agreement. The Company's registered office is located at the leased premises in question with the usable area of 6 100 square meters. The average cost of lease with maintenance fees totals PLN 465 thousand.

Moreover, TAURON Wydobycie S.A. uses mining machines and equipment based on lease agreements. Annual cost of lease in the years 2014 and 2013 reached PLN 40 104 thousand and PLN 39 386 thousand, respectively.

### 36.2. Finance lease liabilities

Future minimum lease payments under finance lease and similar agreements and the present value of minimum lease payments as at 31 December 2014 and 31 December 2013:

| | As at 31 December 2014 | | As at 31 December 2013 | |
|---|---|---|---|---|
| | Minimum lease payments | Present value of lease payments | Minimum lease payments | Present value of lease payments |
| Within 1 year | 15 146 | 13 461 | 20 221 | 17 327 |
| Within 1 to 5 years | 48 731 | 46 420 | 65 864 | 61 620 |
| More than 5 years | 26 | 23 | 23 | 23 |
| **Minimum lease payments, total** | **63 903** | **59 904** | **86 108** | **78 970** |
| Less amounts representing finance charges | (3 999) | – | (7 138) | – |
| **Present value of minimum lease payments, of which:** | **59 904** | **59 904** | **78 970** | **78 970** |
| current | 13 461 | 13 461 | 17 327 | 17 327 |
| non-current | 46 443 | 46 443 | 61 643 | 61 643 |

Key finance lease items as at 31 December 2014:

- Liability of TAURON Ciepło Sp. z o.o. arising from the lease of plant and machinery, and real estate. As at 31 December 2014 the carrying amount of these finance lease liabilities was PLN 24 928 thousand (PLN 38 877 thousand as at 31 December 2013);
- Liability due to lease of buildings in Katowice in the amount of PLN 33 159 thousand (as at 31 December 2013 it was PLN 35 946 thousand).

*(in PLN '000)*

## 37. Derivatives

| | Balance as at 31 December 2014 | | | | Balance as at 31 December 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Charged to profit or loss | Charged to other comprehensive income | Total | | Charged to profit or loss | Charged to other comprehensive income | Total | |
| | | | Assets | Liabilities | | | Assets | Liabilities |
| CCIRS | 258 | – | **1 499** | **(1 241)** | – | – | **–** | **–** |
| IRS | (17 746) | (176 567) | **–** | **(194 313)** | (3 403) | (156 359) | **–** | **(159 762)** |
| Commodity forwards/futures | (250) | – | **312** | **(562)** | (6) | – | **34** | **(40)** |
| Currency forwards | – | – | **–** | **–** | (1 129) | – | **–** | **(1 129)** |
| **Total derivative instruments, including:** | | | **1 811** | **(196 116)** | | | **34** | **(160 931)** |
| Short-term | | | **1 811** | **(102 615)** | | | **34** | **(73 358)** |
| Long-term | | | **–** | **(93 501)** | | | **–** | **(87 573)** |

On 24 November 2014 the Company entered into a Coupon Cross Currency Swap (CCIRS) up to EUR 168 000 thousand. The contract was concluded for the period of 15 years. In accordance with the assumptions, the Company pays interest accrued based on a floating interest rate in PLN and receives fixed interest-rate payments in EUR. Hedge accounting principles do not apply to the transaction in question.

Derivatives such as commodity futures and forwards include contracts for purchase and sale of commodities, mainly emission allowances.

Derivatives (IRS) include interest rate swap contracts concluded in order to hedge interest cash flows related to bonds issued, as presented in detail in Note 31.5 to these consolidated financial statements.

## 38. Provisions for employee benefits

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Provision for post-employment benefits and jubilee bonuses | 2 044 405 | 1 605 629 |
| Provision for employment termination benefits | 62 872 | 54 553 |
| **Total** | **2 107 277** | **1 660 182** |
| Current | 158 954 | 162 368 |
| Non-current | 1 948 323 | 1 497 814 |

### 38.1. Provisions for post-employment benefits and jubilee bonuses

Based on the measurement carried out using actuarial methods the Group recognizes provisions for future employee benefits, including post-employment benefits and jubilee bonuses.

Amounts of these provisions and reconciliation with changes during the reporting period are presented in the following tables.

**Change in provisions for employee benefits for the year ended 31 December 2014**

| | Provision for retirement, disability and similar benefits | Employee electricity rates | Social Fund | Provision for coal allowances | Jubilee bonuses | Provisions, total |
|---|---|---|---|---|---|---|
| **Opening balance** | **282 621** | **569 140** | **121 571** | **49 457** | **582 840** | **1 605 629** |
| Current service costs | 12 492 | 6 716 | 2 564 | 942 | 37 216 | **59 930** |
| Actuarial gains and losses, of which: | 76 361 | 198 657 | 46 547 | 17 029 | 112 160 | **450 754** |
| arising from changes in financial assumptions | 62 025 | 214 149 | 42 304 | 17 628 | 79 744 | **415 850** |
| arising from changes in demographic assumptions | (451) | 164 | 790 | 734 | 1 720 | **2 957** |
| arising from other changes | 14 787 | (15 656) | 3 453 | (1 333) | 30 696 | **31 947** |
| Benefits paid | (19 420) | (22 179) | (4 756) | (1 715) | (62 784) | **(110 854)** |
| Past service costs | (6 382) | (5 057) | (565) | (14) | (13 132) | **(25 150)** |
| Interest expense | 11 345 | 22 698 | 4 881 | 1 962 | 23 210 | **64 096** |
| **Closing balance** | **357 017** | **769 975** | **170 242** | **67 661** | **679 510** | **2 044 405** |
| **Current** | **21 707** | **24 339** | **4 839** | **1 883** | **55 740** | **108 508** |
| **Non-current** | **335 310** | **745 636** | **165 403** | **65 778** | **623 770** | **1 935 897** |

*(in PLN '000)*

### Change in provisions for employee benefits for the year ended 31 December 2013

| | Provision for retirement, disability and similar benefits | Employee electricity rates | Social Fund | Provision for coal allowances | Jubilee bonuses | Provisions, total |
|---|---|---|---|---|---|---|
| **Opening balance** | **270 722** | **597 726** | **136 224** | **56 735** | **594 360** | **1 655 767** |
| Current service costs | 10 804 | 5 919 | 2 677 | 1 168 | 34 435 | **55 003** |
| Actuarial gains and losses, of which: | 11 586 | (25 793) | 1 600 | (9 240) | 1 420 | **(20 427)** |
| arising from changes in financial assumptions | (4 474) | 1 432 | 1 461 | (7 827) | (12 082) | **(21 490)** |
| arising from changes in demographic assumptions | 16 750 | 332 | 849 | 707 | 17 773 | **36 411** |
| arising from other changes | (690) | (27 557) | (710) | (2 120) | (4 271) | **(35 348)** |
| Benefits paid | (19 411) | (23 110) | (4 589) | (1 465) | (62 104) | **(110 679)** |
| Past service costs | (1 740) | (9 171) | (19 754) | – | (8 495) | **(39 160)** |
| Interest expense | 10 660 | 23 569 | 5 413 | 2 259 | 23 224 | **65 125** |
| **Closing balance** | **282 621** | **569 140** | **121 571** | **49 457** | **582 840** | **1 605 629** |
| **Current** | **29 848** | **25 178** | **4 294** | **2 009** | **59 691** | **121 020** |
| **Non-current** | **252 773** | **543 962** | **117 277** | **47 448** | **523 149** | **1 484 609** |

The discount rate of 2.25% assumed in actuarial measurement as compared to 4% assumed in the year ended 31 December 2013 was the key reason for the increase in the provision for post-employment benefits and jubilee bonuses in the year ended 31 December 2014.

Past service costs in 2014 reduced the provision by PLN 25 150 thousand and were related to the following events:

- Following reorganization in the Group and the related migration of employees among companies, the plans conditions for some of them changed. Consequently, the Group's provision for employee benefits decreased by PLN 6 682 thousand.
- The division of TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. in the form of separation of organized parts of enterprises contributed to TAMEH POLSKA Sp. z o.o., discussed in detail in Note 21 to these consolidated financial statements, decreased the provision by PLN 18 291 thousand;
- Polska Energia – Pierwsza Kompania Handlowa Sp. z o.o. in liquidation reversed the entire provision for post-employment benefits, which resulted in a decrease of PLN 177 thousand.

In 2013 past service costs reduced the provision by PLN 39 160 thousand and were related to reorganization processes, regulatory changes related to the company's Social Benefit Fund (lower appropriation amount) and the decision not pay out benefits in the following years (employee tariff and Social Benefit Fund).

Benefits paid out in the year ended 31 December 2014 included PLN 6 612 thousand of benefits paid to employees covered by voluntary redundancy schemes (in the year ended 31 December 2013 it was PLN 10 318 thousand).

The Group determines provisions for future employee benefits at an amount estimated using actuarial methods, taking into account the discount rate defined based on market rates of return from treasury bonds. Key actuarial assumptions made as at the balance sheet date for the purpose of the liability calculation are presented in Note 6.

The Group classifies provisions as current and non-current based on estimates regarding distribution of payments over time, prepared with the use of actuarial methods.

### Maturities of employee benefit provisions

| Payment period | Retirement, disability and similar benefits | Employee electricity rates | Social Fund | Coal allowances | Jubilee bonuses | Provisions, total |
|---|---|---|---|---|---|---|
| 2015 | 21 707 | 24 339 | 4 839 | 1 883 | 55 740 | **108 508** |
| 2016 | 16 505 | 24 074 | 4 794 | 1 642 | 50 655 | **97 670** |
| 2017 | 13 667 | 21 971 | 4 474 | 1 580 | 46 466 | **88 158** |
| 2018 | 12 532 | 18 668 | 3 971 | 1 464 | 44 522 | **81 157** |
| 2019 | 11 635 | 14 901 | 3 380 | 1 342 | 42 452 | **73 710** |
| 2020 and subsequent years | 280 971 | 666 022 | 148 784 | 59 750 | 439 675 | **1 595 203** |
| **Total** | **357 017** | **769 975** | **170 242** | **67 661** | **679 510** | **2 044 405** |

*(in PLN '000)*

### 38.2. Provisions for employment termination benefits

**Year ended 31 December 2014**

| | Voluntary redundancy schemes in operating segments | | | | | |
|---|---|---|---|---|---|---|
| | Generation | Renewable sources of energy | Distribution | Heat | Customer service | Total |
| **Opening balance** | **28 109** | **–** | **17 584** | **678** | **8 182** | **54 553** |
| Recognition | 26 557 | 975 | 16 742 | 1 168 | – | **45 442** |
| Reversal | – | – | – | – | (3 454) | **(3 454)** |
| Utilization | (16 774) | – | (12 090) | (1 846) | (2 959) | **(33 669)** |
| **Closing balance** | **37 892** | **975** | **22 236** | **–** | **1 769** | **62 872** |
| **Current** | **25 466** | **975** | **22 236** | **–** | **1 769** | **50 446** |
| **Non-current** | **12 426** | **–** | **–** | **–** | **–** | **12 426** |

**Year ended 31 December 2013**

| | Voluntary redundancy schemes in operating segments | | | | |
|---|---|---|---|---|---|
| | Generation | Distribution | Heat | Customer service | Total |
| **Opening balance** | **47 396** | **23 211** | **–** | **9 549** | **80 156** |
| Recognition | 8 628 | 14 370 | 678 | – | **23 676** |
| Reversal | – | – | – | – | **–** |
| Utilization | (27 915) | (19 997) | – | (1 367) | **(49 279)** |
| **Closing balance** | **28 109** | **17 584** | **678** | **8 182** | **54 553** |
| **Current** | **14 904** | **17 584** | **678** | **8 182** | **41 348** |
| **Non-current** | **13 205** | **–** | **–** | **–** | **13 205** |

The Group has implemented voluntary redundancy schemes ("VRS"), where the highest costs are generated by Generation and Distribution segments:

- The Employment Cost Reduction Agreement concluded on 28 March 2012 has been followed in the Generation segment. In 2014, PLN 16 774 thousand of the provision was applied and a provision was recognized with relation to a reversed discount of PLN 837 thousand and revaluation of the estimated provision of PLN 25 720 thousand. Revaluation of the estimated provision resulted mainly from the new Employment Cost Reduction Scheme implemented in TAURON Wytwarzanie S.A. on 30 December 2014 and the necessity to secure funds for payment of termination benefits for employees of Oddział Blachownia, separated to TAMEH POLSKA Sp. z o.o. in December 2014.
- In 2014 the Voluntary Redundancy Schemes introduced in previous years were continued in the Distribution segment. In 2014 the total benefits paid under the VRSs totaled PLN 11 640 thousand.

  On 18 November 2014, another edition of the Voluntary Redundancy Scheme was announced in TAURON Dystrybucja S.A. To this aim, a provision of PLN 12 530 thousand has been recognized. Employee may request to participate in Pre-Retirement Redundancy Scheme (PRRS), Early Retirement Redundancy Scheme (ERRS) and Redundancy Compensation Scheme (RCS) from 25 November 2014 to 15 March 2015. Under the latest edition of the VRS, in the fourth quarter of 2014 one-off termination benefits of PLN 278 thousand were paid out.

  Following the implementation of new redundancy schemes in the remaining companies of the Distribution segment a provision of PLN 4 212 thousand was recognized and benefits totaling PLN 172 thousand were paid out. Additionally, the benefits affected the Group's profit and PLN 1 249 thousand was charged directly to expenses.

*(in PLN '000)*

# 39. Other provisions

## 39.1. Change in other provisions

**Year ended 31 December 2014**

| | Provision for use of real estate without contract | Provision for mine decommis-sioning costs | Provision for restoration of land and dismantling and removal of fixed assets | Provision for gas emission obligations | Provision for obligation to submit energy certificates | Provision for counterparty claims, court dispute and other provisions | Provisions, total |
|---|---|---|---|---|---|---|---|
| **Opening balance** | **104 827** | **44 620** | **96 280** | **461 123** | **905 561** | **92 016** | **1 704 427** |
| Discount rate adjustment | – | 78 067 | 28 252 | – | – | 25 | **106 344** |
| Recognition | 43 869 | 181 | – | 73 051 | 917 784 | 37 241 | **1 072 126** |
| Reversal | (47 866) | (2 164) | (23 422) | – | (2 783) | (44 320) | **(120 555)** |
| Utilisation | (7 012) | – | – | (463 362) | (905 636) | (6 625) | **(1 382 635)** |
| Contribution | – | – | – | (62 682) | – | (13 033) | **(75 715)** |
| Reclassification to liabilities of a disposal group classified as held for sale | – | – | (58 336) | – | – | – | **(58 336)** |
| Other movements | – | – | – | – | – | 1 024 | **1 024** |
| Foreign exchange differences from translation of foreign entities | – | – | – | – | – | 13 | **13** |
| **Closing balance** | **93 818** | **120 704** | **42 774** | **8 130** | **914 926** | **66 341** | **1 246 693** |
| **Current** | **93 818** | **–** | **871** | **8 130** | **914 926** | **63 670** | **1 081 415** |
| **Non-current** | **–** | **120 704** | **41 903** | **–** | **–** | **2 671** | **165 278** |

**Year ended 31 December 2013**

| | Provision for use of real estate without contract | Provision for mine decommis-sioning costs | Provision for restoration of land and dismantling and removal of fixed assets | Provision for gas emission obligations | Provision for obligation to submit energy certificates | Provision for counterparty claims, court dispute and other provisions | Provisions, total |
|---|---|---|---|---|---|---|---|
| **Opening balance** | **74 899** | **26 070** | **68 070** | **62 921** | **873 976** | **79 623** | **1 185 559** |
| Discount rate adjustment | – | 1 129 | 1 072 | – | – | – | **2 201** |
| Recognition | 40 358 | 17 421 | 27 138 | 471 463 | 882 695 | 33 096 | **1 472 171** |
| Reversal | (8 530) | – | – | – | (3 738) | (6 314) | **(18 582)** |
| Utilisation | (1 960) | – | – | (73 261) | (847 372) | (14 322) | **(936 915)** |
| Other movements | 60 | – | – | – | – | 40 | **100** |
| Foreign exchange differences from translation of foreign entities | – | – | – | – | – | (107) | **(107)** |
| **Closing balance** | **104 827** | **44 620** | **96 280** | **461 123** | **905 561** | **92 016** | **1 704 427** |
| **Current** | **104 827** | **–** | **–** | **461 123** | **905 561** | **91 508** | **1 563 019** |
| **Non-current** | **–** | **44 620** | **96 280** | **–** | **–** | **508** | **141 408** |

## 39.2. Description of significant provision items

Description of estimated provisions for gas emission obligations and obligation to submit energy certificates for cancellation is presented in Note 6 hereof.

### 39.2.1. Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat installations are located. The Group does not establish provision for possible unlodged claims of owners of land with unregulated status. As at 31 December 2014, the relevant provision amounted to PLN 93 818 thousand. In the year ended 31 December 2014, the Group:

- recognized a provision of PLN 43 869 thousand, out of which PLN 35 614 thousand was charged to other operating expenses, and PLN 8 255 thousand to finance costs;
- reversed a provision of PLN 47 866 thousand, out of which PLN 46 588 thousand was recognized in other operating income, and PLN 1 278 thousand in other finance income.

In 2012 a third party lodged a claim against TAURON Ciepło S.A. (currently: TAURON Ciepło Sp. z o.o.) related to the regulation of legal status of the network located in its property. The company has questioned both the claim amount and the claimant's title to offset it with its current liabilities regarding heat supply. Such a position of the company has been confirmed with a non-official decision of Court for Competition and Consumer Protection against the party regarding the heat supply cutoff upon payment default. Consequently, the company commenced collection litigation against the debtor. The final amount of the defendant's claim regarding the use of its property shall be determined in the course of the litigation. With regard to the dispute, in light of the adopted accounting policy, a provision has been recognized for the estimated cost of the above claim. Bearing in mind the pending litigation, and in accordance with IAS 37.92, the Group does not disclose all information regarding the above issue as required by IAS 37.

### 39.2.2. Provision for mine decommissioning costs

The increase in the provision for mine decommissioning costs concerning discount rate adjustment of PLN 78 067 thousand results mainly from a change in estimated discount rate. Following the decrease in market interest rates, the Group decided to reduce discount rates, which increased the provision by PLN 76 282 thousand.

At the same time, the Company received a decision extending the concession period for mining carboniferous limestone deposits in Czatkowice until 2060, hence it recalculated the provision, having assumed a longer mine life. Consequently, the provision was partially reversed.

The provision for mine decommissioning cost includes the balance of the Mine Decommissioning Fund, as discussed in detail in Note 42 to these consolidated financial statements.

### 39.2.3. Provision for restoration of land and dismantling and removal of fixed assets

Within provision for restoration of land, in the Generation and Heat segment, a provision was recognized for costs related to reclamation of ash piles. The balance of the provision as at 31 December 2014 was PLN 42 774 thousand (as at 31 December 2013 was PLN 46 546 thousand).

The change in provisions results mainly from reversing a provision for reclamation of ash piles of Elektrownia Halemba in the amount of PLN 12 791 thousand by TAURON Wytwarzanie S.A. resulting from the sale of its assets and the change of the discount rate and in the estimated provision. Consequently, the provision of the Generation segment increased by PLN 7 370 thousand.

In 2014 TAURON Wytwarzanie S.A. reversed the entire provision for expected future costs of mandatory liquidation of fixed assets of PLN 10 631 thousand.

Following the change in the discount rate, the provision for dismantling wind farms has been increased by PLN 17 056 thousand in 2014. As at the end of the reporting period the entire provision for costs of dismantling wind farms of PLN 58 336 thousand in TAURON Ekoenergia Sp. z o.o. was reclassified to liabilities directly related to assets held for sale, due to the planned transfer of wind farm operations to Marselwind Sp. z o.o. and the intended temporary sale of wind farm assets to entities from outside the Group, which has been discussed in detail in Note 29 to these consolidated financial statements.

### 39.2.4. Provision for court disputes, claims and other provisions

***Provision for proceedings before the Office for Competition and Consumer Protection***

The Distribution segment company has been subject to anti-monopoly proceedings carried out by Office for Competition and Consumer Protection, regarding the alleged abuse of the dominant position on the electricity distribution market. The company appealed against the decision of the Court of Competition and Consumer Protection. On 12 September 2013 the Court of Appeals upheld the decision of the President of the Office of Competition and Consumer Protection.

As at 31 December 2014, proceedings regarding the fine of PLN 7 302 thousand imposed by the President of Office for Competition and Consumer Protection are pending and as at the end of the reporting period a provision was recognized in this amount. The provision has not changed since 31 December 2013.

***Provision for claims of ArcelorMittal Poland S.A.***

The entire provision for claims of ArcelorMittal Poland S.A. of PLN 7 200 thousand was reversed in 2014 as the claims were barred by statute of limitations.

*(in PLN '000)*

***Provision for real estate tax***

In 2013, a provision for real estate tax of PLN 12 000 thousand was recognized in the Distribution segment. As at 31 December 2014 the balance of the provision has not changed since the end of 2013.

As at 31 December 2014, a provision for real estate tax on constructions situated in underground excavations with interest in the Mining segment amounted to PLN 3 420 thousand (PLN 2 862 thousand as at 31 December 2013).

## 40. Deferred income and government grants

### 40.1. Deferred income and government grants

| | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|
| **Deferred income, of which:** | **358 247** | **392 861** |
| Donations, fixed assets received free-of-charge | 92 998 | 104 771 |
| Non-government subsidies | 50 | 250 |
| Subsidies received for the purchase of fixed assets | 1 601 | 1 840 |
| Connection fees | 262 895 | 285 327 |
| Other | 703 | 673 |
| **Government grants, of which:** | **359 190** | **330 824** |
| Subsidies obtained from EU funds | 267 438 | 219 452 |
| Forgiven loans from environmental funds | 8 740 | 9 400 |
| Measurement of preferential loans | 41 177 | 42 954 |
| Other | 41 835 | 59 018 |
| **Total, of which:** | **717 437** | **723 685** |
| Non-current | 662 072 | 668 487 |
| Current | 55 365 | 55 198 |

Other settlements of government grants include mostly government grants to greenfield investments in hard coal mines of PLN 21 620 thousand received by TAURON Wydobycie S.A.

The increase in subsidies to purchases of fixed assets recognized under government grants resulted mainly from funds obtained from EU operational programs for investments in Generation, Distribution and Heat segments.

### 40.2. Current accruals

| | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|
| Unused holidays | 41 403 | 41 451 |
| Bonuses | 140 372 | 133 125 |
| Audit fees | 494 | 509 |
| Environmental protection charges | 4 688 | 2 245 |
| Other | 3 198 | 7 111 |
| **Total** | **190 155** | **184 441** |

*(in PLN '000)*

## 41. Other current non-financial liabilities

| | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|
| **Taxes, customs, social security and other payables, of which:** | **342 118** | **569 654** |
| Excise | 45 640 | 70 783 |
| VAT | 37 772 | 211 588 |
| Social security | 164 780 | 163 942 |
| Personal Income Tax | 47 696 | 48 381 |
| Environmental charges | 43 629 | 61 607 |
| Real Estate Tax | – | 8 459 |
| Other | 2 601 | 4 894 |
| **Other non-financial liabilities, of which:** | **277 571** | **245 160** |
| Payments from customers relating to future periods, of which: | 266 053 | 244 650 |
| prepayments for connection fees | 26 100 | 34 085 |
| amounts overpaid by customers | 224 510 | 192 457 |
| other | 15 443 | 18 108 |
| Other | 11 518 | 510 |
| **Total** | **619 689** | **814 814** |

## 42. Company's Social Benefit Fund and Mine Decommissioning Fund

Analysis of the funds is presented in the following tables.

- Company Social Benefits Fund

| | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|
| Loans granted to employees | 38 022 | 42 161 |
| Cash | 15 533 | 13 168 |
| Other Fund assets and liabilities | (3 521) | (3 356) |
| Social Fund liabilities | (44 822) | (49 151) |
| **Net balance** | **5 212** | **2 822** |
| Transfers made to the Social Fund during the period | (64 482) | (63 225) |

- Mine Decommissioning Fund

According to the Geological and Mining Law and secondary legislation thereto, mining entities from the Group have established a Mine Decommissioning Fund. The Fund's amount is a pre-determined ratio of tax depreciation charge on fixed assets or, for the exploitation fee, the equivalent of the charge transferred to a separate bank account. Financial assets of the Fund are presented in the statement of financial position under non-current financial assets, while the balance of the Fund is recognized under provision for future costs of decommissioning mine facilities. The following tables present the amount of appropriation to the Fund, the Fund's assets and the balance of liabilities arising from future costs of mine decommissioning.

**Mine Decommissioning Fund financial assets**

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Assets as at 1 January** | **33 260** | **28 606** |
| Contributions made | 3 971 | 3 448 |
| Interest | 1 001 | 1 206 |
| **Assets as at 31 December** | **38 232** | **33 260** |
| Transfers made to the MDF in the period | (4 459) | (3 961) |

**Provision for mine decommissioning costs**

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Mine Decommissioning Fund | 42 625 | 37 165 |
| Surplus of discounted estimated decommissioning costs | 78 079 | 7 455 |
| **Provision for mine decomissioning costs** | **120 704** | **44 620** |

## 43. Significant items of the consolidated statement of cash flows

### 43.1. Cash flows from investing activities

***Purchase of property, plant and equipment and intangible assets***

Expenditure on purchase of property, plant and equipment and intangible assets of PLN 3 464 578 thousand were mainly related to the purchase of property, plant and equipment of PLN 2 819 090 thousand in the year ended 31 December 2014, which has been presented in detail in Note 18 hereto and the change in prepayments for the purchase of property, plant and equipment and intangible assets of PLN 298 027 thousand.

***Sale of other financial assets***

Proceeds from sale of other financial assets of PLN 38 264 thousand include mainly the proceeds from sale of shares in PŚZiPZ Elvita Jaworzno III Sp. z o.o. for the total amount of PLN 34 359 thousand by Group companies.

### 43.2. Cash flows from financing activities

***Loans and borrowings repaid***

Expenditure on repayment of loans and borrowings of PLN 169 971 thousand disclosed in the consolidated statement of cash flows result mainly from repayment of PLN 132 818 thousand of the loans granted by the European Investment Bank by the Parent.

***Issuance of debt securities***

Proceeds from issue of debt securities of PLN 3 653 234 thousand result from the issuance of long-term unsecured bonds in the amount of PLN 1 750 000 thousand by the Company in 2014 under the Bond Issue Scheme of July 2013, the issue of Tranche E short-term bonds in the amount of PLN 300 000 thousand and long-term bonds issued under the Company's agreement with Bank Gospodarstwa Krajowego in the amount of PLN 900 000 thousand. Moreover, in December 2014, TAURON Sweden Energy AB (publ), a subsidiary, issued long-term bonds with the par value of EUR 168 000 thousand and the issue value of EUR 166 572 thousand (PLN 703 234 thousand). The above transactions have been described in detail in Note 35.2 hereto.

***Redemption of debt securities***

Expenditure on redemption of debt securities of PLN 1 148 200 thousand result from the Parent's early redemption of Tranche A bonds in the amount of PLN 848 200 thousand in 2014 and redemption of Tranche E short-term bonds in the amount of PLN 300 000 thousand, as discussed in detail in Note 35.2 to these consolidated financial statements.

***Interest paid***

During the year ended 31 December 2014 the total value of interest paid by the Group in relation to loans, borrowings, debt securities (along with the hedges realized from IRS) and finance leases amounted to PLN 319 667 thousand. The Group's consolidated statement of cash flows discloses borrowing costs capitalized in the current period for asset financing as expenditure for acquisition of property, plant and equipment and intangible assets in cash flows from investing activities.

***Acquisition of non-controlling interests***

Expenditure on acquisition of non-controlling interest of PLN 125 402 thousand resulted primarily from the Parent's payment of a portion of the price, i.e. PLN 77 500 thousand, for the acquisition of shares in a subsidiary TAURON Wydobycie S.A. from Kompania Węglowa S.A., as discussed in detail in Note 34 to these consolidated financial statements and allocation of PLN 26 897 thousand for redemption of treasury shares by TAURON Ciepło Sp. z o.o.

# OTHER INFORMATION

## 44. Contingent liabilities

***Non-contractual use of real estate***

Distribution entities of the Group do not hold legal titles to all plots of land where distribution networks and the related devices are located. The Group may have to incur costs related to non-contractual use of property in the future; the risk of losing assets is close to nil, though. The Group has established a provision for all court disputes regarding the issue. No provision has been recognized for potential not submitted claims of owners of land with unregulated legal status, since their detailed records do not exist. As a consequence, potential claim amounts cannot be reliably estimated. In light of the history of claims submitted and the related costs incurred in the previous years, though, the risk of incurring material costs with this regard is low.

***Administrative proceedings instigated by the President of the Energy Regulatory Office (ERO)***

The President of the Energy Regulatory Office instigated administrative proceedings with respect to imposing a financial penalty on Vattenfall Sales Poland Sp. z o.o. (currently: TAURON Sprzedaż GZE Sp. z o.o.) under Article 56.1.5 of the Energy Law, based on the allegation that, in 2008–2011, the company used prices and tariffs which had not been submitted for the required approval. The company is of the opinion that it did not breach any law in this respect. In order to avoid being charged with a direct allegation of failing to fulfil the request of the President of Energy Regulatory Office and thus falling under the provisions of the Energy Law, the company, at the request of the President of ERO, submitted electricity tariffs for the years 2008–2011 for approval, although it was in fact exempt from the requirement to submit electricity tariffs (exemption based on the decision of the President of ERO dated 28 June 2001). However, the applications for the years 2008, 2009 and 2011 were not approved, and the proceedings for the approval of the electricity tariff for 2010 were cancelled based on the Decision of the President of ERO.

On 19 March 2010 the President of ERO issued a decision cancelling the waiver of the obligation to file electricity tariffs for approval, which had been granted to Vattenfall Sales Poland Sp. z o.o. (currently: TAURON Sprzedaż GZE Sp. z o.o.) by the President of ERO on 28 June 2001. The company appealed against the decision to the Regional Court of Competition and Consumer Protection in Warsaw. On 9 December 2011 the Court of Competition and Consumer Protection cancelled the decision of the President of ERO. On 20 September 2012, the Court of Appeals in Warsaw passed a judgment concerning the appeal of the Energy Regulatory Office with respect to the judgment of the Court of Competition and Consumer Protection cancelling the waiver from the obligation to submit electricity tariffs for the G tariff group granted to TAURON Sprzedaż GZE Sp. z o.o. The Court dismissed the appeal of ERO. On 1 March 2013 the President of ERO filed a cassation appeal to the Supreme Court. On 5 December 2013 the Supreme Court issued a decision refusing the cassation appeal of the President of ERO, which means the final closing of the proceedings. Nonetheless, the President of ERO is entitled to appeal against the decision of the Supreme Court.

***Administrative proceedings instigated by the President of the Office for Competition and Consumer Protection***

On 12 December 2012 the President of the Office for Competition and Consumer Protection (UOKiK), Branch in Wrocław, instigated proceedings against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in charging interest for overdue payments for projected use of electricity groundlessly. Such interest was determined by the automatic payment management system as a result of linking payments made by electricity users with amounts payable in future and leaving the oldest liabilities unpaid. In response, the Company applied for issuing a decision requesting the company to fulfil an obligation to discontinue activities violating the Act of 16 February 2007 on competition and consumer protection (Journal of Laws of 2007, No. 50, item 331 as amended; "Act on competition and consumer protection") and to take steps preventing continued existence of the alleged violations. On 16 April 2013 the President of the Office for Competition and Consumer Protection accepted the company's proposal and issued a decision requesting the company to discontinue the activities. The company has followed the provisions of the Decision. As at the date of preparing these consolidated financial statements, the risk of imposing a fine was very limited, therefore the company did not recognize any provision.

On 17 September 2013 the President of the Office for Competition and Consumer Protection (UOKiK), Branch in Warsaw, instigated proceedings against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in quoting electricity prices in pricing lists and information materials without VAT, which constituted a breach of the Act of counteracting unfair market practices of 23 August 2007 (Journal of Laws No. 171 item 1206) and therefore constitutes a breach of the Act on competition and consumer protection. The Company submitted requested documents, accepted the entire argumentation of the President of UOKiK and committed to discontinue practices violating the Act on competition and consumer protection. Further, it motioned for proceedings aimed at the issue of a binding decision. The company provided further information and explanations requested by UOKiK. On 22 December 2014 the company received a decision of UOKiK dated 12 December 2014 closing the evidentiary proceedings.

In its letter dated 23 April 2013 UOKiK instigated proceedings against TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o., the objective of which was to determine whether the Act on competition and consumer protection was breached in reservation agreements for the sale of electricity, including restricted financial covenants. The companies provided requested documents and responded to statements included in the letter of UOKiK. In January and February 2014 they received subsequent letters requesting further explanations with this regard. The companies provided more requested documents and further explanations. Under a decision of 19 December 2014 anti-monopoly proceedings were instigated regarding the alleged abuse of the dominant position on the reserve electricity distribution market. At present, no provision has been recognized for the event in individual companies.

UOKiK has commenced the following explanatory procedures regarding the Sales segment companies:

- In its letter dated 7 May 2013 UOKiK notified TAURON Sprzedaż Sp. z o.o. of the instigation of the explanatory proceedings with respect to determination if the ability to terminate an agreement for sale of electricity in the "Good Decision 2014" product offer was limited for contractors of TAURON Sprzedaż Sp. z o.o., which, in turn, would be in breach of the Act on competition and consumer protection. Explanatory proceedings were aimed at preliminary determination if the Act in question has been breached, which would justify initiating antimonopoly proceedings. In particular, the proceedings were to decide whether the case is of antimonopoly nature and if the breach has occurred which would justify instigation of proceedings to prohibit applying practices violating collective consumers' interests. The company provided all documents requested and commented on statements included in the letter from UOKiK.
- In its letter dated 10 July 2013 UOKiK notified TAURON Sprzedaż Sp. z o.o. of the instigation of the explanatory proceedings with respect to determination whether the actions of the company related to concluding agreements for sale of electricity under the "Fixed Price Guaranteed" product offer through the call center were in breach of the Act on competition and consumer protection. The company provided all documents requested and commented on statements included in the letter from UOKiK. On 16 December 2013 the Company received a request regarding further information with this respect. In response to the letter, on 30 December 2013 it provided further information as requested. In April 2014 and in August 2014 the Company received more letters from UOKiK requesting further information. TAURON Sprzedaż Sp. z o.o. provided further information requested by UOKiK related to the pending proceedings. In December 2014 the company received further requests regarding more detailed information in this respect.
- In its letter dated 28 October 2013 UOKiK notified TAURON Sprzedaż Sp. z o.o. of the instigation of the explanatory proceedings with respect to determination whether the actions of the company related to obtaining consumers' consents to process their personal data regarding products called "Bezpieczny", "Eko" and "EkoOszczędny" with an option of electricity price reduction were in breach of collective interests of the consumers and therefore of the Act on competition and consumer protection. The company provided all documents requested and commented on statements included in the letter.
- In its letter dated 26 September 2013, UOKiK notified TAURON Sprzedaż GZE Sp. z o.o. of the instigation of explanatory proceedings aimed at preliminary determination whether the actions of the company related to imposition of fines for early termination of agreements for sale of electricity were in breach of the Act on competition and consumer protection. In response, the Company provided information requested by the President of UOKiK in the proceedings. No further information concerning any steps taken by the President of UOKiK in this respect is available.
- In its letter dated 1 July 2014 the President of UOKiK notified TAURON Sprzedaż Sp. z o.o. of the instigation of the explanatory proceedings aimed at determining if the implementation of the system used to settle payments from electricity buyers could contradict the provisions of the Act on competition and consumer protection. Consequently, the company provided all documents requested and commented on statements included in the letter.
- On 4 September 2014 the company received a letter from UOKiK requesting further information on the method of communication with consumers regarding acquisition of "Bezpieczny" product and automatic contract renewal. Explanatory proceedings *ex officio* were instigated to preliminarily determine if the actions of the company have been in breach of the Act on competition and consumer protection.

The companies' Management believe that, considering the explanatory nature of the proceedings instigated, the probability of an unfavorable outcome of the above-mentioned cases is low; hence no provision has been recognized for these events.

***Claims filed by Huta Łaziska S.A.***

Following the Company's business combination with Górnośląski Zakład Elektroenergetyczny S.A. (GZE), TAURON Polska Energia S.A. has become a party to a court dispute with Huta Łaziska S.A. ("Huta").

The key reason was the latter's failure to fulfil its obligation to pay the amounts due for electricity supplies, which led to discontinuation of electricity supplies to Huta by GZE in 2001.

Based on a decision of 12 October 2001, the President of Energy Regulatory Office (ERO) ordered GZE to resume electricity supplies to Huta on such terms as set out in the agreement of 30 July 2001, at the price of PLN 67/MWh until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006, the Court of Appeals in Warsaw passed a final judgment ending the dispute over the decision of the President of ERO dated 14 November 2001. Huta filed a cassation appeal against the judgment of the Court of Appeals, which was dismissed by the judgment of the Supreme Court dated 10 May 2007.

Due to discontinuation of electricity supplies, Huta has raised a claim against GZE for damages amounting to PLN 182 060 thousand. Currently, an action is pending under Huta's suit of 12 March 2007 against GZE and the State Treasury represented by the President of ERO for the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of the Energy Regulatory Office dated 12 October 2001. In this case, the courts of the first and second instance passed judgments favorable for GZE; however, in its judgment of 29 December 2011 the Supreme Court overruled the judgment of the Court of Appeals and remanded the case for reexamination by that Court. On 5 June 2012, the Court of Appeals overruled the judgment of the Regional Court and remanded the case for reexamination by the latter. The first hearing before the first instance court was held on 27 November 2012. The most recent court hearing was held on 12 May 2014 and the date of the next hearing has not been determined yet.

Based on the Company's legal analysis of the claims raised by Huta and by its main shareholder, GEMI Sp. z o.o., the Company believes that the claims are groundless and the risk of their satisfaction is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.

***Claims filed by IPW Polin Sp. z o.o.***

As at 31 December 2014 TAURON Ciepło Sp. z o.o. recognized a contingent liability due to claims made. Possible claims result from trade contracts related to the operations of the organized part of the enterprise separated to TAMEH POLSKA Sp. z o.o. The company did not recognize a provision for claims in question, because the contracts for separation of an organized part of an enterprise did not impose any financial responsibility for any adverse effects of claims filed. The total value of potential claims to the Company is ca. PLN 9 000 thousand.

***Security of a bank guarantee for Elektrociepłownia Stalowa Wola S.A.***

In November 2014 TAURON Polska Energia S.A. concluded a surety agreement with a joint venure Elektrociepłownia Stalowa Wola S.A. It secures a guarantee issued by the bank in order to collateralize transactions concluded by Elektrociepłownia Stalowa Wola S.A. with an entity from outside the Group. The surety amount is PLN 62 582 thousand and the agreement is valid until 12 September 2018.

## 45. Contingent assets and liabilities related to tax returns

Tax returns may be inspected within five years, starting from the end of the year when the tax was paid. As a result of such inspections the Group's tax settlements may be increased by additional tax liabilities. As at 31 December 2014, according to the Group assessments, provisions recognized for identified and measurable tax risk were sufficient.

As at the date of the consolidated financial statements, the following proceedings regarding settlements under public law were pending in the Capital Group companies:

***Excise duty***

In view of the differences between the Polish and EU regulations concerning excise duty on electricity, on 11 February 2009 power and heat and power plants from the TAURON Capital Group filed tax return correction and applications to acknowledge excise tax excess payment for the years 2006–2008 and for January and February 2009. The total overpayment amount stipulated in the requests was ca. PLN 901 819 thousand (interest excluded). Proceedings concerning individual companies from the TAURON Capital Group have been carried out before competent Customs Chambers and Regional Administrative Courts. During a hearing of 19 November 2012, Regional Administrative Court in Gliwice issued a decision rejecting the statement of overpayment of the excise duty for 2008. On 21 January 2013, TAURON Wytwarzanie S.A. received a copy of the decision with justification. On 18 February 2013 TAURON Wytwarzanie S.A. filed a cassation appeal against the decision. On 27 November 2014 the Supreme Administrative Court issued an adverse decision dismissing the cassation appeal. The company is waiting for a justification in writing.

As the final outcome of this dispute is highly unpredictable, the Group has not recognized any effects of possible reimbursement of excise duty overpayment or claims and possible claims of electricity buyers in these consolidated financial statements.

***Real estate tax***

There are different interpretations regarding the approach to real estate tax on electricity generation and transmission facilities. Since the tax is imposed on the local self-government level, there is no unified approach and in several cases, the tax base calculation has been questioned. Depending on court decisions and possible amendments to relevant regulations, the status of real estate tax on electricity generation and transmission facilities may change in future.

Information on provisions regarding real estate tax disputes is presented in Note 39.2.4 hereto.

***Income tax – an increase in tax-deductible income by the amount of component repair cost in TAURON Wytwarzanie S.A. and TAURON Ekoenergia Sp. z o.o.***

In 2013 the Tax Capital Group, with TAURON Polska Energia S.A. acting as the representing company, received a tax ruling stating that component repairs should be expensed over time in line with the accounting principles. In accordance with the tax ruling, companies in the Tax Capital Group expensed costs incurred on component repairs over time. At the same time the Company appealed against the tax ruling, as in its opinion the repairs in question should be expensed when incurred, on one-off basis, irrespective of the way they are accounted for in the accounting records. Such position was confirmed by the Regional Administrative Court in Gliwice in its decision dated 18 September 2014. Following a cassation appeal filed by the Minister of Finance, as at 31 December 2014 the case was awaiting the final decision of the Supreme Administrative Court. At the same time, the Company, representing the Tax Capital Group, filed an application to acknowledge tax excess payment and a tax return correction for 2013, where the component repairs were recognized in tax-deductible expense on one-off basis. The total expenditure on repairs in 2013, which, according to the Company should be expensed on one-off basis when incurred for tax purposes, amounted to PLN 115 169 thousand.

## 46. Collateral against liabilities

The Group uses various forms of collateral against liabilities. Those most frequently used include mortgages, registered pledges, alienation and lease agreements relating to real estate and other items of property, plant and equipment as well as inventories, receivables, or frozen cash in bank accounts.

The carrying amounts of assets pledged as security for liabilities at particular balance sheet dates are presented in the table below.

*(in PLN '000)*

**Carrying amount of assets pledged as collateral against liabilities**

| | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|
| Real estate | 115 202 | 232 851 |
| Plant and equipment | 41 719 | 46 291 |
| Motor vehicles | – | 450 |
| Cash | 5 792 | 5 121 |
| **Total assets pledged as security for liabilities** | **162 713** | **284 713** |

The entire loan collateralized with a mortgage on real estate was repaid on 31 December 2013, therefore the collateral in the form of a mortgage on real estate of PLN 130 000 thousand was released in the year ended 31 December 2014.

***Other forms of collateral***

The Group also uses other forms of collateral to secure payment of liabilities, of which the most significant ones as at 31 December 2014 regard the following contracts concluded by the Parent:

***Bond issue schemes***

Under the bond issue scheme dated 16 December 2010 with subsequent annexes, the Company filed declarations of submission to enforcement:

- up to PLN 1 560 000 thousand, valid until 31 December 2016 – as regards Tranche A and B;
- up to PLN 6 900 000 thousand, valid until 31 December 2018 – as regards Tranche C and Tranches D and E.

With a view to collateralizing the agreement made on 31 July 2013 with Bank Gospodarstwa Krajowego, concerning a long-term bond issue scheme, the Company has filed a declaration of submission to enforcement up to PLN 1 500 000 thousand, valid until 20 December 2029.

***Framework bank guarantee agreement with PKO Bank Polski S.A.***

With a view to collateralizing a framework bank guarantee agreement with PKO Bank Polski S.A., TAURON Polska Energia S.A. submitted a declaration of submission to enforcement up to PLN 125 000 thousand, with the maximum validity term until 31 December 2017. Additionally, the agreement has been collateralized by an authorization to debit the bank account maintained by PKO Bank Polski S.A. As at 31 December 2014 the guarantee limit amounted to PLN 100 000 thousand. The agreement is valid until 31 December 2016.

Under the agreement in question and upon request of the Company, as at 31 December 2014 PKO Bank Polski S.A. issued bank guarantees securing liabilities of TAURON Polska Energia S.A.'s subsidiaries totalling PLN 990 thousand and securing transactions executed by the Company:

- up to EUR 1 000 thousand (PLN 4 262 thousand) – a guarantee for CAO Central Allocation Office GmbH, valid until 5 February 2016;
- up to PLN 6 500 thousand – a bid bond (Polskie Siecie Elektroenergetyczne S.A.) valid until 31 December 2014.

***Agreement with Bank Zachodni WBK S.A. on bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.***

In May 2013, the Company signed an agreement on a bank guarantee limit of PLN 150 000 thousand with Bank Zachodni WBK S.A., with Izba Rozliczeniowa Giełd Towarowych S.A. as the beneficiary. In May 2014 the Company concludued an Annex extending the agreement period until 6 May 2015. The agreement has been collateralized with a declaration of submission to enforcement up to the amount of PLN 187 500 thousand valid until 6 May 2017.

Under the agreement in question, in the year ended 31 December 2014 the bank extended bank guarantees requested by the Company which expired during this period. As at 31 December 2014 there were no outstanding guarantees issued by the bank under the agreement.

***Overdraft facility agreements***

Overdraft in NORDEA Bank Polska S.A. (currently: PKO Bank Polski S.A.) collateralized with:

- authorization to debit a bank account up to EUR 25 000 thousand (PLN 106 558 thousand);
- declaration of submission to enforcement up to EUR 31 250 thousand (PLN 133 197 thousand) valid until 31 December 2018.

As at 31 December 2014, the Company's outstandings under the overdraft agreement amounted to EUR 2 796 thousand (PLN 11 918 thousand).

In 2014 the Company also had an overdraft in Polska Kasa Opieki S.A. up to PLN 300 000 thousand (financing available under the cash pool agreement) maturing on 31 December 2014. The facility was collateralized in the following manner:

- authorization to debit a bank account up to PLN 300 000 thousand (expired on 31 December 2014);
- declaration of submission to enforcement up to PLN 360 000 thousand valid until 31 December 2017.

On 18 December 2014 the Company concluded new agreements with PKO Bank Polska S.A.: an overdraft agreement up to PLN 300 000 thousand and an intraday limit agreement up to PLN 500 000 thousand. The agreements in question are collateralized with:

- authorization to debit a bank account up to the total amount of PLN 800 000 thousand;
- two declarations of submission to enforcement up to the total amount of PLN 960 000 thousand valid until 18 December 2018.

As at 31 December 2014 the Company had no outstanding liabilities under the overdraft (financing available under the cash pool agreement) and intraday limit agreements.

***Other forms of collateral regarding Group's liabilities***

As at 31 December 2014, other material forms of collateral regarding liabilities of TAURON Capital Group included:

- Blank promissory notes issued by TAURON Polska Energia S.A. to the benefit of TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. with a view to collateralizing loans granted to them by the Regional Fund for Environmental Protection and Water Management in Katowice (totalling to PLN 71 180 thousand as at 31 December 2014); The companies have provided declarations of submission to enforcement as collateral for the loans in question;
- In order to secure proper performance of the contract and of the agreements signed by the company, including those relating to the funding of investment projects, TAURON Dystrybucja S.A. issued blank promissory notes (for the total amount of PLN 131 390 thousand as at 31 December 2014);
- Blank promissory notes issued by TAURON Ciepło Sp. z o.o. in the total amount of PLN 61 896 thousand collateralizing due performance of obligations arising from funding agreements concluded with the National Fund for Environmental Protection and Water Management in Warsaw;
- Blank promissory notes issued by TAURON Wytwarzanie S.A. with a view to collateralizing agreements for connecting to the industrial network, agreements for power transmission services and agreements for partial loan cancelling concluded with the National Fund for Environmental Protection and Water Management (totalling to PLN 66 904 thousand as at 31 December 2014);
- The Company granted a corporate guarantee to TAURON Sweden Energy AB (publ), a subsidiary, to secure bonds issued by the entity in December 2014. The guarantee is valid in the entire bond period, i.e. until 3 December 2029, and amounts to EUR 168 000 thousand;
- TAURON Ciepło Sp. z o.o. issued a blank promissory note for the amount of PLN 92 215 thousand to secure the sale and leaseback agreement concluded in 2007. This agreement is additionally secured by the assignment of receivables, assignment of rights under insurance policies, mortgage on real estate, plant and machinery and authorization to debit bank accounts.
- TAURON Polska Energia S.A. is a party to a finance lease agreement concerning real estate located in Katowice with the carrying amount of PLN 32 552 thousand as at 31 December 2014. The agreement is collateralized by assignment of receivables; two blank promissory notes and authorization to debit a bank account. As at 31 December 2014, the lease liabilities amounted to PLN 33 159 thousand.
- In order to collateralize the Company's transactions on the Polish Power Exchange ("TGE"), a subsidiary, TAURON Wytwarzanie S.A., has given a surety to Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGIT") for the liabilities of TAURON Polska Energia S.A. on the Polish Power Exchange up to PLN 45 000 thousand and collateral

*(in PLN '000)*

in the form of a freeze on EUA emission allowances in the KRUE Register, held by TAURON Wytwarzanie S.A. (8 739 thousand tons) has been provided. the surety expired on 31 March 2014.

In October 2014 in order to collateralize IRGIT's claims under the surety agreement between TAURON Wytwarzanie S.A. and IRGIT for the liabilities of TAURON Polska Energia S.A. (up to PLN 80 000 thousand), pursuant to the Alienation Agreement concluded by TAURON Wytwarzanie S.A. and IRGIT, the freeze on EUA emission allowances of TAURON Wytwarzanie S.A. in the Register of Allowances, have been made (12 821 thousand tons). The surety agreement is valid until 31 March 2015. Additionally, the Company's transactions concluded on the Polish Power Exchange also are collateralized with EUA emission allowances for 6 600 thousand tons on the account of TAURON Polska Energia S.A. kept by the Register of Allowances pursuant to the Alienation Agreement concluded by IRGIT and TAURON Polska Energia S.A.

Mining entities from the Capital Group have established a Mine Decommissioning Fund to ensure funds for covering future liquidation costs. Detailed information is provided in Note 42.

## 47. Capital commitments

As at 31 December 2014, the Group committed to incur expenditure on property, plant and equipment in the amount of PLN6 648 379 thousand, with the following key items:

| Operating segment | Agreement/investment project | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|---|
| Generation | Construction of a power-generating unit with the capacity of 910 MW for supercritical parameters in Jaworzno III Power Plant | 4 390 240 | – |
| | Adjusting a boiler in Jaworzno III Power Plant to reduce the greenhouse gas emissions | 65 929 | 100 759 |
| Heat | Constructing newcogeneration capacity in Tychy Heat and Power Plant | 393 949 | 503 625 |
| | Construction of a turbogenerator with the capacity of 50 MW | – | 98 150 |
| Renewable sources of energy | Construction of Marszewo wind farm with the capacity of 100 MW | 72 824 | – |
| Mining | Construction of a shaft inlet and developing infrastructure in Janina shaft | 65 333 | 89 491 |

## 48. Related party disclosures

### 48.1. Transactions with jointly-controlled entities

The Group has the following jointly-controlled entities: Elektrociepłownia Stalowa Wola S.A., Elektrownia Blachownia Nowa Sp. z o.o. and TAMEH HOLDING Sp. z o.o. with subsidiaries, which have been presented in detail in note 21 hereto.

### 48.2. Transactions with State Treasury companies

The State Treasury of the Republic of Poland is the Group's key shareholder; therefore State Treasury companies are treated as related parties.

The total amount of transactions with State Treasury entities is presented in the following table.

**Revenue and expense**

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| Revenue | 2 820 889 | 2 434 500 |
| Costs* | (2 636 725) | (2 999 239) |

* Includes costs recognized in the statement of comprehensive income.

*(in PLN '000)*

**Receivables and liabilities**

| | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|
| Receivables | 297 758 | 227 363 |
| Payables | 302 646 | 365 673 |

In 2014, the State Treasury companies being the major clients of the TAURON Polska Energia S.A. Capital Group included KGHM Polska Miedź S.A, PSE S.A, PKP Energetyka S.A., Jastrzębska Spółka Węglowa S.A and Kompania Węglowa S.A. Total sales to these contracting parties accounted for 87% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Kompania Węglowa S.A. Purchases from these contracting parties accounted for 86% of the value of purchases from State Treasury companies in 2014.

In 2013, the State Treasury companies being the major clients of the TAURON Polska Energia S.A. Capital Group included KGHM Polska Miedź S.A., PSE S.A., PKP Energetyka S.A., Kompania Węglowa S.A, and ENEA Operator Sp. z o.o. Total sales to these contracting parties accounted for 62% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Kompania Węglowa S.A. Purchases from these contracting parties accounted for 74% of the value of purchases from State Treasury companies in 2013.

The Capital Group enters into material transactions in energy markets through Izba Rozliczeniowa Giełd Towarowych S.A. As such entities are only responsible for organization of exchange trading, the Group has decided not to classify purchase and sales transactions made through these entities as related-party transactions.

Transactions with State Treasury companies are mainly related to the operating activities of the Group and concluded on an arm's length basis.

### 48.3. Executive compensation

| | Parent | | Subsidiaries | |
|---|---|---|---|---|
| | Year ended 31 December 2014 | Year ended 31 December 2013 | Year ended 31 December 2014 | Year ended 31 December 2013 |
| **Board of Directors** | **9 144** | **7 420** | **21 546** | **25 390** |
| Short-term employee benefits (salaries and surcharges) | 7 022 | 6 710 | 20 865 | 24 383 |
| Post-service benefits for a Member of the Management Board | 600 | – | – | – |
| Post-employment benefits | – | – | 43 | 505 |
| Employment termination benefits | 750 | – | 263 | 129 |
| Other | 772 | 710 | 375 | 373 |
| **Supervisory Board** | **908** | **936** | **925** | **1 250** |
| Short-term employee benefits (salaries and surcharges) | 908 | 936 | 862 | 1 110 |
| Other | – | – | 63 | 140 |
| **Other key management personnel** | **12 819** | **11 961** | **42 246** | **41 453** |
| Short-term employee benefits (salaries and surcharges) | 11 672 | 10 833 | 40 630 | 40 233 |
| Jubilee bonuses | – | – | 1 359 | 719 |
| Post-employment benefits | 140 | 126 | 40 | 114 |
| Other | 1 007 | 1 002 | 217 | 387 |
| **Total** | **22 871** | **20 317** | **64 717** | **68 093** |

Other transactions resulting from civil law agreements concluded between the Parent and members of the entity's governing bodies concern only private use of company cars.

In the year covered by these consolidated financial statements, no loan agreements were concluded between the Social Benefits Fund and members of management and supervisory bodies of the Capital Group. As at 31 December 2014, there were no outstanding loan balances.

*(in PLN '000)*

## 49. Financial instruments

### 49.1. Carrying amount and fair value of financial instrument classes and categories

| Categories and classes of financial assets | As at 31 December 2014 | | As at 31 December 2013 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **1 Assets at fair value through profit or loss** | **1 811** | | **34** | |
| Derivative instruments | 1 811 | 1 811 | 34 | 34 |
| **2 Financial assets available for sale** | **116 695** | | **129 622** | |
| Shares in unlisted and listed companies (non-current) | 108 399 | – | 109 459 | – |
| Shares in unlisted and listed companies (current) | 3 997 | – | 15 844 | – |
| Investment fund units | 2 409 | 2 409 | 2 429 | 2 429 |
| Bonds, T-bills and other debt securities | 1 890 | 1 890 | 1 890 | 1 890 |
| **3 Loans and receivables** | **2 255 585** | | **2 375 529** | |
| Trade receivables | 1 664 229 | 1 664 229 | 1 863 151 | 1 863 151 |
| Deposits | 35 823 | 35 823 | 30 831 | 30 831 |
| Loans granted | 204 699 | 204 699 | 189 310 | 189 310 |
| Bonds, T-bills and other debt securities | 21 732 | 22 893 | – | – |
| Other | 329 102 | 329 102 | 292 237 | 292 237 |
| **4 Financial assets excluded from the scope of IAS 39** | **414 584** | | **276 898** | |
| Investments in joint ventures | 414 584 | – | 44 398 | – |
| Advance payment for acquisition of shares | – | – | 232 500 | – |
| **5 Cash and cash equivalents** | **1 420 909** | **1 420 909** | **636 909** | **636 909** |
| **Total financial assets, of which in the statement of financial position:** | **4 209 584** | | **3 418 992** | |
| **Non-current assets** | **791 967** | | **631 564** | |
| Investments in joint ventures | 414 584 | | 44 398 | |
| Other financial assets | 377 383 | | 587 166 | |
| **Current assets** | **3 417 617** | | **2 787 428** | |
| Trade and other receivables | 1 969 169 | | 2 134 641 | |
| Other financial assets | 27 539 | | 15 878 | |
| Cash and cash equivalents | 1 420 909 | | 636 909 | |

*(in PLN '000)*

| Categories and classes of financial liabilities | As at 31 December 2014 | | As at 31 December 2013 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **1 Financial liabilities at fair value through profit or loss** | **15 183** | | **1 169** | |
| Derivative instruments | 15 183 | 15 183 | 1 169 | 1 169 |
| **2 Financial liabilities measured at amortized cost** | **9 969 713** | | **7 816 529** | |
| Preferential loans | 55 222 | 55 222 | 63 986 | 63 986 |
| Arm's length loans | 1 164 892 | 1 202 546 | 1 327 012 | 1 327 012 |
| Bank overdrafts | 11 918 | 11 918 | 93 645 | 93 645 |
| Bonds issued | 6 821 830 | 6 821 830 | 4 300 522 | 4 300 522 |
| Trade payables | 916 744 | 916 744 | 1 037 304 | 1 037 304 |
| Other financial liabilities | 232 215 | 232 215 | 143 413 | 143 413 |
| Commitments resulting from purchases of fixed and intangible assets | 595 550 | 595 550 | 665 768 | 665 768 |
| Salaries and wages | 154 718 | 154 718 | 170 706 | 170 706 |
| Insurance contracts | 16 624 | 16 624 | 14 173 | 14 173 |
| **3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39** | **59 904** | | **78 970** | |
| Obligations under finance leases | 59 904 | 59 904 | 78 970 | 78 970 |
| **4 Derivative hedging instruments (liabilities)** | **180 933** | **180 933** | **159 762** | **159 762** |
| **Total financial liabilities, of which in the statement of financial position:** | **10 225 733** | | **8 056 430** | |
| **Non-current liabilities** | **7 611 262** | | **5 657 575** | |
| Interest-bearing loans and borrowings | 7 422 332 | | 5 500 532 | |
| Liability under finance lease | 46 443 | | 61 643 | |
| Trade and other payables | 48 986 | | 7 827 | |
| Derivative instruments | 93 501 | | 87 573 | |
| **Current liabilities** | **2 614 471** | | **2 398 855** | |
| Current portion of interest-bearing loans and borrowings | 631 530 | | 284 633 | |
| Current portion of liabilities under finance lease | 13 461 | | 17 327 | |
| Trade and other payables | 1 866 865 | | 2 023 537 | |
| Derivative instruments | 102 615 | | 73 358 | |

Financial instruments measured at fair value as at the end of the reporting period, i.e. assets and liabilities measured at fair value through profit or loss, hedging derivatives and assets available for sale, except for shares (as described below), were measured using the method described in Note 6 to these consolidated financial statements. Fair value hierarchy disclosures are discussed in Note 49.2.

Financial instruments classified to other categories of financial instruments:

- Following a significant decrease in interest rates applicable to fixed-rate financial instruments, which as at 31 December 2014 included bonds acquired by the Company ("loans and receivables" category), loans granted by the European Investment Bank as well as bonds issued by a subsidiary, the Group measured their fair value. As fixed rate bonds were issued in December 2014, the Group concluded that their fair value as at 31 December 2014 was close to their carrying amount. Fair value measurement of other fixed rate financial instruments was carried out based on the present value of future cash flows discounted using an interest rate applicable to a given bond or loan, i.e. by reference to market interest rates. The measurement resulted in Level 2 classification in fair value hierarchy. The fair value of these instruments as at 31 December 2013 did not differ considerably from their carrying amounts.
- The fair value of other financial instruments (except for shares classified as financial assets available for sale and excluded from the scope of IAS 39, as described below) as at 31 December 2014 and 31 December 2013 did not significantly differ from their values presented in the financial statements for the respective 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.

  Consequently, the fair value of the instruments in question was disclosed in the table above at the carrying amount.

  The Group did not disclose the fair value of shares in companies not quoted on active markets, categorized to financial assets available for sale. The Group is unable to reliably estimate the fair value of shares held in companies which are not quoted on active markets. They are measured at cost less impairment losses as at the end of the reporting period. Similarly, in accordance with the Group's accounting policy, shares in joint ventures – financial assets excluded from the scope of IAS 39 – are measured using the equity method.

*(in PLN '000)*

In the financial year ended 31 December 2014, the Group sold its shares in Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA Jaworzno III Sp. z o.o., which had been recognized at cost less impairment (as described above) at the end of each reporting period as their fair value could not be measured reliably. The carrying amount as at the derecognition date was PLN 11 349 thousand, while the gain on disposal of the investment totaled PLN 22 788 thousand.

### 49.2. Fair value hierarchy

Fair value hierarchy of financial instruments measured at fair value as at 31 December 2014 and 31 December 2013:

| Classes of financial instruments | As at 31 December 2014 | | As at 31 December 2013 | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 1 | Level 2 |
| ***Assets*** | | | | |
| Commodity-related derivatives | 312 | – | 34 | – |
| Derivate instruments – CCIRS | – | 1 499 | – | – |
| Investment fund units | 2 409 | – | 2 429 | – |
| Bonds, T-bills and other debt securities | 1 890 | – | 1 890 | – |
| ***Liabilities*** | | | | |
| Commodity-related derivatives | 562 | – | 40 | – |
| Currency derivatives | – | – | – | 1 129 |
| Derivate instruments – CCIRS | – | 1 241 | – | – |
| IRS derivatives | – | 194 313 | – | 159 762 |

The method of fair value measurement of the aforesaid financial instruments has been described in Note 6 to the consolidated financial statements.

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

**Year ended 31 December 2014**

| | Assets at fair value through profit or loss | Financial assets available for sale | Loans and receivables | Financial assets excluded from the scope of IAS 39 | Financial liabilities at fair value through profit or loss | Financial liabilities at amortized cost | Liabilities under guarantees, factoring and excluded from the scope of IAS 39 | Hedging instruments | Total |
|---|---|---|---|---|---|---|---|---|---|
| Dividends and shares in profits | – | 3 931 | – | – | – | – | – | – | **3 931** |
| Interest income/ (expense) | 14 636 | – | 36 679 | – | – | (207 282) | (2 493) | (75 699) | **(234 159)** |
| Currency translation differences | 3 433 | – | 117 | – | – | (17 737) | (153) | – | **(14 340)** |
| Impairment/revaluation | – | 213 | (2 091) | – | (12 236) | – | – | – | **(14 114)** |
| Commission relating to borrowings and debt securities | – | – | – | – | – | (14 013) | – | – | **(14 013)** |
| Gain/(loss) on disposal of investments | – | 22 953 | – | (44) | – | – | – | – | **22 909** |
| Other | 1 197 | – | – | – | (1 811) | – | – | – | **(614)** |
| **Net profit (loss)** | **19 266** | **27 097** | **34 705** | **(44)** | **(14 047)** | **(239 032)** | **(2 646)** | **(75 699)** | **(250 400)** |
| Remeasurement | – | – | – | – | – | – | – | (20 207) | **(20 207)** |
| **Other comprehensive income** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(20 207)** | **(20 207)** |

*(in PLN '000)*

**Year ended 31 December 2013**

| | Assets at fair value through profit or loss | Financial assets available for sale | Loans and receivables | Financial assets excluded from the scope of IAS 39 | Financial liabilities at fair value through profit or loss | Financial liabilities at amortized cost | Liabilities under guarantees, factoring and excluded from the scope of IAS 39 | Hedging instruments | Total |
|---|---|---|---|---|---|---|---|---|---|
| Dividends and shares in profits | – | 18 323 | – | – | – | – | – | – | **18 323** |
| Interest income/ (expense) | 28 970 | – | 40 944 | – | – | (185 092) | (1 084) | (50 845) | **(167 107)** |
| Currency translation differences | (4 651) | – | 1 535 | – | – | 1 000 | (248) | – | **(2 364)** |
| Impairment/revaluation | 122 | (12 697) | (2 715) | – | (1 049) | – | – | – | **(16 339)** |
| Commission relating to borrowings and debt securities | – | – | – | – | – | (12 664) | – | – | **(12 664)** |
| Gain/(loss) on disposal of investments | – | 4 506 | – | – | – | – | – | – | **4 506** |
| Other | 2 643 | – | – | – | (1 704) | – | – | – | **939** |
| **Net profit (loss)** | **27 084** | **10 132** | **39 764** | **–** | **(2 753)** | **(196 756)** | **(1 332)** | **(50 845)** | **(174 706)** |
| Remeasurement | – | – | – | – | – | – | – | 33 397 | **33 397** |
| **Other comprehensive income** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **33 397** | **33 397** |

Hedging instruments include derivatives hedging the interest rate risk (IRS), which are subject to hedge accounting principles. Following early redemption of A series bonds on 29 December 2014, IRS hedging the A series bonds was reclassified to financial liabilities measured at fair value through profit or loss.

### 49.4. Description of significant items included in individual categories of financial instruments

***Financial assets available for sale***

As at 31 December 2014, financial assets available for sale included mainly shares in the following companies:

- shares in Spółka Ciepłowniczo-Energetyczna Jaworzno III Sp. z o.o. with the value of PLN 35 694 thousand;
- shares in Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. w Tychach with the value of PLN 32 690 thousand;
- shares in Energetyka Cieszyńska Sp. z o.o. with the value of PLN 15 028 thousand.

***Loans and receivables***

Trade and other receivables have been presented in detail in Note 26 and Note 50.1.1 hereto.

Loans granted of PLN 204 699 thousand include a loan granted to Elektrociepłownia Stalowa Wola S.A., along with accrued interest amounting to PLN 204 193 thousand as presented in Note 21 hereto.

***Financial assets excluded from the scope of IAS 39***

As at 31 December 2014 the Group had the following joint ventures accounted for using the equity method:

- TAMEH HOLDING Sp. z o.o. and its subsidiaries – PLN 377 002 thousand;
- Elektrownia Blachownia Nowa Sp. z o.o., special purpose vehicle – PLN 32 106 thousand;
- Elektrociepłownia Stalowa Wola S.A. special purpose vehicle – PLN 5 476 thousand;

The above investments have been described in details in Note 21 hereto.

***Financial liabilities measured at amortized cost***

Liabilities due to credit facilities and loans, and arising from issued bonds have been presented in detail in Note 35 hereto.

***Liabilities under guarantees, factoring and those excluded from the scope of IAS 39***

Financial liabilities excluded from the scope of IAS 39 include lease liabilities, as discussed in detail in Note 36.2 to these consolidated financial statements.

***Derivatives***

Derivative instruments hedging interest cash flows related to issued bonds subject to hedge accounting and other derivative instruments measured at fair value through profit or loss have been presented in detail in Note 37 to these consolidated financial statements.

## 50. Objectives and principles of financial risk management

The Capital Group manages its financial risk in a mindful and responsible manner, based on the *Specific risk management policy in the area of finance in TAURON Group* presenting principles and standards compliant with the relevant best practices.

Due to correlation between the risk incurred and the level of achievable income, these regulations are used to maintain the risks at the previously established, acceptable level. The main goal of financial risk management is to mitigate sensitivity of cash flows of the Company to financial risk factors and to minimise financial costs and collateral costs under transactions with the use of derivative instruments, and also to take into consideration correlation of tariff revenue of Distribution segment companies with financing costs of the TAURON Group based on floating interest rates.

The policy for management of specific risk in the area of finance determines the strategy of managing financial risk regarding currency and interest rate risk. The purpose of currency risk management is to limit negative effects of exchange rate fluctuations on the Group's cash flows to an acceptable level. The purpose of interest rate risk management is to limit negative effects of market interest rate fluctuations on the Group's cash flows to an acceptable level and to minimize financial expenses related to the use of derivatives. In 2014 and 2013, under currency management, the Group concluded derivative transactions on currency forwards. As at 31 December 2014 the Group had no currency forwards. In order to hedge interest rate risk related to floating-interest rate bonds issued, in 2012 the Group concluded interest rate swaps contracts for the period of 5 years. As at 31 December 2014 the Group had IRS contracts subject to hedge accounting, hedging Tranche C bonds (PLN 180 933 thousand) and IRS contract not subject to hedge accounting principles (PLN 13 380 thousand). The contract was concluded in order to hedge a portion of cash flows related to Tranche A, still after the early redemption of Tranche A bonds carried out in December 2014 it was excluded from hedge accounting and as at the end of the reporting period it was classified to liabilities measured at fair value through profit or loss, where measurement gains or losses are charged to profit or loss of the Group. The above financial instruments have been described in detail in Notes 31.5 and 37 hereto.

The policy for specific risk management in the area of finance and hedge accounting principles are applicable to the cash flow risk and not to the fair value risk due to its limited significance for the Group. Hedge accounting principles adopted by the Capital Group companies with regard to derivatives are presented in Note 9.12.

Further, TAURON Group has adopted Liquidity management policy for the TAURON Group. Thanks to the policy, among others based on precise weekly update of financial plans, scenario and benchmark analyses, the management of the liquidity position of the TAURON Group is optimized and thus the liquidity risk mitigated.

Key types of risk arising from financial instruments to which the Capital Group is exposed in the course of its operations include:

- credit risk;
- liquidity risk;
- market risk, including:
  - interest rate risk;
  - currency risk;
  - commodity price risk.

### 50.1. Credit risk

Credit risk regards potential credit events that may have the form of a contractor's insolvency, partial repayment of receivables, a material payment delay or another unpredicted breach of contract terms.

The companies of TAURON Polska Energia S.A. Capital Group are exposed to credit risk regarding:

- their core business: the risk sources include the purchase and sale of electricity, heat and fossil fuels, energy certificates, emission allowances etc.;
- their investment activities: the risk is generated by transactions resulting from investments, whose success depends on the financial standing of Group's suppliers;

- business operations (market risk management) where the credit risk regards possible default of their counterparties in derivative transactions if the fair value of a given derivative transaction is positive from the Group's viewpoint;
- depositing of free cash: the risk arises from the Group companies investing of free cash in credit risk bearing securities, i.e. other than issued by the State Treasury.

Classes of financial instruments that give rise to credit risk exposure with different characteristics include:

- trade receivables;
- deposits;
- loans granted;
- bonds, treasury bills and other debt securities;
- other financial receivables
- cash and cash equivalents;
- derivatives.

No material concentration of credit risk related to the core activity occurs in the Group apart from those listed in Note 50.1.1.

#### 50.1.1. Credit risk related to trade and other financial receivables

Trade receivables bear no interest and in case of cooperation with institutional contractors they usually have a 30-day maturity period. In case of individual clients, payments are made on a monthly or bi-monthly basis.

Except for sales to individual clients, sales are made only to customers who have undergone an appropriate verification procedure. As a result, the Management believe that there is no additional credit risk that would exceed the allowance for bad debts recognized for trade receivables of the Group.

The Group manages credit risk to contractors mainly through application of the following methods:

- evaluation of counterparty's financial standing and determining of credit limits;
- requiring determined collateral to be provided with clients with poor financial standing;
- standardizing of contractual provisions regarding credit risk and standardizing of credit collateral;
- ongoing monitoring of payments and an early collection system;
- regular measurement of credit risk arising from trade activities;
- ongoing monitoring of counterparty's financial standing, cooperation with business intelligence and collection companies.

As at 31 December 2014, the largest items among trade receivables included those from PSE S.A. with the value of PLN 122 240 thousand, from ArcelorMittal Poland S.A. – of PLN 48 305 thousand and from Kompania Węglowa S.A. – of PLN 48 113 thousand.

As at 31 December 2013, the largest items among trade receivables of the Group included those from ArcelorMittal Poland S.A. of PLN 103 781 thousand and PSE S.A. of PLN 47 652 thousand.

*(in PLN '000)*

**Allowances for current trade receivables and other receivables**

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|---|---|---|
| **Allowance/write-down at the beginning of period** | **(273 499)** | **(197 357)** |
| Recognised | (129 961) | (205 425) |
| Utilized | 17 760 | 55 309 |
| Reversed | 102 864 | 73 974 |
| Other movements | (12) | – |
| **Allowance/write-down at the end of period** | **(282 848)** | **(273 499)** |
| **Value of item before allowance** | **2 252 017** | **2 408 140** |
| **Value of item net of allowance (carrying amount)** | **1 969 169** | **2 134 641** |

As at the end of the reporting period, the Group did not hold material non-collectible items not covered with an allowance.

**Ageing analysis of current trade and other receivables as at 31 December 2014**

| | Not past due | Past due | | | | | Total |
|---|---|---|---|---|---|---|---|
| | | <30 days | 30–90 days | 90–180 days | 180–360 days | >360 days | |
| Before allowance/write-down | 1 656 178 | 228 451 | 46 794 | 26 179 | 49 008 | 245 407 | **2 252 017** |
| Allowance/write-down | (1 335) | (1 763) | (5 314) | (8 668) | (35 723) | (230 045) | **(282 848)** |
| **After allowance/write-down** | **1 654 843** | **226 688** | **41 480** | **17 511** | **13 285** | **15 362** | **1 969 169** |

**Ageing analysis of current trade and other receivables as at 31 December 2013**

| | Not past due | Past due | | | | | Total |
|---|---|---|---|---|---|---|---|
| | | <30 days | 30–90 days | 90–180 days | 180–360 days | >360 days | |
| Before allowance/write-down | 1 801 979 | 223 256 | 68 361 | 88 567 | 60 392 | 165 585 | **2 408 140** |
| Allowance/write-down | (792) | (2 596) | (5 894) | (66 233) | (43 612) | (154 372) | **(273 499)** |
| **After allowance/write-down** | **1 801 187** | **220 660** | **62 467** | **22 334** | **16 780** | **11 213** | **2 134 641** |

### 50.1.2. Credit risk related to other financial assets

The credit risk related to other financial assets of the Group 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.

The Group manages credit risk related to cash by diversifying of banks where it deposits its cash surplus. All entities the Group concludes deposit transactions with operate in the financial sector. They include high-rating banks with sufficient equity and stable, strong market position.

As at 31 December 2014, the share of three banks holding the largest balance of Group's cash was 91%.

All entities the Group concludes derivative transactions with in order to hedge against interest rate and exchange rate risk operate in the financial sector. They are Polish banks with high financial rating, sufficient equity and strong, stable market position.

### 50.2. Liquidity risk

The Group maintains the balance between continuity and flexibility of funding through the use of a variety of funding sources, such as overdraft facilities, bank loans, bonds and finance leases. Such use of the funding sources allows liquidity risk management and effective mitigation of its possible negative effects.

Liquidity is managed at the Capital Group level. The TAURON Group has adopted *Liquidity management policy for the TAURON Group*, as discussed in detail in Note 50 to these consolidated financial statements.

Additionally, in order to minimize the possibility of cash flow interruption and the risk of loss of liquidity, the TAURON Group, as in previous years, used the cash pooling mechanism. Regardless of funds collected by its individual members, cash pooling is linked to a flexible credit facility in the form of overdraft of PLN 300 000 thousand.

*(in PLN '000)*

Under the new cash pool agreement the Company is entitled to use external financing in the form of an overdraft of PLN 300 000 thousand and an intraday limit up to PLN 500 000 thousand.

The following tables present the Group's financial liabilities based on non-discounted contractual payments by maturity as at 31 December 2014 and 31 December 2013.

**Financial liabilities as at 31 December 2014**

| | Carrying amount | Non-discounted contractual payments | of which non-discounted contractual payments maturing within (after the balance sheet date) | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | less than 3 months | 3–12 months | 1–2 years | 2–3 years | 3–5 years | more than 5 years |
| **Financial liabilities other than derivative instruments** | | | | | | | | |
| Interest-bearing loans and issued bonds | **8 053 862** | **(9 317 895)** | (199 728) | (625 209) | (3 340 049) | (289 008) | (2 412 307) | (2 451 594) |
| Trade payables | **916 744** | **(916 744)** | (916 512) | (188) | (22) | (22) | – | – |
| Commitments resulting from purchases of fixed and intangible assets | **595 550** | **(595 550)** | (572 425) | (23 125) | – | – | – | – |
| Other financial liabilities | **403 557** | **(403 557)** | (327 643) | (26 927) | (8 437) | (40 451) | – | (99) |
| Obligations under finance leases | **59 904** | **(63 903)** | (5 110) | (10 036) | (20 753) | (4 247) | (23 731) | (26) |
| **Derivative financial liabilities:** | | | | | | | | |
| Derivate instruments – IRS | **194 313** | **(198 470)** | – | (103 415) | (95 055) | – | – | – |
| Derivate instruments – CCIRS | **1 241** | **(45 378)** | – | 1 190 | 2 351 | 1 389 | (1 224) | (49 084) |
| Derivate instruments – commodity | **562** | **(580)** | – | (580) | – | – | – | – |
| **Total** | **10 225 733** | **(11 542 077)** | **(2 021 418)** | **(788 290)** | **(3 461 965)** | **(332 339)** | **(2 437 262)** | **(2 500 803)** |

* Negative values indicate a cash outflow. Estimations of future payments to be made in selected periods may be positive for some derivatives, i.e. they may indicate a cash inflow, but the value resulting from measurement of such instruments during the entire term to maturity is negative (liability).

**Financial liabilities as at 31 December 2013**

| | Carrying amount | Non-discounted contractual payments | of which non-discounted contractual payments maturing within (after the balance sheet date) | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | less than 3 months | 3–12 months | 1–2 years | 2–3 years | 3–5 years | more than 5 years |
| **Financial liabilities other than derivative instruments** | | | | | | | | |
| Interest-bearing loans and issued bonds | **5 785 165** | **(6 530 495)** | (196 034) | (290 955) | (1 650 656) | (3 298 496) | (359 208) | (735 146) |
| Trade payables | **1 037 304** | **(1 037 304)** | (1 036 868) | (436) | – | – | – | – |
| Commitments resulting from purchases of fixed and intangible assets | **665 768** | **(665 768)** | (665 768) | – | – | – | – | – |
| Other financial liabilities | **328 292** | **(328 292)** | (302 870) | (17 595) | (6 374) | (808) | (542) | (103) |
| Obligations under finance leases | **78 970** | **(86 108)** | (6 419) | (13 802) | (27 017) | (10 868) | (27 979) | (23) |
| **Derivative financial liabilities:** | | | | | | | | |
| Derivate instruments – IRS | **159 762** | **(166 684)** | – | (73 583) | (57 733) | (35 368) | – | – |
| Derivate instruments – currency | **1 129** | **(1 720)** | – | (1 720) | – | – | – | – |
| **Total** | **8 056 390** | **(8 816 371)** | **(2 207 959)** | **(398 091)** | **(1 741 780)** | **(3 345 540)** | **(387 729)** | **(735 272)** |

In November 2014 TAURON Polska Energia S.A. concluded a surety agreement with a joint venture Elektrociepłownia Stalowa Wola S.A. It secures a guarantee issued by the bank in order to collateralize transactions concluded by Elektrociepłownia Stalowa Wola S.A. with an entity from outside the Group. The surety amount is PLN 62 582 thousand and the agreement is valid until 12 September 2018. The guarantee granted by the Company constitutes a contingent liability and does not considerably affect the liquidity risk of the Group.

### 50.3. Market risk

Market risk is related to possible negative effects of fluctuations in the fair value of financial instruments or the related future cash flows arising from changes in market prices on the financial profit/loss of the Group.

*(in PLN '000)*

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

- interest rate risk;
- currency risk;
- commodity price risk.

#### 50.3.1. Interest rate risk

The Group is exposed to the risk of interest rate changes related to floating interest rate borrowings acquired and investing in assets with floating and fixed interest rates. The Group companies are also exposed to lost benefit risk related to a decrease in interest rates of fixed-rate interest debt.

Carrying amount of financial instruments of the Group exposed to the interest rate risk, by age:

**31 December 2014 – fixed interest rate**

| Financial instruments | <1 year | 1–2 years | 2–3 years | 3–5 years | >5 years | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Bonds, T-bills and other debt securities | 21 732 | – | – | – | – | **21 732** |
| **Financial liabilities** | | | | | | |
| Arm's length loans | 139 146 | 132 733 | 132 733 | 265 464 | 490 335 | **1 160 411** |
| Issued bonds | 6 772 | 2 997 442 | – | – | 709 276 | **3 713 490** |
| Derivative instruments (IRS) | 88 673 | 92 260 | – | – | – | **180 933** |

**31 December 2014 – floating interest rate**

| Financial instruments | <1 year | 1–2 years | 2–3 years | 3–5 years | >5 years | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Deposits | – | – | – | – | 35 823 | **35 823** |
| Loans granted | 6 368 | – | – | – | 198 331 | **204 699** |
| Cash and cash equivalents | 1 420 909 | – | – | – | – | **1 420 909** |
| **Financial liabilities** | | | | | | |
| Bank overdrafts | 11 918 | – | – | – | – | **11 918** |
| Preferential loans | 7 767 | 7 534 | 7 333 | 18 466 | 14 122 | **55 222** |
| Arm's length loans | 4 481 | – | – | – | – | **4 481** |
| Issued debentures | 461 476 | – | – | 1 848 607 | 798 257 | **3 108 340** |

**31 December 2013 – fixed interest rate**

| Financial instruments | <1 year | 1–2 years | 2–3 years | 3–5 years | >5 years | Total |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Preferential loans | 5 043 | – | – | – | – | **5 043** |
| Arm's length loans | 139 928 | 132 724 | 132 724 | 265 448 | 622 923 | **1 293 747** |
| Issued bonds | 6 049 | 439 512 | 2 994 974 | – | – | **3 440 535** |
| Derivative instruments (IRS) | 72 229 | 54 996 | 32 537 | – | – | **159 762** |

**31 December 2013 – floating interest rate**

| Financial instruments | <1 year | 1–2 years | 2–3 years | 3–5 years | >5 years | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Deposits | – | – | – | – | 30 831 | **30 831** |
| Loans granted | – | – | – | – | 189 310 | **189 310** |
| Cash and cash equivalents | 636 909 | – | – | – | – | **636 909** |
| **Financial liabilities** | | | | | | |
| Bank overdrafts | 88 602 | – | – | – | – | **88 602** |
| Preferential loans | 8 733 | 7 763 | 7 532 | 14 642 | 25 316 | **63 986** |
| Arm's length loans | 33 265 | – | – | – | – | **33 265** |
| Issued bonds | 3 013 | 856 974 | – | – | – | **859 987** |

The Company has issued floating interest rate bonds only. A portion of bonds with interest cash flow fluctuations hedged with interest rate swaps as discussed in detail in Note 31.5 to these consolidated financial statements, was presented in the tables above together with measurement of hedging instruments under fixed-rate financial instruments.

*(in PLN '000)*

Other financial instruments of the Group which have not been included in the tables above bear no interest and therefore are not exposed to the interest rate risk.

#### 50.3.2. Currency risk

Capital Group companies are exposed to the EUR/PLN, CZK/PLN and USD/PLN exchange rate risk related to their operations and financial transactions. The Group's exposure to currency risk by financial instrument class in 2014 and 2013 is presented in the following tables.

**Currency position as at 31 December 2014**

| | Total carrying amount in PLN | EUR | | CZK | | USD | |
|---|---|---|---|---|---|---|---|
| | | in currency | in PLN | in currency | in PLN | in currency | in PLN |
| **Financial assets** | | | | | | | |
| Trade receivables and other financial receivables | 1 993 331 | 1 520 | 6 477 | 81 737 | 12 563 | – | – |
| Cash and cash equivalents | 1 420 909 | 5 723 | 24 395 | 17 879 | 2 748 | 444 | 1 556 |
| Derivatives (assets) | 1 811 | – | – | – | – | 89 | 312 |
| **Total** | | **7 243** | **30 872** | **99 616** | **15 311** | **533** | **1 868** |
| **Financial liabilities** | | | | | | | |
| Bank overdrafts | 11 918 | 2 796 | 11 918 | – | – | – | – |
| Issued bonds | 6 821 830 | 166 858 | 711 199 | – | – | – | – |
| Trade payables and other financial liabilities | 1 148 959 | 4 756 | 20 272 | 18 556 | 2 852 | 91 | 320 |
| Derivatives (liabilities) | 196 116 | 132 | 562 | – | – | – | – |
| **Total** | | **174 542** | **743 951** | **18 556** | **2 852** | **91** | **320** |
| **Net currency position** | | **(167 299)** | **(713 079)** | **81 060** | **12 459** | **442** | **1 548** |

**Currency position as at 31 December 2013**

| | Total carrying amount in PLN | EUR | | CZK | |
|---|---|---|---|---|---|
| | | in currency | in PLN | in currency | in PLN |
| **Financial assets** | | | | | |
| Trade receivables and other financial receivables | 2 155 388 | 982 | 4 073 | 49 028 | 7 418 |
| Cash and cash equivalents | 636 909 | 2 252 | 9 339 | 28 130 | 4 256 |
| Derivatives (assets) | 34 | 8 | 34 | – | – |
| **Total** | | **3 242** | **13 446** | **77 158** | **11 674** |
| **Financial liabilities** | | | | | |
| Bank overdrafts | 93 645 | 1 237 | 5 130 | – | – |
| Arm's length loans | 1 327 012 | 615 | 2 551 | – | – |
| Trade payables and other financial liabilities | 1 180 717 | 4 883 | 20 251 | 5 473 | 828 |
| Commitments resulting from purchases of fixed and intangible assets | 665 768 | 99 | 411 | – | – |
| Finance lease | 78 970 | 1 159 | 4 807 | – | – |
| Derivatives (liabilities) | 160 931 | 10 | 41 | – | – |
| **Total** | | **8 003** | **33 191** | **5 473** | **828** |
| **Net currency position** | | **(4 761)** | **(19 745)** | **71 685** | **10 846** |

In 2014 and in 2013 the TAURON Group used forward transactions under its currency risk management policy. The objective of these transactions is to hedge currency risk related to trade transactions of the Group. The Group has not used hedge accounting to hedge currency risk. As at the end of the reporting period the Group held no open forward contracts.

Additionally, in November 2014 the Group entered into the Coupon Cross Currency Swap (CCIRS) transaction which eliminates currency risk relating to changes in EUR/PLN exchange rate with regard to interest coupons from the bonds issued in EUR, in the entire period until their maturity (transaction described in Note 37 to these consolidated financial statements).

### 50.3.3. Commodity price risk

Companies from the TAURON Polska Energia S.A. Capital Group are exposed to negative effects of the risk related to fluctuations of cash flows and profit/loss expressed in domestic currency due to changes in the prices of commodities. The Group's exposure to the commodity price risk is reflected in the volume of purchases of the key raw materials and commodities, to include hard coal, gas and electricity. The volume and cost of purchases of the key commodities from non-Group suppliers are presented in the following table.

| Fuel type | Unit | 2014 | | 2013 | |
|---|---|---|---|---|---|
| | | Volume | Purchase cost | Volume | Purchase cost |
| Coal | tonne | 4 578 847 | 935 604 | 6 265 897 | 1 270 338 |
| Gas | thousand $m^3$ | 3 598 607 | 208 615 | 3 187 276 | 200 718 |
| Electricity | MWh | 38 036 718 | 6 185 219 | 31 397 801 | 5 846 263 |
| Heat energy | GJ | 4 941 873 | 118 225 | 5 492 700 | 180 365 |
| **Total** | | | **7 447 663** | | **7 497 684** |

### 50.3.4. Market risk – sensitivity analysis

At present, the Capital Group is exposed mostly to the risk of EUR/PLN, CZK/PLN and USD/PLN exchange rate changes. The Group is also exposed to changes in reference interest rates for PLN and EUR.

The analysis of sensitivity to changes in market risk factors is conducted by means of a scenario analysis. The Group relies on expert scenarios reflecting its judgment concerning the behavior of individual market risk factors in the future.

The scenario analyses presented herein are aimed at examining the effect of changes in market risk factors on the Group's financial performance. The scope of the analysis includes only those positions 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 end of the reporting period.

The interest rate risk sensitivity analysis is conducted by the Group using the parallel shift in the yield curve by the potential change in reference interest rates within a horizon until the date of the next financial statements. The interest rate risk sensitivity analysis has been carried out based on average reference interest rates in the year. The scale of potential changes in interest rates has been estimated on the basis of implied volatility for interest rate options quoted on the interbank market for currencies which expose the Group to the interest rate risk as at the end of the reporting period.

In the interest rate risk sensitivity analysis, the effect of changes in risk factors has been determined for interest income/expense related to financial instruments measured at amortized cost and for the fair value of floating interest rate financial instruments measured at fair value as at the end of the reporting period.

Presented below is the sensitivity analysis for the interest rate and currency risks to which the Group is exposed as at the end of the reporting period, along with the effect of potential changes in individual risk factors on the gross financial profit/loss as well as other comprehensive income (gross), by classes of financial assets and liabilities.

#### 50.3.4.1. Interest rate risk sensitivity analysis

The Group identifies exposure to WIBOR and EURIBOR interest rate risk. The tables below present sensitivity of the gross financial profit/loss as well as other comprehensive income (gross) to reasonably possible changes in interest rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

*(in PLN '000)*

### Year ended 31 December 2014

| Classes of finacial instruments | 31 December 2014 | | Sensitivity analysis for interest rate risk as at 31 December 2014 | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | WIBOR | | | | EURIBOR | |
| | Carrying amount | Value at risk | WIBOR + 69 bp | | WIBOR -69 bp | | EURIBOR + 97 bp | EURIBOR -97 bp |
| | | | *Profit/(Loss)* | *Other comprehensive income* | *Profit/(Loss)* | *Other comprehensive income* | *Profit/(Loss)* | *Profit/(Loss)* |
| Deposits | 35 823 | 35 823 | 247 | – | (247) | – | – | – |
| Loans granted | 204 699 | 204 699 | 1 412 | – | (1 412) | – | – | – |
| Cash and cash equivalents | 1 420 909 | 1 420 909 | 9 606 | – | (9 606) | – | 237 | (237) |
| Derivatives (assets) | 1 811 | 1 499 | (4 624) | – | 4 624 | – | (223) | 223 |
| Preferential loans | 55 222 | 55 222 | (381) | – | 381 | – | – | – |
| Arm's length loans | 1 164 892 | 4 481 | (31) | – | 31 | – | – | – |
| Bank overdrafts | 11 918 | 11 918 | – | – | – | – | (116) | 116 |
| Issued bonds | 6 821 830 | 6 110 631 | (42 163) | – | 42 163 | – | – | – |
| Derivatives (liabilities) | 196 116 | 195 554 | (36 212) | 31 773 | 36 212 | (31 773) | (26 016) | 26 016 |
| **Total** | | | **(72 146)** | **31 773** | **72 146** | **(31 773)** | **(26 118)** | **26 118** |

### Year ended 31 December 2013

| Classes of finacial instruments | 31 December 2013 | | Sensitivity analysis for interest rate risk as at 31 December 2013 | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | WIBOR | | | | EURIBOR | |
| | Carrying amount | Value at risk | WIBOR + 95 bp | | WIBOR -95 bp | | EURIBOR + 23 bp | EURIBOR -23 bp |
| | | | *Profit/(Loss)* | *Other comprehensive income* | *Profit/(Loss)* | *Other comprehensive income* | *Profit/(Loss)* | *Profit/(Loss)* |
| Deposits | 30 831 | 30 831 | 293 | – | (293) | – | – | – |
| Loans granted | 189 310 | 189 310 | 1 798 | – | (1 798) | – | – | – |
| Cash and cash equivalents | 636 909 | 636 909 | 5 921 | – | (5 921) | – | 21 | (21) |
| Preferential loans | 63 986 | 63 986 | (608) | – | 608 | – | – | – |
| Arm's length loans | 1 327 012 | 33 265 | (292) | – | 292 | – | (6) | 6 |
| Bank overdrafts | 93 645 | 88 602 | (842) | – | 842 | – | – | – |
| Issued bonds | 4 300 522 | 4 300 522 | (40 855) | – | 40 855 | – | – | – |
| Derivatives (liabilities) | 160 931 | 159 762 | – | 75 397 | – | (75 397) | – | – |
| **Total** | | | **(34 585)** | **75 397** | **34 585** | **(75 397)** | **15** | **(15)** |

#### 50.3.4.2. Currency risk sensitivity analysis

The Group identifies its exposure to the risk of EUR/PLN, CZK/PLN and USD/PLN exchange rate changes. The tables below present sensitivity of the gross financial profit/loss to reasonably possible changes in the exchange rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

### Year ended 31 December 2014

| Classes of finacial instruments | 31 December 2014 | | Sensitivity analysis for currency risk as at 31 December 2014 | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | EUR/PLN | | CZK/PLN | | USD/PLN | |
| | Carrying amount | Value at risk | exchange rate EUR/PLN +7.7% | exchange rate EUR/PLN -7.7% | exchange rate CZK/PLN +8.37% | exchange rate CZK/PLN -8.37% | exchange rate USD/PLN +12.89% | exchange rate USD/PLN -12.89% |
| | | | *Profit/(Loss)* | | *Profit/(Loss)* | | *Profit/(Loss)* | |
| Trade receivables and other financial receivables | 1 993 331 | 19 040 | 499 | (499) | 1 052 | (1 052) | – | – |
| Cash and cash equivalents | 1 420 909 | 28 699 | 1 878 | (1 878) | 230 | (230) | 201 | (201) |
| Derivatives (assets) | 1 811 | 1 811 | 1 925 | (1 925) | – | – | 40 | (40) |
| Overdrafts | 11 918 | 11 918 | (918) | 918 | – | – | – | – |
| Bonds issued | 6 821 830 | 711 199 | (54 762) | 54 762 | – | – | – | – |
| Trade payables and other financial liabilities | 1 148 959 | 23 444 | (1 561) | 1 561 | (239) | 239 | (2) | 2 |
| Derivatives (liabilities) | 196 116 | 1 803 | 25 162 | (25 162) | – | – | – | – |
| **Total** | | | **(27 777)** | **27 777** | **1 043** | **(1 043)** | **239** | **(239)** |

*(in PLN '000)*

The exposure to risk as at 31 December 2014 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date, except for material transactions which took place close to the end of the year 2014. They concern the class of bonds issued containing the bonds issued in EUR in December 2014 (Note 35.2) and Derivatives – assets and liabilities which include CCIRS transaction entered into by the Group in November 2014 (Note 37).

**Year ended 31 December 2013**

| Classes of finacial instruments | 31 December 2013 | | Sensitivity analysis for currency risk as at 31 December 2013 | | | |
|---|---|---|---|---|---|---|
| | | | EUR/PLN | | CZK/PLN | |
| | Carrying amount | Value at risk | exchange rate EUR/PLN +7.75% | exchange rate EUR/PLN -7.75% | exchange rate CZK/PLN +9.91% | exchange rate CZK/PLN -9.91% |
| | | | *Profit/(Loss)* | | *Profit/(Loss)* | |
| Trade receivables and other financial receivables | 2 155 388 | 11 491 | 316 | (316) | 735 | (735) |
| Cash and cash equivalents | 636 909 | 13 595 | 724 | (724) | 422 | (422) |
| Derivatives (assets) | 34 | 34 | 3 | (3) | – | – |
| Arm's length loans | 1 327 012 | 2 551 | (198) | 198 | – | – |
| Overdrafts | 93 645 | 5 130 | (398) | 398 | – | – |
| Trade payables and other financial liabilities | 1 180 717 | 21 079 | (1 569) | 1 569 | (82) | 82 |
| Finance lease | 78 970 | 4 807 | (373) | 373 | – | – |
| Commitments resulting from purchases of fixed and intangible assets | 665 768 | 411 | (32) | 32 | – | – |
| Derivatives (liabilities) | 160 931 | 41 | (3) | 3 | – | – |
| **Total** | | | **(1 530)** | **1 530** | **1 075** | **(1 075)** |

The exposure to risk as at 31 December 2013 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

## 51. Financial and capital management

Key tools allowing effective management of financial resources include the central financing model and Group's liquidity management policy along with cash pooling adopted by the Group. Additionally, the financial management system is supported with the Group's central specific risk management policy and central insurance policy with the Company acting as a manager directing activities, thus allowing relevant risk exposure limits to be established.

Detailed information regarding financial management has been described in Section 4.12 of the Management Board's report on the activities of TAURON Polska Energia S.A. Capital Group.

In 2014, the Capital Group was fully able to pay its liabilities within contractual deadlines.

The key objective of the capital management policy developed by the Group is maintaining a good credit rating and safe capital ratios supporting its operations and increasing its shareholder value.

The Group manages its capital structure and modifies it in accordance with changes in economic conditions. In order to maintain or adjust the capital structure, the Group may establish dividend policy for its shareholders, return equity to them, issue new shares or influence external debt level accordingly.

The Group monitors first of all the debt ratio defined as a relation of net financial debt to EBITDA.

Net financial debt is the financial debt of the TAURON Group due to interest-bearing borrowings and securities and due to finance lease reduced by cash and short-term investments with maturity up to one year. EBITDA is the operating profit of the Group increased by amortization/depreciation. Financial debt means the obligation to pay or refund money (both principal and interest). The value of the ratio is also monitored by the Company's creditors, rating agencies and has a measurable impact on the Company's ability to obtain funding and its costs, as well as on evaluation of its credit standing.

As at the end of the reporting period, the debt ratio was 1.8 which is classified as safe and allowing contracting further financial liabilities according to the valid market standards.

*(in PLN '000)*

| | As at 31 December 2014 | As at 31 December 2013 |
|---|---|---|
| **Net financial debt:** | **6 665 318** | **5 211 348** |
| Financial debt of TAURON Group | 8 113 766 | 5 864 135 |
| Cash and cash equivalents | (1 420 909) | (636 909) |
| Short-term investments | (27 539) | (15 878) |
| **EBITDA:** | **3 627 100** | **3 661 484** |
| Operating profit of TAURON Group | 1 830 113 | 1 934 066 |
| Depreciation and amortization | 1 796 987 | 1 727 418 |
| **Debt ratio** | **1.8** | **1.4** |

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

Information concerning the fee of the certified auditor has been presented in the Management Board's report on the activities of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2014 (Note 4.13).

## 53. Events after the end of the reporting period

***Redemption of bonds***

On 30 January 2015, the Company redeemed Tranche B bonds with the par value of PLN 150 000 thousand at their maturity.

These consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the year ended 31 December 2014 in accordance with the International Financial Reporting Standards have been presented on 97 consecutive pages.

**Management Board of the Company**

Katowice, 10 March 2015

| | | |
|---|---|---|
| Dariusz Lubera | – President of the Management Board | ........................................................................ |
| Aleksander Grad | – Vice-President of the Management Board | ........................................................................ |
| Katarzyna Rozenfeld | – Vice-President of the Management Board | ........................................................................ |
| Stanisław Tokarski | – Vice-President of the Management Board | ........................................................................ |
| Krzysztof Zawadzki | – Vice-President of the Management Board | ........................................................................ |

# REPORT OF THE MANAGEMENT BOARD ON OPERATIONS OF TAURON POLSKA ENERGIA S.A. CAPITAL GROUP FOR THE FINANCIAL YEAR 2014

MARCH 2015

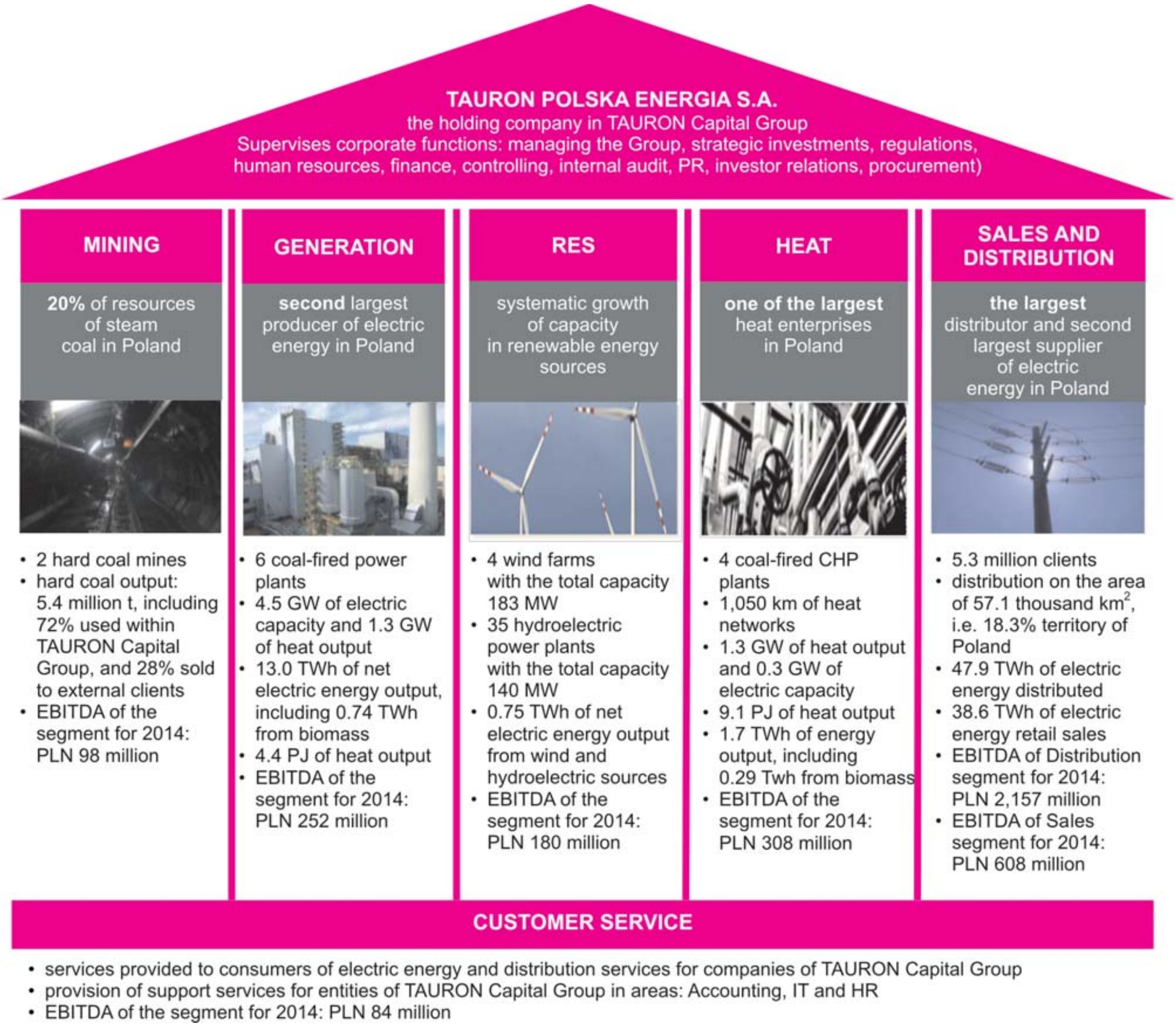
# TABLE OF CONTENTS

# 1. TAURON CAPITAL GROUP

## 1.1. Basic Information on TAURON Capital Group

TAURON Polska Energia S.A. Capital Group (TAURON Capital Group) is a vertically integrated energy group located in the south of Poland. TAURON Capital Group performs its operations in all key segments of the energy market (excluding electric energy transmission which is the sole responsibility of the Transmission System Operator (TSO)), i.e. in the area of coal mining, generation, distribution as well as sales and trading of electric energy and heat.

**Figure no. 1. TAURON Capital Group***




** The data does not include the assets of Zakad Wytwarzania Nowa and the branch of Elektrownia Blachownia that were transferred to TAMEH POLSKA company as of 10 December 2014.*

## 1.2. Areas of activities

TAURON Capital Group conducts its operations within the following Business Areas (hereinafter also referred to as Segments):

**Mining Area**, comprising mainly mining, preparation and sale of hard coal in Poland – the activity provided by TAURON Wydobycie S.A. (TAURON Wydobycie).

**Generation Area**, comprising mainly generation of electric energy in conventional sources, including co-generation, as well as generation of electric energy within the process of biomass burning and co-burning, and other thermally acquired energy. The basic fuels used by the Generation Business Area include hard coal, biomass and coke-oven gas as well as high-methane gas. These activities are carried out by TAURON Wytwarzanie S.A. (TAURON Wytwarzanie). In January 2014, heat assets comprising Oddział Zespołu Elektrociepłowni Bielsko-Biała (ZEC Bielsko-Biała) were separated from the structures of TAURON Wytwarzanie and incorporated into TAURON Ciepło S.A. within the process of division of the TAURON Wytwarzanie company. On 10 December 2014 assets comprising Blachownia Power Plant were separated from TAURON Wytwarzanie structures and incorporated into TAMEH POLSKA sp. z o.o. (TAMEH POLSKA) by means of division of the TAURON Wytwarzanie company.

**Renewable Energy Sources Area (RES)**, comprising generation of electric energy from renewable sources (hydroelectric power plants and wind farms). The activity is conducted by TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA). As of 2 January 2014, incorporation of subsidiaries, BELS INVESTMENT sp. z o.o. (BELS INVESTMENT) and MEGAWAT MARSZEWO sp. z o.o. (MEGAWAT MARSZEWO) took place.

**Heat Area**, comprising the generation, distribution and sale of heat and, to a lesser extent, other energy products (electric energy, wind of blast furnace, compressed air). The activities are conducted by TAURON Ciepło sp. z o.o. (TAURON Ciepło). Since January 2014 the heat assets of ZEC Bielsko-Biała, taken over from TAURON Wytwarzanie, have been included in the Heat Area. On 10 December 2014, assets comprising Zakład Wytwarzania Nowa (ZW Nowa) were separated from the TAURON Ciepło structures and incorporated into TAMEH POLSKA by means of dividing the TAURON Ciepło company.

**Distribution Area**, covering the distribution of electric energy using distribution grids located in southern Poland. The activities are conducted by TAURON Dystrybucja S.A. (TAURON Dystrybucja). This area also comprises companies: TAURON Dystrybucja Serwis S.A. (TAURON Dystrybucja Serwis) and TAURON Dystrybucja Pomiary sp. z o.o. (TAURON Dystrybucja Pomiary).


**Sales Area**, comprising sales of electric energy to end-customers and wholesale trading of electric energy, as well as trading and management of $CO_2$ emission allowances and property rights arising from the energy certificates of origin and trading of fuels. Operations in this area are conducted by the companies: TAURON Polska Energia S.A. (TAURON or the Company), TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż), TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE) and TAURON Czech Energy s.r.o. (TAURON Czech Energy).

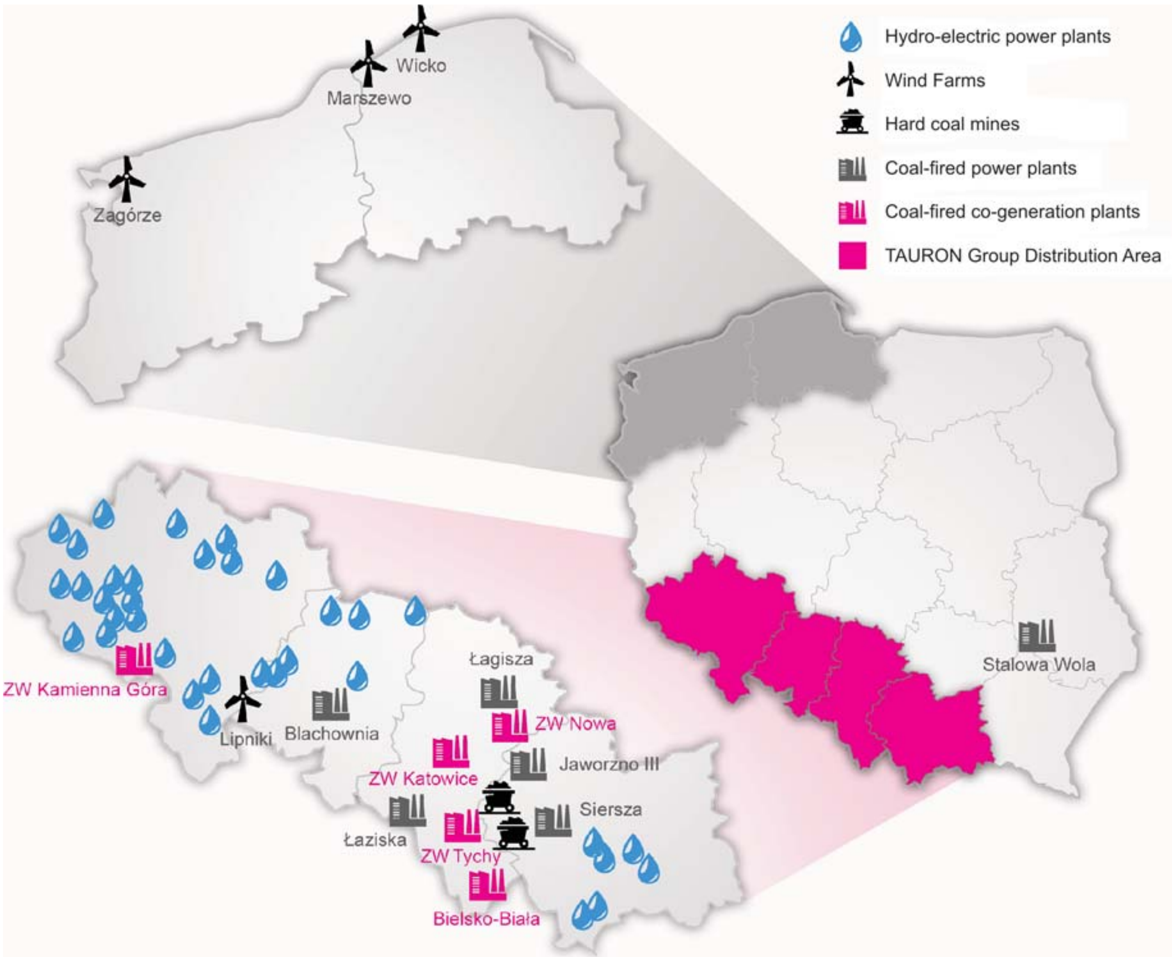

**Customer Service Area**, covering mainly services provided to clients of TAURON Capital Group (both in the scope of sales and supply of energy). As of 2013 the activities have been expanded by the provision of support services for the companies of TAURON Capital Group in the area of accounting, communication and IT, as a result of centralisation of processes taken over from the companies of TAURON Capital Group. Operations in this area are carried out by the company TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta).

**Other Area**, comprising mainly activities in the area of extraction of stone, including limestone, for the needs of power engineering industry, metallurgy, construction and road building as well as production of sorbing agents for installations of flue gas desulphurisation using the wet method and for application in fluidized bed boilers (activity provided by the company Kopalnia Wapienia "Czatkowice" sp. z o.o (KW Czatkowice)). This Area also comprises the company Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. in liquidation (PEPKH in liquidation) and TAURON Sweden Energy AB (publ) dealing with financial activity.

TAURON Capital Group conducts its operations and acquires its revenues mainly from sales and distribution of electric energy and heat, generation of electric energy and heat, as well as from sales of hard coal.

The figure below shows the location of key assets of TAURON Capital Group as well as the distribution area where TAURON Dystrybucja operates, as the Distribution System Operator (DSO).

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




** As of 10 December 2014, ZW Nowa and Blachownia Power Plant Branch were transferred to the TAMEH POLSKA company.*

## 1.3. Organisation and structure of TAURON Capital Group

The parent entity, TAURON Polska Energia S.A. was established on 6 December 2006 under the implementation of the *Programme for Power Engineering.* The founders of the Company included: State Treasury represented by the Minister of Treasury, EnergiaPro S.A. with its seat in Wrocław (currently: TAURON Dystrybucja), ENION S.A. with its seat in Kraków (currently: TAURON Dystrybucja) and Elektrownia Stalowa Wola S.A. with its seat in Stalowa Wola (currently: TAURON Wytwarzanie). The Company was registered in the National Court Register on 8 January 2007 under the enterprise name: Energetyka Południe S.A. The change of the Company enterprise to its current name, i.e. TAURON Polska Energia S.A., was registered on 16 November 2007. The company does not have any branches (plants).

As of 31 December 2014, the key companies of TAURON Capital Group, besides the parent company, TAURON, included 14 subsidiaries subject to consolidation, indicated in item 1.3.1. hereof. Moreover, the Company holds, directly or indirectly, shares in other 44 companies.

Detailed information concerning the activities of TAURON Capital Group companies in individual Business Areas is contained in item 1.2. of this report.

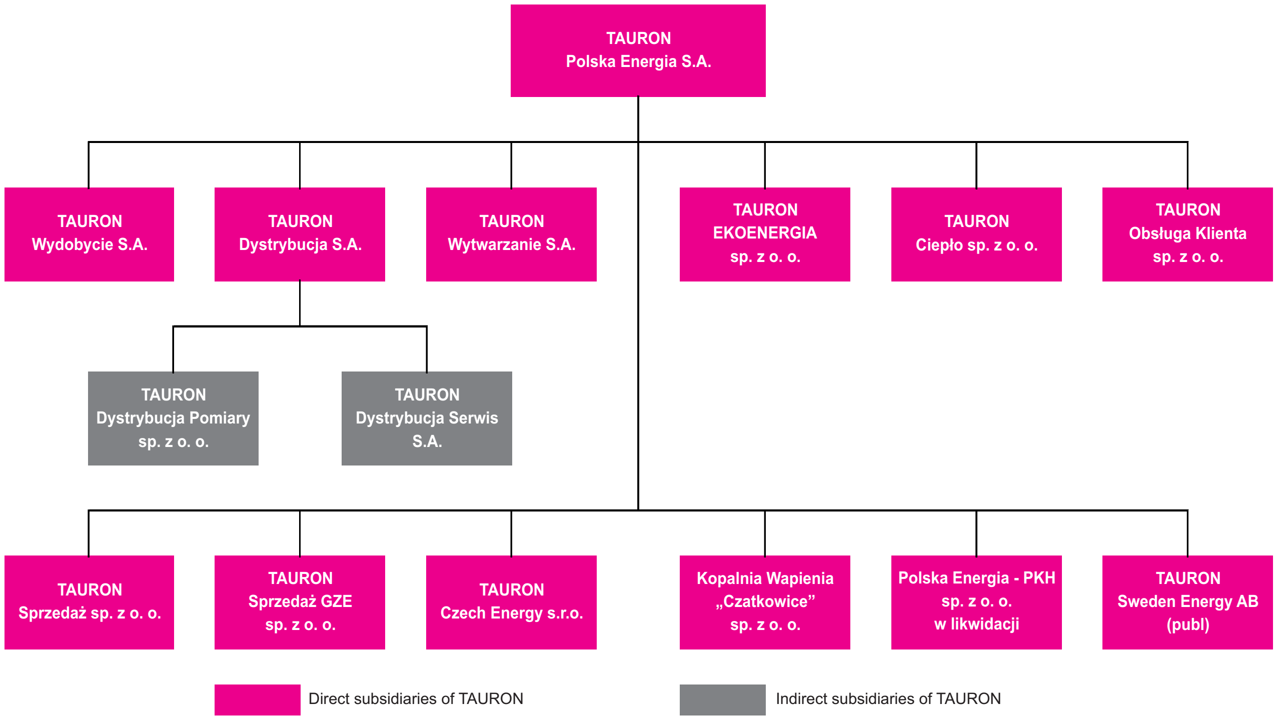
The model of TAURON Capital Group structure assumes functioning of one leading company in each Business Area, which simultaneously enables operation of companies established or acquired for the needs of strategic alliances, activities in international markets, identified business needs and implementation of investment projects. Such a structure enables to optimise the functioning of entities along the whole value chain, indicated in the figure below, in order to maximise the margin generated in the whole TAURON Capital Group.

**Figure no. 3. Value chain in TAURON Capital Group**


### 1.3.1. Entities subject to consolidation

The chart below presents the structure of TAURON Capital Group, including the companies subject to consolidation, according to the status as at 31 December 2014.

**Figure no. 4. Structure of TAURON Capital Group, including companies subject to consolidation, as at 31 December 2014**




TAURON Capital Group also holds investments in joint projects: Elektrociepłownia Stalowa Wola S.A. (EC Stalowa Wola), Elektrownia Blachownia Nowa sp. z o.o. (Elektrownia Blachownia Nowa) and TAMEH HOLDING sp. z o.o. (TAMEH HOLDING), which are measured by equity method in the consolidated financial statements.

Detailed information on companies covered by consolidation and on TAURON share in their initial capital and in their governing body, is presented in item 1.6 of this report.

### 1.3.2. Changes in organisation of TAURON Capital Group

In 2014 the following changes in organisation of TAURON Capital Group took place:

***Purchase of shares or stocks of other companies***

1. On 15 January 2014 the General Meeting (GM) of Kompania Węglowa S.A. (Kompania Węglowa) approved the sales of 16,730,525 registered shares of TAURON Wydobycie, consequently, the last condition precedent required for the transfer of ownership of the said shares to TAURON was fulfilled.

   The above mentioned event was the consequence of the agreement signed on 10 December 2013 concerning the purchase of 16,730,525 registered shares of TAURON Wydobycie by TAURON from Kompania Węglowa, representing 47.52% of the share capital of this company, authorising to the execution of 31.99% votes at its GM. The total purchase price of the shares amounted to PLN 310,000 thousand. The amount of PLN 232,500 thousand was paid on the day of signing the agreement, whereas the remaining amount of PLN 77,500 thousand was paid on 22 January 2014 following the fulfilment of the conditions precedent related to the assignment of ownership of TAURON Wydobycie shares. On the same day, the ownership of TAURON Wydobycie shares belonging to Kompania Węglowa was transferred to the Company.

The purchase of TAURON Wydobycie shares was aimed at taking over the full control over the company significant in terms of interests of TAURON Capital Group, representing the element of the value chain and implementing the strategic objectives in the Generation Area. The above transaction has contributed to the growth of TAURON Capital Group value. At the same time, those activities enabled comprehensive implementation of corporate standards in the TAURON Wydobycie company, applicable in TAURON Capital Group, in the scope of TAURON Capital Group management.

2. On 28 August 2014 the Company purchased 18,473,553 shares of the TAURON Wydobycie company from its subsidiary, TAURON Wytwarzanie, constituting 52.48% of the share in its initial capital, and 30,812 shares of the company KW Czatkowice, constituting 100% share in its initial capital. The transfer of the ownership of TAURON Wydobycie shares and KW Czatkowice shares took place by means of *datio in solutum,* under the agreement concluded between TAURON and TAURON Wytwarzanie in exchange for releasing TAURON Wytwarzanie from its obligations towards TAURON due to the partial redemption of bonds.

   The above transaction was aimed obtaining 100% of direct share by TAURON Group Compliance in the TAURON Wydobycie and KW Czatkowice share capital, which enabled to increase the Tax Capital Group (PGK) by TAURON Wydobycie and KW Czatkowice.

***Disposal of shares or stocks of other companies***

1. On 12 August 2014, the following subsidiaries of TAURON: TAURON Wytwarzanie, TAURON Wydobycie and TAURON Dystrybucja, concluded the conditional agreement with the investor – PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2 (Closed-end Investment Fund of Non-Public Assets), with its seat in Warsaw, concerning sales of the total of 14,984 shares of Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA-Jaworzno III sp. z o.o. with its seat in Jaworzno (ELVITA), constituting 98.82% in the share capital (including: TAURON Wytwarzanie sold 4,825 shares, TAURON Wydobycie sold 4,520 shares and TAURON Dystrybucja sold 5,639 shares). As a result of fulfilment of the conditions defined in the aforementioned agreement, as of 2 December 2014 the ownership of the said ELVITA company shares to the purchaser occurred.

   The above transaction was executed under the reorganisation of TAURON Capital Group companies, conducted in TAURON Capital Group, with the purpose of streamlining its structure, among others, through the elimination of activities which were not associated with the core business operations.

2. On 23 October 2014 the Company sold 36,179 shares of the company Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. with its seat in Tychy in favour of TAURON Ciepło, for the price of PLN 1,853 thousand, constituting 1.2% share in the initial capital of this company. The disposal of shares was executed under the project related to the reorganisation of heat companies, with the purpose of concentration of heat companies' shares in TAURON Ciepło, as the company leading in the Heat Area.

***Merger of companies***

1. On 2 January 2014 the District Court for Wrocław-Fabryczna in Wrocław, 9th Commercial Department of the National Court Register issued the decision concerning entering of the merger of the following companies to the register: TAURON EKOENERGIA (Acquiring Company) with the MEGAWAT MARSZEWO company and BELS INVESTMENT company (Acquired Companies). The merger was executed pursuant to art. 492 § 1 item 1 of the *Code of Commercial Companies (Ksh)*, i.e. through the assignment of the total assets of the Acquired Companies to the Acquiring Company.

   The objective of this merger was to streamline the structure of TAURON Capital Group within the framework of implementation of the reorganisation programme of companies in the RES Area.

2. On 2 January 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on entering of the merger of the following companies to the register: Spółka Ciepłowniczo-Energetyczna Jaworzno III sp. z o.o. (the Acquiring Company) with the company ECOPEC sp. z o.o. (EKOPEC) (the Acquired Company). The merger was executed pursuant to art. 492 § 1 item 1 of the Ksh, i.e. through the assignment of the total assets of the Acquired Company to the Acquiring Company.

   The objective of this merger was to streamline the structure of TAURON Capital Group within the framework of implementation of the reorganisation programme of companies in the Heat Area.

3. On 30 April 2014 the District Court for Wrocław-Fabryczna in Wrocław, 6th Commercial Department of the National Court Register issued the order on entering the merger of the following companies to the register: TAURON Dystrybucja Serwis (the Acquiring Company) with Zakład Obsługi Zaplecza Transportu Energetyki "EL-AUTO" sp. z o.o. (EL-AUTO) and "AUTOZET" sp. z o.o. (AUTOZET) (the Acquired Companies). The merger was executed pursuant to art. 492 § 1 item 1 of the *Ksh*, i.e. through the assignment of the total assets of the Acquired Companies to the Acquiring Company.

   The merger was aimed at reorganisation and consolidation of service activities for the area of operations of the TAURON Dystrybucja company within a single organisation, in accordance with the implemented project on reorganising TAURON Capital Group companies.

4. On 30 April 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on entering of the merger of the following companies to the register: Enpower service sp. z o.o. (Enpower service) (the Acquiring Company) with TAURON Ciepło S.A. (the Acquired Company). The merger was executed pursuant to art. 492 § 1 item 1 of the Ksh, i.e. through the assignment of the total assets of the Acquired Company to the Acquiring Company. The merged entity operates under the enterprise name "TAURON Ciepło sp. z o.o.".

   The project on merger of TAURON Ciepło S.A. and Enpower service was compliant with the schedule of reorganisation of entities in TAURON Capital Group, approved in TAURON.

5. On 4 December 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on entering of the merger of the following companies to the register: TAURON Wytwarzanie Serwis sp. z o.o. (TAURON Wytwarzanie Serwis) (the Acquiring Company) with the company Przedsiębiorstwo Eksploatacyjno-Usługowo-Handlowe Zespołu Elektrociepłowni Bielsko-Biała "CARBON-BIELSKO" sp. z o.o. (the Acquired Company). The merger was executed pursuant to art. 492 § 1 item 1 of the Ksh, i.e. through the assignment of the total assets of the Acquired Company to the Acquiring Company.

   The merger was performed under the reorganisation programme of service companies in the Generation Area and its aim was to streamline the structure of the Generation Area within TAURON Capital Group and to simplify the ownership supervision.

***Division of companies***

1. On 2 January 2014 the District Court for Katowice-Wschód, 8th Commercial Department of the National Court Register issued the decision on entering the division of the TAURON Wytwarzanie company (the Divided Company) by the apportionment pursuant to art. 529 § 1 item 4 of the Ksh, consisting in the assignment of the apportioned components of assets, i.e. the organized part of the enterprise in the form of ZEC Bielsko-Biała, to the TAURON Ciepło S.A. company (the Acquiring Company) in exchange for the shares of TAURON Ciepło S.A., which had been acquired by one of the shareholders of TAURON Wytwarzanie, i.e. TAURON, including the proportional reduction of TAURON's share in the initial capital of TAURON Wytwarzanie.

   As a result of the aforementioned division, the share capital in the TAURON Wytwarzanie company was reduced from the amount of PLN 1,553,036 thousand to the amount of PLN 1,494,863 thousand, whereas in the TAURON Ciepło S.A. company the share capital was increased from the amount of PLN 1,238,077 thousand to the amount of PLN 1,409,747 thousand. As a result of the division, the share of TAURON in TAURON Wytwarzanie decreased to 99.76% (in the initial capital) and to 99.79% (in the votes at the GM), whereas the share of TAURON in TAURON Ciepło S.A. increased to 96.57% (in the share capital) and to 97.14% (in the votes at the GM).

   The division was performed under the implementation of the project on construction of the Heat Area, in accordance with the *Development Strategy of the Heat Area in TAURON Group for 2011–2015 with estimates up to the year 2020*.

2. On 10 December 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on entering the division of the following companies to the register: TAURON Wytwarzanie, TAURON Ciepło and ArcelorMittal Poland S.A. (ArcelorMittal) (Divided Companies) through the apportionment, pursuant to Article 529 § 1 item 4 of the Ksh, of their partial assets and their assignment to the TAMEH POLSKA company (Acquiring Company).

   In connection with the above operation, the share capital of the TAMEH POLSKA company was increased from the amount of PLN 5 thousand to the amount of PLN 340,118,500, i.e. by the amount of PLN 340,113,500, through creation of 3,401,135 new shares with the nominal value of PLN 100 per share. As a result of the increase in the share capital, TAURON acquired 3,293,313 of TAMEH POLSKA shares with the total nominal value of PLN 329,331,300.

   The division was performed under the execution of the joint project of TAURON Capital Group and ArcelorMittal Group companies, aimed at establishment of the entity to implement investment and operating tasks in the scope of industrial power engineering.

***Establishment of new companies***

1. On 31 July 2014 the District Court for Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on incorporation of two limited liability companies with the seat in Dąbrowa Górnicza in the Register of Entrepreneurs: TAMEH HOLDING and TAMEH POLSKA, established on 9 July 2014 by TAURON which, as the sole shareholder of the aforementioned companies, took over shares in each of them, with the total nominal value of PLN 5 thousand.

   On 24 November 2014 the President of OCCP issued the approval concerning the concentration, consisting in establishing of a joint entrepreneur, TAMEH HOLDING.

   The above companies have been established for the needs of implementation of the joint project with ArcelorMittal, aimed at establishment of an entity to execute investment and operational tasks in the scope of industrial power engineering.

On 19 December 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on increasing of the TAMEH HOLDING share capital from the amount of PLN 5 thousand to the amount of PLN 658,680,600, i.e. by the amount of PLN 658,675,600, through creation of 6,586,756 new shares with the nominal value of PLN 100 per share, as a result of which TAURON acquired 3,293,378 shares with the total nominal value of PLN 329,337,800, in exchange for the in-kind contribution in the form of 3,293,363 shares held in the share capital of TAMEH POLSKA, with the total nominal value of PLN 329,336,300.

2. On 22 September 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on registering of a limited liability company, Marselwind sp. z o.o. with its seat in Katowice (Marselwind), in the Register of Entrepreneurs, established on 3 September 2014 by TAURON which, as the sole shareholder, took over all 100 shares with the total nominal value of PLN 5 thousand.

   The company was established in order to enable the implementation of the project comprising the division of the company TAURON EKOENERGIA, through the apportionment of an organised part of the enterprise in the form of wind farms and its contribution to the Marselwind company.

   On 8 October 2014 the Extraordinary GM of the Marselwind company adopted the resolution on increasing of the share capital by the amount of PLN 100 thousand, from the amount of PLN 5 thousand to the amount of PLN 105 thousand, and TAURON, as the sole shareholder, took over 2 thousand new shares with the nominal value of PLN 50 each.

   On 3 November 2014 the division plan of the subsidiary, TAURON EKOENERGIA, was announced, according to which the division shall be performed pursuant to Article 529 § 1 item 4 of the Ksh, through the separation and assignment to the acquiring company, Marselwind, of the separated part of TAURON EKOENERGIA assets in the form of wind farms, constituting an organised part of the enterprise, in exchange for the acquiring company shares, to be fully taken over by TAURON.

3. On 14 November 2014 the company TAURON Sweden Energy AB (publ) (TAURON Sweden Energy) was established by TAURON, with its registered office in Stockholm, in which TAURON, as the sole founder, acquired all 55 thousand of shares, with the nominal value of EUR 1 each, i.e. with the total nominal value of EUR 55 thousand.

   TAURON Sweden Energy is the company operating pursuant to the Swedish law, established in order to participate in the process associated with the acquisition of financing for TAURON Capital Group in the German market.

***Other changes in the structure of TAURON Capital Group***

1. On 14 January 2014, TAURON concluded the agreement with TAURON Wytwarzanie concerning the establishment of the usufruct right in relation to the total assets of the TAURON Wytwarzanie Serwis company held by TAURON Wytwarzanie, currently representing 71.69% of the share in the share capital of this company.

   Concluding of the agreement was aimed at TAURON taking over direct control over the indirect subsidiary in the area of corporate governance as well as establishing and securing the real influence of TAURON on its activities.

2. On 14 January 2014 the Management Board of TAURON Wytwarzanie adopted the resolution concerning the redemption of shares purchased by the company pursuant to art. $418^1$ of the Ksh. In connection with the foregoing, on 4 March 2014, the District Court for Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on registering the reduction of the share capital of TAURON Wytwarzanie by the amount of PLN 383,420, i.e. from the amount of PLN 1,494,862,990 to the amount of PLN 1,494,479,570. As a result of the performed shares redemption and reduction of the share capital, the share of the Company in the initial capital of TAURON Wytwarzanie increased from 99.76% to 99.79%.

   On 24 April 2014 the Ordinary GM of TAURON Wytwarzanie adopted the resolution concerning the compulsory purchase (squeeze out) of shares of this company held by shareholders representing no more than 5% of the share capital by the majority shareholder – TAURON. Within the execution of this process, on 14 May 2014 TAURON paid the receivable equal to the price of all the shares purchased to the bank account of the TAURON Wytwarzanie company. As a result of execution of the said process, on 1 August 2014, due to the registration of the reduction in the share capital of TAURON Wytwarzanie by the District Court Katowice-Wschód in Katowice, TAURON became the sole shareholder of TAURON Wytwarzanie, holding 100% share in the initial capital of this company.

   The aforementioned activity was aimed at streamlining the proprietary structure of TAURON Wytwarzanie.

3. On 17 February 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on deleting the company Przedsiębiorstwo "Ekspar" sp. z o.o. in liquidation from the register (the subsidiary of TAURON Ciepło S.A.) from the Register of Entrepreneurs. The decision became legally binding on 4 March 2014.

The liquidation was performed within the implementation of reorganisation of companies in TAURON Capital Group.

4. On 14 March 2014 the Extraordinary General Meeting of the TAURON Ciepło S.A. company adopted the resolution concerning the compulsory purchase of shares of this company held by shareholders representing no more than 5% of the share capital by the majority shareholder – TAURON. On 3 April 2014 TAURON paid the receivable equal to the price of all the shares purchased to the bank account of the TAURON Ciepło S.A. company. As a result of implementation of the said process, TAURON became the sole shareholder of TAURON Ciepło S.A., holding 100% shares in the initial capital of this company.

   The aforementioned activity was aimed at streamlining the proprietary structure of TAURON Ciepło S.A.

5. On 2 July 2014 the Extraordinary Shareholders' Meeting (SM) of the PEPKH company, with its registered office in Tarnów, adopted the resolutions on winding-up and liquidation of the PEPKH company, in which TAURON holds 100% share in the initial capital and 100% share in the general number of votes at the SM, and on the appointment of its liquidators. The Resolutions of the Extraordinary SM entered into force on the day of their adoption.

   Decision on the liquidation of the company was taken for economic reasons and it is also an element of the reorganisation measures intended to simplify and streamline the structure of TAURON Capital Group. Revenues generated by the liquidated company, in 2013 constituted approximately 1% of the TAURON Capital Group revenues.

   On 27 October 2014 the liquidators of PEPKH filed for bankruptcy liquidation of the aforementioned company to the District Court in Tarnów, 5th Commercial Department. The reason for filing the motion was the reporting of potential future claims by PEPKH customers, the value of which exceeds the value of the PEPKH.

   On 11 December 2014, the District Court in Tarnów, 5th Commercial Department, issued the decision on dismissal of the motion filed by the PEPKH company in liquidation concerning the declaration of its bankruptcy comprising the liquidation of the assets. In the justification of the decision, the District Court indicated that no premises existed which would enable to declare the bankruptcy of PEPKH either pursuant to Article 11 item 1, or pursuant to Article 11 item 2 of the *Act of 28 February 2013 on Bankruptcy and Restructuring Law.*

6. On 24 February 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register entered the change of the company enterprise from "Południowy Koncern Węglowy S.A." to "TAURON Wydobycie S.A." to the register, whereas on 30 October 2014 the District Court in Rzeszów, 12th Commercial Department of the National Court Register, issued the decision on registering the change of the enterprise of the company BUDO-TRANS sp. z o.o., direct subsidiary of TAURON to Biomasa Grupa TAURON sp. z o.o. (Biomasa GT).

   The changes in companies' enterprises were associated with the need to identify the aforementioned companies in the external environment as entities belonging to TAURON Capital Group.

***Events concerning the organizational changes after 31 December 2014***

On 14 January 2015, the Company purchased 4,267 shares of the company Biomasa GT, with the total nominal value of PLN 237,885.25, representing 100% share in the initial capital, from its subsidiary, TAURON Wytwarzanie. The transfer of the ownership of Biomasa GT shares took place by means of *datio in solutum,* under the agreement concluded between TAURON and TAURON Wytwarzanie in exchange for releasing TAURON Wytwarzanie from its obligations towards TAURON due to the partial redemption of bonds.

The above transaction was aimed at gaining 100% of the direct share in the initial capital of Biomasa GT by TAURON, which shall enable its incorporation into PGK.

## 1.4. Strategy, Development Policy and Strategic Priorities of TAURON Capital Group

### 1.4.1. Development policy of TAURON Capital Group

#### 1.4.1.1. Characteristics of the policy in the scope of development directions

On 2 June 2014 TAURON Management Board adopted and the Supervisory Board issued a positive opinion on the document entitled *Corporate Strategy of TAURON Group for 2014–2017 with an outlook until 2023* (Corporate Strategy), which is an update of the corporate strategy adopted and approved in 2011. In 2014, activities performed so far were comprehensively reviewed and evaluated, and the assumptions accepted in the then existing economic, market and regulatory environment were verified in detail. When updating the Corporate Strategy the changing regulatory regime, market environment and general trends in the energy sector were taken into account, among which the most important factors affecting the sector are the EU and national regulations related to the conditions for the functioning of the energy sector in Poland, including, in particular, the energy and climate package (achievement of the 3x20 targets), the Polish Act on Energy Efficiency, Energy Efficiency Directive, European Union (EU) assistance funds, European Commission's activities aimed at emission abatement, the Polish energy regulations package, regulations related to electricity distribution and development of smart technologies, Energy Policy of Poland until 2030, the Polish Nuclear Power Programme and Energy Roadmap 2050.

The description of the changing macroeconomic environment is included in item 2.2.2.1. of this report.

The updated Corporate Strategy has maintained the existing mission, vision and overall objective of TAURON Capital Group.

The mission of TAURON Capital Group is "To ensure energy supply for our customers based on best practices that guarantee an increase of shareholder value", and its vision is "To become one of the leading energy companies in the region".

The continuous growth of value to ensure return on invested capital for shareholders remains to be the overall strategic objective of TAURON Capital Group. The implementation of the aforementioned objective is measured on the basis of underlying indicators of value development, i.e. EBITDA growth and ROIC level.

#### 1.4.1.2. Implementation of Corporate Strategy

The key direction of the Corporate Strategy is to focus on growth in areas of operations where the highest potential for achieving high rates of return on investments and diversification of the generation portfolio exist. The goal of continued effectiveness improvement, perceived as the uninterrupted strive for operational excellence and building an effective organization through raising the effectiveness of the TAURON Capital Group operations, has been sustained. The next goal is managing market and regulatory risk exposure which, due to the specific nature of TAURON Capital Group activities, continues to be significant.

Implementation of the Corporate Strategy in 2014 allowed for the accomplishment of the EBITDA growth indicator to the level of PLN 3,627 million and ROIC – to the level of 5.3%.

In the scope of implementing the investment tasks:

1) the agreement with the consortium of RAFAKO S.A. (RAFAKO) (consortium leader) and MOSTOSTAL WARSZAWA S.A. (MOSTOSTAL), concerning the construction of the 910 $MW_e$ capacity power unit at Jaworzno III Power Plant was concluded,
2) construction and installation works are in progress and the supply of machinery and equipment has been completed for individual technological systems and unit installations for the construction of the CCGT unit of 449 $MW_e$ capacity, including the heat generation component with the heat capacity of 240 $MW_t$ at EC Stalowa Wola,
3) activities are on-going, aimed at launching the implementation of the construction of the CCGT unit of 413 $MW_e$ capacity at Łagisza Power Plant,
4) works are continued aimed at implementation of the joint investment project by PGE Polska Grupa Energetyczna S.A. (PGE), TAURON, KGHM Polska Miedź S.A. (KGHM) and ENEA S.A. (ENEA), comprising the construction and exploitation of the first Polish nuclear power plant with the capacity of approximately 3 thousand $MW_e$ capacity.

Moreover, activities were conducted in the Generation Area, associated with the construction of "Grzegorz" shaft, including the infrastructure, and the construction of a 800 m level, at Zakład Górniczy Janina (ZG Janina) as well as in the Heat Area, comprising the construction of a new 50 MW capacity unit in Zakład Wytwarzania Tychy (ZW Tychy) and the extraction (pass-out) and condensing turbogenerator at ZW Nowa.

The assumed targets connected with the improvement of cost effectiveness have been achieved, mainly through the restructuring programmes conducted in the Generation, Heat and Distribution Area. TAURON Capital Group took measures aimed at enhancement of the organizational effectiveness, by continuing the process of building the target business model and integrating its companies.

The Corporate Strategy focuses on four main goals which jointly enable the growth in TAURON Capital Group value:

1) growth in the most attractive lines of business,
2) OPEX and CAPEX efficiency in line with best practices,
3) management of exposure to market and regulatory risks,
4) developing an effective organisation.

**Growth in the most attractive lines of business**

The growth will focus on the areas of operations where the highest potential for achieving high rates of return on investments exists. In the Generation, Heat and RES Areas, restoring and increasing of installed generation capacity up to the level of approximately 6.15 GW in 2023 from the current 5.4 GW is planned. Distribution and Sale Areas are also important growth drivers.

The growth will be associated with the commissioning of high efficiency hard coal and gas fired generation units, as well as wind farms. Further down the line, it is planned that the energy mix will also include nuclear energy through the involvement of TAURON Capital Group in the construction of such a unit jointly with strategic partners.

In the framework of the launched investment projects generation capacity at a level of approximately 2,200 MW will be commissioned, including in particular:

1) 1,030 MW from hard coal fired units (910 MW at Elektrownia Jaworzno III, co-generation capacity: 55 MW at ZW Nowa (as of 10 December 2014 included in TAMEH POLSKA), 65 MW at ZW Tychy),
2) approximately 675 MW from gas fired units (225 MW at EC Stalowa Wola and about 450 MW at Łagisza Power Plant),
3) approximately 500 MW from wind generation.

It is planned that in 2023 TAURON Capital Group will have wind sources with the total capacity of approximately 700 MW available will allow TAURON Capital Group to accomplish its RES capacity goal of 800 MW (including biomass).

At present, 92% of the generation capacity installed in TAURON Capital Group comes from hard coal technology. Within the generation portfolio, the Corporate Strategy assumes that until 2023 the share of capacity based on coal technology will drop to approximately 74%, including 25% to come from state-of-the-art, high efficiency hard coal fired units. The share of low emission technologies, i.e. gas, wind, hydro and biomass, will approximately 26%.

In view of the need to develop a diversified generation portfolio which is the consequence of, among others, growing constraints related to the $CO_2$ emission, TAURON Capital Group takes actions aimed at participating in the project on construction of the first nuclear power plant in Poland. The undertaking will be carried out through purchasing a 10% stake from PGE in the share capital of the established special purpose vehicle, PGE EJ1 sp. z o.o. (PGE EJ1).

The growth is also associated with the development of the smart grid infrastructure in the Distribution Area, where investment projects will mainly comprise connecting of new consumers and new sources and the associated grid development as well as modernisation and replacement of the existing assets.

The updated Corporate Strategy places a lot of weight on developing a model for managing the research and development (R&D) activities in TAURON Capital Group. The goal of effective management of research and development activities in subsidiaries of TAURON Capital Group is aimed at intensifying the innovation development processes and maximising the benefits arising from the access to knowledge and experience gained by implementing such undertakings.

**Operational and investment effectiveness at the level of best practice**

While implementing the Corporate Strategy stipulating further improvement of operational and investment effectiveness, in 2014 the restructuring activities were continued through the improvement of governance processes and integration of support functions. It also comprises limiting of non-core activities, outsourcing of areas which are not directly associated with the core activity of TAURON Capital Group, as well as conducting of the common procurement policy in the scope of consolidated and strategic purchases.

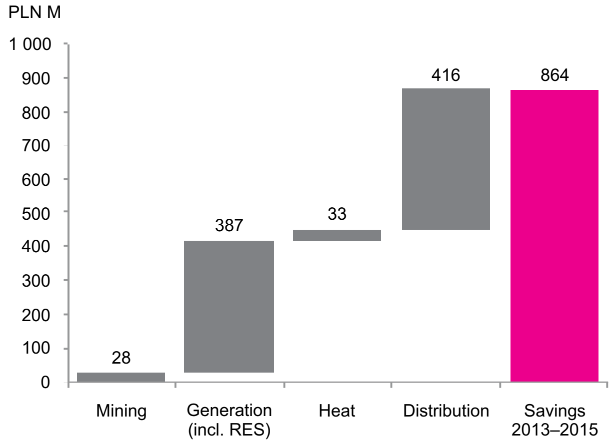
Treating budgetary discipline as a priority in the scope of investment expenditure and operating costs applies in each Business Area. The executed activities related to the improvement of operational and investment effectiveness enabled to prepare TAURON Capital Group to the functioning under the changeable market conditions, in particular, in terms of the significant volatility in prices of fuel, energy, emission allowances, etc.

In 2014 the OPEX efficiency improvement Programme in TAURON Capital Group for 2013–2015 was continued, adopted by the TAURON Management Board on 15 January 2013. The aforementioned The Programme was developed and is implemented taking into account the goal, i.e. ensuring the growth of value of TAURON Capital Group.

The consolidation and restructuring projects have been prepared the execution of which shall result in cost reduction at a level of approximately PLN 864,000 thousand over the years 2013–2015 (the total amount for the entire 3-year period). The effectiveness improvement programmes in individual Areas of operations were adopted by management boards of the subsidiaries and constituted the basis for the development of the programme at a level of TAURON Capital Group. According to the Company estimates, the scale of OPEX reduction under the effectiveness improvement Programme shall increase year by year by the amount around PLN 300,000 million annually, with the highest savings planned for 2015. TAURON Capital Group strives to reduce operating costs in the majority of the Areas – with the highest share allocated to the Distribution Area and Generation Area. According to the assessment of the Company, the implementation of the target will allow for strengthening of the competitive position due to the limitation of the cost base of TAURON Capital Group. The said OPEX reduction programme is one of the pillars for maintaining the high competitive position.

The figure below presents the Effectiveness Improvement Programme in 2013–2015.

**Figure no. 5. Effectiveness Improvement Programme for 2013–2015**




In 2013–2014, savings at a level of approximately PLN 719 million were achieved.

The table below presents the implementation of the effectiveness improvement programme in individual Segments

**Table no. 1. Implementation of the effectiveness improvement programme**

| No. | Segment | Savings accomplished in 2013–2014 (in PLN million) | Savings planned for 2013–2015 (in PLN million) | Percentage of implementtation (%) | Major initiatives |
|---|---|---|---|---|---|
| 1. | Mining | 27 | 28 | 97 | 1) Construction of nitrogen generation installation<br>2) Expansion of the sludge dehydration station<br>3) Drinking water treatment<br>4) Electronic auctions in public procurement proceedings<br>5) Using the mechanic lining for excavation drilling |
| 2. | Generation (including RES) | 322 | 387 | 83 | 1) Restructuring of employment and optimisation of processes<br>2) Limitation of repairs for the lest effective units<br>3) Optimisation of overhead costs<br>4) Outsourcing of some functions, mainly in repairs area<br>5) Improvement of equipment efficiency, optimisation of production volume and operating costs in hydroelectric power plants<br>6) Reduction of costs of service and maintenance of wind farms |
| 3. | Heat | 42 | 33 | 127 | 1) Restructuring of employment<br>2) Limiting the losses of compressed air<br>3) Restructuring of assets<br>4) Optimisation in costs of external services<br>5) Optimisation of procurement policy |
| 4. | Distribution | 292 | 416 | 70 | 1) Implementation of the target business model, elimination of duplicated functions<br>2) Change in rules of classification of expenses as expenditures or costs<br>3) Optimisation of balance sheet differences<br>4) Optimisation of IT processes<br>5) Integration of business functions in the service area<br>6) Optimisation of external services |
| 5. | Other Segments | 36 | – | – | 1) Restructuring of employment<br>2) Optimisation in costs of external services |
| | **Total** | **719** | **864** | **83** | |

**Management of exposure to market and regulatory risks**

Due to the specific nature of TAURON Capital Group activities and the strong exposure to amendments in the regulations of the national and the EU law, management of market and regulatory risk is one of the key elements of Corporate Strategy implementation and it is based, among others, on the continuous monitoring of the legislative activity related to the energy market at the EU level and in Poland. Market risk management takes place in all Business Areas (in particular, in regulated areas, such as Distribution and Heat), and it is coordinated by TAURON. In the scope of market risk, the management focuses mainly on energy trading.

In order to optimise market and regulatory risk and maximise rates of return, TAURON Capital Group diversifies the generation portfolio by appropriate adjustment of individual types of technologies (limitation of long-term risk arising from investment decisions) as well as develops effective hedging policy, including security of energy supplies (limitation of medium- and short-term risk resulting from the trading activity). This policy shall enable to reduce the volatility of result in TAURON Capital Group through asset portfolio management and control of risk limits.

Effective strategy of securities will cover the whole actions in the value chain of TAURON Capital Group, starting from the security of the assumed volume of fuel supply from the sources held, ending up with coverage of the specific volume of electric energy sold to end customers from own generation units. The policy conducted shall guarantee the secure functioning of the assets held in the Generation Area through provision of fuel supplies and maintaining of its price at an acceptable level.

The detailed description of the risk management process in TAURON Capital Group is presented in item 3 of this report.

In 2014 the Company continued its activity in the scope of promotion and development of strategic energy technologies and preparation of nuclear energy development. In this area, activities were undertaken, associated with the involvement of the Company in research and development projects, co-financed both from national sources (e.g. through the National Centre of Research and Development (NCBiR)) and from international sources (e.g. the Community of Knowledge and Innovation – KIC InnoEnergy (KIC InnoEnergy)).

The description of research tasks co-financed from external sources and other important research and development achievements is presented in item 7.2. hereof.

**Building an effective organisation**

Within implementation of this goal, TAURON Capital Group has focused its activities on effectiveness improvement in each Business Area and the quality of the services offered as well as on centralisation of the support function and providing tools for human capital management. Building an effective organisation is associated with ensuring the appropriate employment structure, growth of employees' competence through the implementation of the relevant processes associated with human capital development, including managing through objectives, which affects building of an organisation oriented to the external and internal client.

The activities performed in 2014 comprised the follow-up implementation of the target organisational structure and completing the integration of the general corporate function, including mainly in the areas of accounting and IT services. In the Sales and Customer Service Areas, many activities were conducted aimed at improving the quality and growth of client satisfaction level, among others, through the harmonisation of processes, standardisation of documents, making the remote e-BOK channel available. The centralisation of billing systems for business clients was completed, the centralisation of billing systems for mass clients was continued. The centralisation of the service of financial and accounting processes and the IT service was continued. The measures implemented will ultimately contribute to the implementation of the Corporate Strategy in the whole value chain and to the strengthening of the position of TAURON Capital Group among the leading energy companies in the region.

### 1.4.2. Assessment of implementation opportunities of investment projects

In 2014 the main expenditures on strategic investments were implemented in companies of TAURON Capital Group, whereas their financing was managed centrally at the level of the Company. On the basis of the conducted analyses, the Management Board of the Company assesses that TAURON Capital Group is able to finance the current and future investment projects from funds generated from operating activities and by acquisition of debt financing.

### 1.4.3. Main domestic and foreign investments

#### 1.4.3.1. Purchase of equity securities

Among the events described in item 1.3.2 in the scope of purchase of shares and stocks in companies, the following main investments of the Company should be listed:

***Purchase of TAURON Wydobycie shares***

On 10 December 2013 the agreement was signed on sale of 16,730,525 registered shares of TAURON Wydobycie by Kompania Węglowa (the Seller) to the benefit of TAURON (the Buyer); the shares represented 47.52% of share capital of this company and authorised it to exercise 31.99% of votes at its WZ.

On 15 January 2014 the General Meeting of Kompania Węglowa approved the sale of TAURON Wydobycie shares, consequently, on 22 January 2014, following the fulfilment of conditions precedent, the transfer of ownership of these shares to TAURON took place.

On 28 August 2014, the Company purchased 18,473,553 shares of the TAURON Wydobycie company from the subsidiary, the TAURON Wytwarzanie company, representing 52.48% share in the initial capital of this company.

As a result of the aforementioned transaction, TAURON directly holds 100% shares in the initial capital of TAURON Wydobycie.

***Purchase of shares in KW Czatkowice***

On 28 August 2014, TAURON purchased 30,812 shares of the KW Czatkowice company from the subsidiary, the TAURON Wytwarzanie company, representing 100% share in the initial capital of this company.

As a result of the aforementioned transaction, TAURON directly holds 100% shares in the initial capital of KW Czatkowice.

### 1.4.3.2. Implementation of strategic investments

**Key strategic investment projects under implementation**

The table below presents the activities carried out in TAURON Capital Group in 2014, in connection with the implementation of the key strategic investment project.

**Table no. 2. Implementation status of the key strategic investment projects**

| No. | Investment | Status of implementation of the investment project |
|---|---|---|
| 1. | Construction of the CCGT unit of 449 $MW_e$ capacity, including the heat generation component of 240 $MW_t$ capacity in Stalowa Wola (the investment is implemented with participation of the strategic partner – Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG)).<br>**Contractor:** Abener Energia S.A. (Abener Energia)<br>**Scheduled date of investment project completion:** 2015 | Execution of construction and installation works is in progress in the scope of main unit equipment as well as the accompanying systems and economies, including: assembly of the gas and steam turbine set as well as installation of the waste heat boiler. Works related to the modernisation of the retaining dam on the San river entered their final stage. Machinery, equipment and components included in the unit have been supplied to the construction site. |
| 2. | Construction of new generation capacity in co-generation at the level of 50 $MW_e$ and 86 $MW_t$ in ZW Tychy (TAURON Ciepło).<br>**Contractor:** Elektrobudowa S.A.<br>**Planned date of investment project completion:** 2016 | In 2013 the investment project was completed in its part related to the modernisation of the existing fluidised bed boiler and its adjustment to biomass burning and the construction of the coal-fired water boiler (40 $MW_t$). In the part of the investment project related to the construction of the 50 $MW_e$ co-generation unit, construction and development works are implemented. In 2014, the assembly of the steel construction and boiler drum was completed, as well as the construction of turbogenerator foundation on which the generator was placed, and works associated with the construction of the foundations and walls for transformers (step-up and tap transformers). |
| 3. | Construction of a new power unit of 910 $MW_e$ capacity, for supercritical parameters on the premises of Jaworzno III Power Plant (TAURON Wytwarzanie).<br>**Contractor:** RAFAKO and MOSTOSTAL consortium<br>**Scheduled date of investment project completion:** 2019 | In April 2014 the master contract for the construction of the unit was signed with the consortium of RAFAKO and MOSTOSTAL. In November 2014 the contractor submitted the basic design of the unit, whereas the client handed over the site of the unit. Contractors for the construction of the first part of the carbonation system were selected. The process of designing and tendering of contractors for ash removal systems, water treatment station and wastewater treatment plant, track system and others, is ongoing. The decision on the building permit was obtained for the construction of the 1st stage of the overhead 400 kV power line. |
| 4. | The construction of the installation for flue gas de-nitrification in 6 units of Jaworzno III Power Plant and 4 units of Łaziska Power Plant belonging to TAURON Wytwarzanie.<br>**Contractor:** Jaworzno III Fortum Power and Heat Oy i ZRE K-ce, Łaziska - Strabag Sp. z o.o. and Strabag AG<br>**Scheduled date of investment project completion:** 2016 | Until the end of 2014 modernisation works were completed at seven of ten units. |

| No. | Investment | Status of implementation of the investment project |
|---|---|---|
| 5. | Construction of the CCGT unit of 413 MW capacity, including the heat generation component of 266 $MW_t$ capacity on the premises of Łagisza Power Plant (TAURON Wytwarzanie).<br>**Contractor:** selection process in progress<br>**Scheduled date of investment project completion:** 2018 | In March 2014, TAURON and Polskie Inwestycje Rozwojowe S.A. (PIR) signed the preliminary agreement concerning the financing of the unit construction. In April 2014 the connecting agreement with the Transmission System Operator, GAZ-SYSTEM S.A. (GAZ-SYSTEM) was signed. Procedures associated with the selection of the Contract Engineer are under implementation. In November 2014 the call for tender was announced for selection of the contractor for the CCGT unit in Łagisza Power Plant. The environmental impact assessment report was prepared and preparations were commenced in relation to the documentation required to obtain the building permit and permit for design works for the generation unit. |
| 6. | Construction of "Grzegorz" shaft (TAURON Wydobycie), including the infrastructure (surface and underground) and the accompanying headings.<br>**Contractor:** call for tender announced in 2015<br>**Scheduled date of investment project completion:** 2022 | In 2014 the access road to the investment site was constructed, including the reconstruction of the transportation system, and the site was provided with the required connections. The basic design was developed and the control geological bore was made, providing basis for the preparation of the geological documentation. The construction of the electrical switching station has commenced. Preparations to launch the procedure for the selection of the general contractor are in progress. |
| 7. | Construction of a 800 m level, including the commissioning of the fourth wall at ZG Janina in Libiąż (TAURON Wydobycie).<br>**Contractor:** Consortium of KOPEX and Przedsiębiorstwo Budowy Szybów S.A. (main task – shaft drilling)<br>**Scheduled date of investment project completion:** 2019 | The deepening of the shaft and drilling of access workings is in progress. Supplies of mining infrastructure equipment are under implementation. The technological concept for the modernisation of the Mechanical Coal Processing Plant has been developed. The construction of the haulage and stone container has been commenced. |
| 8. | Construction of the 18 MW Marszewo Wind Farm, constituting the 2nd stage of construction of the wind farm with the total capacity of 100 MW in Marszewo location.<br>**Contractor:** Iberdrola Engineering and Construction Poland sp. z o. o. and Iberdrola Ingenieria y Construcción S.A.U. consortium<br>**Scheduled date of investment project completion:** 2015 | In 2014 the Contract Engineer and the General Contractor were selected for the investment project, including the supply of turbines. |

**Project associated with the construction of the nuclear power plant**

In relation to the earlier arrangements concerning joint implementation of the nuclear energy project in Poland, on 3 September 2014 PGE, TAURON, ENEA and KGHM signed PGE EJ 1 Shareholders' Agreement (Shareholders' Agreement) concerning the project of preparation for the construction of a nuclear power plant in Poland. In accordance with the aforementioned Shareholders' Agreement, TAURON, ENEA and KGHM, as Business Partners, will purchase from PGE, under a separate agreement, 30% shares in total (each of the Business Partners will purchase 10% shares) in a special purpose vehicle – PGE EJ 1 which is responsible for the preparation and execution of the investment comprising the construction and operation of the first Polish nuclear power plant of approximately 3 thousand $MW_e$ capacity. In accordance with the assumptions, PGE will act as the leader of the Project and the PGE EJ1 company will fulfil the function of the plant operator in the future.

In accordance with the Shareholders' Agreement, the parties committed jointly, proportionally to the shares held, to finance activities scheduled for 2014–2016 under the preliminary stage of the project, in order to define such elements as prospective partners, including the strategic partner, technology supplier, EPC (Engineering, Procurement, Construction) contractor, nuclear fuel supplier and obtaining funds for the Project, as well as organisational and competence related preparation of PGE EJ 1 to the role of the future operator of the nuclear power plant responsible for its safe and efficient operation (Integrated Procedure). Pursuant to the Shareholders' Agreement, financial involvement of TAURON during the preliminary stage of the project should not exceed the amount of approximately PLN 107 million and it should be based on contribution of funds up to the said amount to increased share capital of PGE EJ 1.

On 25 September 2014 the parties extended the binding term of the agreement in connection with the procedure pending before the President of the Office for Competition and Consumer Protection (OCCP) concerning the intended concentration.

On 7 October 2014, the President of OCCP issued the unconditional approval to perform the concentration, based on establishment of the joint entrepreneur, PGE EJ1, by the parties to the Shareholders' Agreement.

**Project on construction of CCGT unit at Blachownia Power Plant**

The portfolio of investment projects of TAURON Capital Group also comprises the project on the construction of the new CCGT unit with the capacity within the range of 850 on the premises of Blachownia Power Plant. Pursuant to the

Memorandum of Understanding concluded on 30 December 2013 by KGHM, TAURON and TAURON Wytwarzanie, under which it was decided to temporarily suspend the implementation of the project on construction of the CCGT unit in the company Elektrownia Blachownia Nowa (KGHM share: 50%, TAURON Wytwarzanie share: 50%), expressing the willingness to continue the project, the Parties undertook to ensure the continued functioning of the company Elektrownia Blachownia Nowa, securing the existing results of the Project, in particular to update its documentation, and also committed to continuous monitoring of the energy market and the regulatory environment for possible early resumption of the project. As at the day of compiling this report, the aforementioned project is still suspended.

**Investment expenditure**

In 2014, the capital expenditures of TAURON Capital Group amounted to PLN 3,089,592 thousand and they were lower by approximately 18.3% as compared to the expenditure incurred in 2013, which amounted to about PLN 3,779,555 thousand. It results mainly from the termination of strategic investments in the RES Area in 2013: construction of the Wicko 40 MW Wind Farm and Marszewo Wind Farm stage I, 80 MW capacity.

In terms of value, in 2014, the highest capital expenditure was incurred on:

1) construction of 800 m level at w ZG Janina (PLN 82 million) – Mining Area,
2) construction of new capacity in Jaworzno Power Plant (910 MW) (PLN 58 million) and construction of the installation for $NO_x$ emission reduction (PLN 191 million) – Generation Area,
3) modernisation of hydroelectric power plants (PLN 84 million) – RES Area,
4) replacement of capacity at ZW Tychy (including the construction of the BC-50 unit) (PLN 128 million) and investment associated with the development and maintenance of heat networks (PLN 84 million) – Heat Area,
5) construction of new connections (PLN 512 million) and modernisation and replacement of existing grids (PLN 1,151 million) – Distribution Area.

Detailed information concerning the capital expenditures incurred in individual Business Areas of TAURON Capital Group is included in item 2.4. of this Report.

### 1.4.4. Priorities of the TAURON Capital Group in 2015

In view of the demanding market situation and the associated challenges for the energy sector, in 2015 TAURON Capital Group will focus on:

1) consistent implementation of the strategy of OPEX reduction and maintaining of the budgetary discipline in all Business Areas,
2) development of profitable projects, in particular, in the Distribution Segment, with simultaneous care for long-term effectiveness and expansion of the capacity of the Generation Segment, as well as using the opportunities in other Segments,
3) strengthening of the competitive position in core areas of operations.

## 1.5. The management concept of the Company and TAURON Capital Group

### 1.5.1. The management rules of the Company and TAURON Capital Group

**Management Rules of the Company**

In accordance with the provisions of the *By-laws of the Management Board of TAURON Polska Energia Spółka Akcyjna with its seat in Katowice*, the Management Board conducts all issues of the Company and represents it in all judicial and extra-judicial proceedings. All issues connected with managing the Company, which are not restricted by legal regulations and provisions of the Company Articles of Association to the competence of the General Meeting or the Supervisory Board lie within the competences of the Company Management Board. Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for submitting statements on behalf of the Company.

Issues covered by competences of the Management Board as a collective body are described in detail in item 6.8.1. of this report.

The management rules of the Company are also specified in the *Organisational Regulations of TAURON Polska Energia S.A.* (Organisational Regulations), pursuant to which the Company is managed by directly by the Management Board and through proxies, Directors of Departments and plenipotentiaries. The President of the Board – Chief Executive Officer, manages business as usual of the Company and takes decisions on all issues concerning the Company, which are not subject to decisions of the Management Board or other governing bodies of the Company, and supervises the performance of the division which reports to him directly.

***The President of the Board:***

1) manages the internal business of the Company and represents it within the external contacts,

2) coordinates all the issues connected with the performance of the Company Management Board,
3) performs actions in the scope of labour law on behalf of the employer,
4) supervises the performance of the division which reports to him directly,
5) issues the internal regulatory acts and intra-corporate regulatory acts in accordance with the binding regulations,
6) takes decisions related to managing of the Company business as usual,
7) performs all the real functions and legal acts, taking into consideration implementation of the Company's goals and targets,
8) undertakes any other activities providing for effective and efficient performance of the Company.

***Vice-Presidents of the Management Board:***

1) manage the internal business of the Company and represent it within the external contacts,
2) manage the current business operations of the Company within the scope delegated as well as supervise the performance of the divisions which report to them directly,
3) take decisions on issues which are not subject to decisions of the Management Board, within the scope of functions delegated to the subordinated business units as well as other decisions within the powers of attorney and authorisations granted to them by the Management Board or the President of the Board,
4) perform all the real functions and legal acts, taking into consideration implementation of the Company's goals and targets,
5) undertake any other activities providing for effective and efficient performance of the Company.

***Directors of Departments:***

1) manage the departments which report to them, being responsible for their performance results,
2) determine the goals, targets and tasks of individual business units included in the department they manage, within their subjective competence,
3) coordinate the structures subordinated to them, in accordance with the Company's interest and in compliance with the legal regulations,
4) implement the guidelines and recommendations of the Management Board Members and keep them informed of the performance of the subordinated department,
5) undertake any other necessary activities providing for effective and efficient performance of the subordinated department.

Business relations in the Company are based on the principle of a single person management which means that each employee has one direct supervisor from whom he/she receives instructions and tasks and towards whom he/she is responsible for execution of these instructions and tasks.

An exception to this rule is the so-called project reporting which is of temporary nature and based on a matrix. Such reporting system exists in relations among employees of the Company or the employees of the Company and companies of TAURON Capital Group, and it refers to persons who are members of project teams.

**Management rules of "TAURON Group"**

TAURON Capital Group comprises companies of TAURON Capital Group selected by the Management Board, managed jointly as a consistent economic body consisting of autonomous commercial law companies, led by the Company, as a parent entity.

The main internal regulatory act of "TAURON Group" is the *Code of TAURON Group* adopted by the Management Board of the Company, which regulates its operations, ensuring the implementation of the goals through the special tailored solutions in the area of managing "TAURON Group" entities, including, in particular, determining companies' operating objectives, enabling the achievement of the effects assumed in the Corporate Strategy.

In 2014 the improvement of TAURON Capital Group management process was continued. Considering the changes in the organisation of the TAURON Capital Group, the Management Board of the Company updated the allocation of membership of the companies to "TAURON Group".

Within "TAURON Group", Business Areas operate, established by the Company Management Board, comprising the companies of "TAURON Group" as well as the established Management Areas within which the relevant cooperation rules apply. In addition, within "TAURON Group" permanent committees of "TAURON Group" operate:

1) Project Assessment Committee,
2) TAURON Group Management Committee,
3) TAURON Group Compliance Committee,
4) Risk Committee.

The aforementioned Committees were established in order to enable the performance of activities in accordance with the principles of operational consistence of the "TAURON Group", in compliance with the law and the interests of "TAURON Group" and its stakeholders.

The Committees fulfil the following functions:

1) opinion-making function for the Company Management Board,
2) decision-making function,
3) supervisory function for the management boards of TAURON subsidiaries.

The core task of the Committees is to provide surveillance over implementation of the consistent actions by all the participants of the "TAURON Group", compliant with the *TAURON Group Code* and to the benefit of "TAURON Group" interests. The specific functions of the Committees are provided in detail in the by-laws of their operations adopted by the Company Management Board.

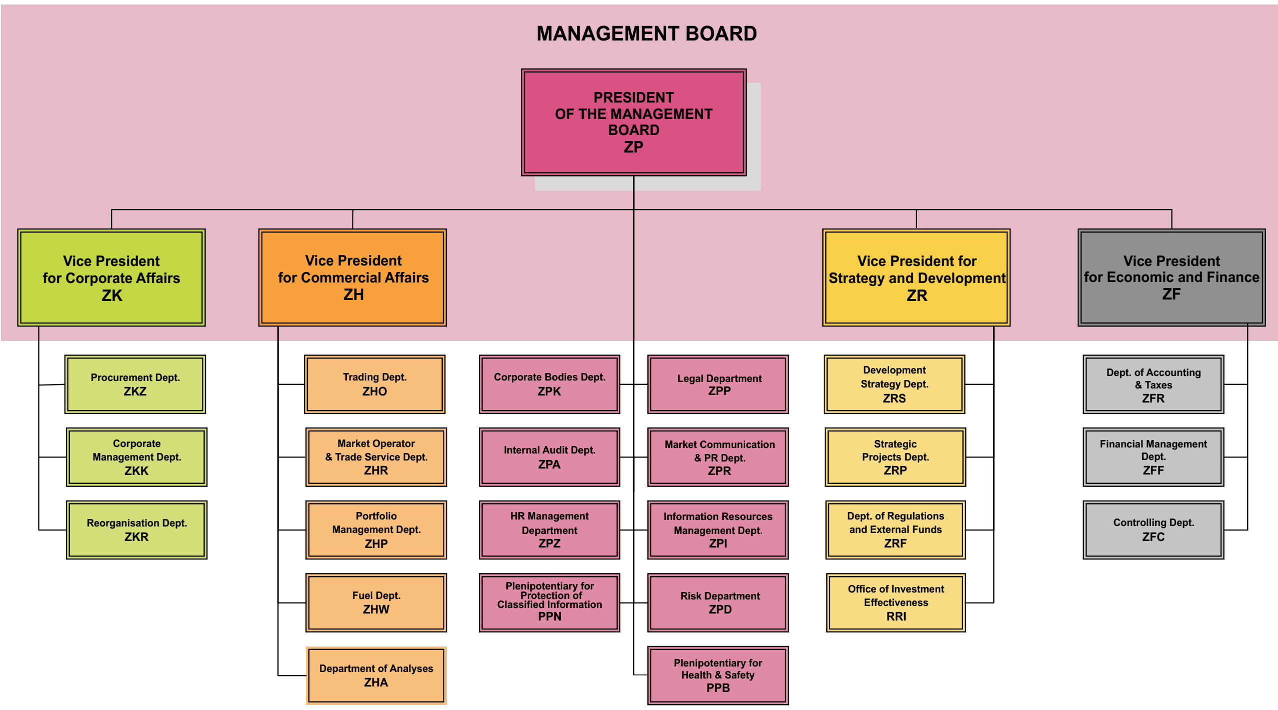
### 1.5.2. Changes in the management rules of the Company and TAURON Capital Group

**Changes in the management rules of the Company**

In 2014, no significant changes in the Company management rules were introduced. On the other hand, changes adopted in the Company organisational structure were associated with the current needs and were aimed at improvement and harmonisation of processes as well as increasing of the effectiveness and transparency of the organisation.

The figure below presents the structure of divisions reporting to individual Board Members of the Company, to the level of business units reporting directly to the Members of the Management Board, according to the status as at completion of this report.

**Figure no. 6. Organisational chart of TAURON Polska Energia S.A. as at the day of this report**




**Changes in the management rules of "TAURON Group"**

In 2014 no changes in the management system of "TAURON Group" were introduced, however, changes were implemented in terms of assigning the companies to Business Areas and updating the Rules of Cooperation in the Governance Areas. The update in the scope of defining the allocation of "TAURON Group" companies to the specific Business Area or Business Areas resulted from the processes taking place in the structure of TAURON Capital Group, described in item 1.3.2. of this Report.

## 1.6. Organisational or capital links

The table below presents the list of significant direct and indirect subsidiaries, subject to consolidation, in which the Company held shares and stocks according to the status as at 31 December 2014.

**Table no. 3. Specification of significant subsidiaries covered by consolidation as at 31 December 2014 in which the Company holds direct and indirect share**

| No. | Company name | Registered Office | Core business area | TAURON share in the company capital and governing body |
|---|---|---|---|---|
| 1. | TAURON Wydobycie | Jaworzno | Hard coal mining | 100.00% |
| 2. | TAURON Wytwarzanie | Katowice | Generation, transmission and distribution of electric energy and heat | 100.00% |
| 3. | TAURON EKOENERGIA* | Jelenia Góra | Electric energy generation and electric energy trade | 100.00% |
| 4. | TAURON Dystrybucja | Kraków | Distribution of electric energy | 99.71% |
| 5. | TAURON Dystrybucja Serwis** | Wrocław | Services | 99.71% |
| 6. | TAURON Dystrybucja Pomiary** | Tarnów | Services | 99.71% |
| 7. | TAURON Sprzedaż | Kraków | Electric energy trade | 100.00% |
| 8. | TAURON Sprzedaż GZE | Gliwice | Electric energy trade | 100.00% |
| 9. | TAURON Czech Energy | Ostrava (Czech Republic) | Electric energy trade | 100.00% |
| 10. | TAURON Ciepło*** | Katowice | Production and distribution of heat | 100.00% |
| 11. | TAURON Obsługa Klienta | Wrocław | Services | 100.00% |
| 12. | KW Czatkowice | Krzeszowice | Mining, crushing and grinding of limestone rocks and stone extraction | 100.00% |
| 13. | PEPKH in liquidation**** | Tarnów | Electric energy trade | 100.00% |
| 14. | TAURON Sweden Energy | Stockholm (Sweden) | Services | 100.00% |

** On 2 January 2014 the merger of TAURON EKOENERGIA and MEGAWATMARSZEWO and BELS INVESTMENT was registered.*
*** The share in TAURON Dystrybucja Serwis and TAURON Dystrybucja Pomiary is held by TAURON indirectly, through the subsidiary, TAURON Dystrybucja. In addition, TAURON is the user of shares/stocks held by TAURON Dystrybucja.*
**** On 30 April 2014 the merger of companies: Enpower Service and TAURON Ciepło S.A. took place. At the same time, change of the acquiring company name to "TAURON Ciepło sp. z o.o." took place.*
***** On 2 July 2014 the PEPKH company was put into liquidation.*

The table below presents the list of significant co-subsidiaries in which the Company held direct and indirect share, according to the status as at 31 December 2014.

**Table no. 4. Specification of significant subsidiaries covered by consolidation as at 31 December 2014 in which the Company holds direct and indirect share**

| No. | Company name | Registered Office | Core business area | TAURON share in the company capital and governing body |
|---|---|---|---|---|
| 1. | EC Stalowa Wola* | Stalowa Wola | Generation, transmission, distribution and trade of electric energy | 50.00% |
| 2. | Elektrownia Blachownia Nowa* | Kędzierzyn Koźle | Generation of electric energy | 50.00% |
| 3. | TAMEH HOLDING | Dąbrowa Górnicza | Activities of parent companies and holdings | 50.00% |
| 4. | TAMEH POLSKA** | Dąbrowa Górnicza | Generation, transmission, distribution and trade of electric energy and heat | 50.00% |
| 5. | TAMEH Czech s.r.o.** | Ostrava (Czech Republic) | Production, trade, services | 50.00% |

** The share in EC Stalowa Wola and in Elektrownia Blachownia Nowa is held by TAURON indirectly, through the subsidiary,TAURON Wytwarzanie.*
*** The share in TAMEH POLSKA and TAMEH Czech s.r.o. (TAMEH Czech) is held by TAURON indirectly through the co-subsidiary, TAMEH HOLDING.*

# 2. BUSINESS OPERATIONS OF TAURON CAPITAL GROUP

## 2.1. Factors essential for development

The operations of TAURON Capital Group shall be most significantly affected, as in the past, by the such factors as:

1) the macroeconomic situation, especially in Poland, and the economic situation in the area in which TAURON Capital Group operates, as well as at the EU level and global economy level, including volatility of interest rates and currency rates, etc., influencing the valuation of assets and liabilities recognised by the Company in the statement of financial situation,
2) political environment, especially in Poland as well as at the European Union level, including the opinions and decisions of public administration institutions and bodies, for example: OCCP, Energy Regulatory Office (ERO) and the EC, in particular:
   - lack of the EU approval of the obligatory targets for individual Member States in the scope of use of renewable energy sources and defining of the sole general target for the EU in this area, which shall enable to optimise the generation portfolio and its adjustment to the real needs and capacities of a given country as well as to the current market conditions,
   - the Act on renewable energy sources adopted by the Parliament at the beginning of 2015, which shall change the support system by introducing the so-called auction system; implementation of these changes as of 2016 is assumed,
3) changes in regulations concerning the energy sector as well as changes in the legal environment, including: tax law, commercial law, environmental protection law, in particular: the announced liberalisation of electric energy prices for households, the announcement of the ERO President related to the application of maximum prices in tariffs for G group (instead of fixed priced), in order to protect consumers against rapid changes of prices upon full liberalisation,
4) recovery of the support system for electric energy generation in high-performance co-generation, resulting, on the one hand, in the increased costs of redemption of “red” and “yellow” certificates for suppliers of electric energy to end customers, not transferred in electric energy price, in particular, for consumers from G group (the tariff for such consumers has remained unchanged since January 2014, whereas the obligation related to redemption of such certificated was resumed as of May this year), on the other hand, in the increased revenue on sales of the “red” and “yellow” certificates for generators of energy in co-generation,
5) situation in electric energy sector, including the activity and measures undertaken by competition in the energy market,
6) the number of $CO_2$ emission allowances allocated free of charge, as well as the price of the allowances purchased – under the circumstances of the deficit in free allowances,
7) geological and mining conditions,
8) electric energy prices on the wholesale market;
9) sales prices of electric energy and coal as well as distribution tariffs, as factors influencing the level of revenues,
10) prices of certificates of origin of energy from renewable sources and co-generation,
11) prices of energy resources,
12) scientific and technical progress,
13) potential failures of equipment, installations and grids owned by TAURON Capital Group,
14) demand for electric energy and other products of the energy market, including changes arising from seasonality and weather conditions.

The activity of TAURON Capital Group demonstrates seasonality which refers, in particular, to production, distribution and sales of heat, distribution and sales of electric energy to individual consumers and sales of coal to individual consumers for heating purposes. Sales of heat depends on the atmospheric conditions, in particular, on the air temperature, and it is higher in the autumn and winter season. The level of electric energy sales to individual consumers depends on the length of a day, which usually makes electric energy sales in this group of consumers lower in the spring and summer season and higher in the autumn and winter season. Sales of coal to individual consumers is higher in the autumn and winter season. The seasonality of the remaining areas of TAURON Capital Group operations is limited.

## 2.2. Factors and unusual events significantly affecting the financial result achieved

### 2.2.1. Internal factors and their assessment

The activities and results of TAURON Capital Group in 2014 were affected, among others, by the following internal factors:

1) implementation of OPEX effectiveness improvement programme in TAURON Capital Group, including the consolidation and restructuring programmes, voluntary redundancy programmes,
2) integration process of heat assets, including, through acquisition of ZEC Bielsko-Biała by TAURON Ciepło from TAURON Wytwarzanie,
3) implementation of key investment projects, in particular, in the scope of construction of new and modernisation of the existing generation capacity, building new connections and modernisation of the existing distribution grids, heating networks, construction of underground excavations,
4) marketing actions in the scope of acquisition of new clients and loyalty activities in terms of maintaining existing clients,
5) management of fuel purchases by the Company for the needs of generation entities included in TAURON Capital Group.

Impact of the aforementioned factors on the financial result achieved in 2014 is described in item 4 of this Report. Effects of this impact are visible both in a short-term and long-term perspective.

### 2.2.2. External factors and their assessment

#### 2.2.2.1. Macroeconomic environment

The basic area of TAURON Capital Group operations is the Polish market within which the Company uses positive trends occurring in it as well as is affected by such changes. The macroeconomic situation, both in individual sectors of economy and in financial markets, is a significant factor affecting the results achieved by TAURON Capital Group.

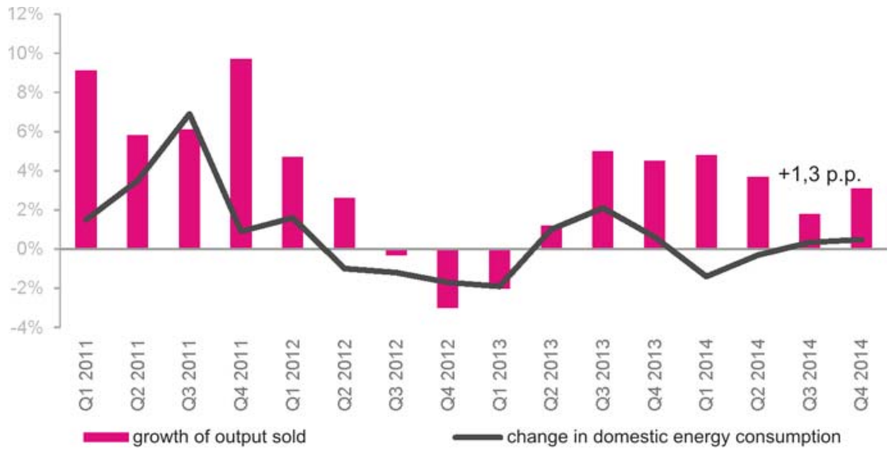
The condition of the Polish economy is considerably associated with the economic trends in the EU and in international markets. In 2014, the dynamics of economic growth in Europe was not optimistic.

Positive factors affecting economy included the policy of maintaining low interest rates and the declining prices of energy raw materials. However, on the other hand, mutual embargoes for exchange of commodities with Russia, weakened this trend. According to the EC forecasts, the economic growth in the euro area in 2014 shall reach only 0.8%, and in the whole EU – 1.3%. The International Monetary Fund (IMF) estimated that the Gross Domestic Product (GDP) of Poland in 2014 should grow by 3.2%, as compared to 2013 when the GDP of Poland increased by 1.6%. In accordance with the forecast of the Central Statistical Office (GUS), the economic growth in 2014 shall reach 3.3%. It confirms the continuation of the stable economic growth rate, fostered by growing investments and declining unemployment as well as lower interest rates.

In 2014, the data related to consumer inflation were found surprising which, according to the IMF, shall reach 0.1% at the end of the year against 0.9% in 2013. According to GUS estimates, the average annual inflation in 2014 reached 0.0% (the lowest level since 1972). In the Euro area inflation also remained at a level below the inflation target determined by the European Central Bank. The low level of inflation translated into low interest rates which, in turn, had an impact on the significant decline in costs of debt financing acquired by companies, including TAURON Capital Group.

A significant factor affecting the results of TAURON Capital Group, taking into account the position of the Group in the electric energy market, is the domestic demand for electric energy and heat. In 2014 the growth of the average gross electric energy consumption by 0.49% YoY was noticeable. In the sole Q4 2014, the growth amounted to approximately 0.9%. During the year the dynamics of energy consumption was diversified, mainly due to quite high average temperatures which occurred in Q1. Besides the growth in energy consumption, the domestic electric energy production dropped by 3.65% YoY (in December 2014 the dynamics in production decline dropped to the level of 0.64%, a similar level of the decline was maintained in January 2015), mainly due to the change in the direction of electric energy flow in the interconnector exchange. In 2014 energy import exceeded export whereas in 2013 export exceeded import of electric energy. Industry is a significant consumer of electric energy produced, being responsible for approximately 45% of the domestic electric energy consumption. In connection with the economic growth observed, industrial output in 2014 increased by approximately 3.3%, only in Q4 2014 the growth in output sold was higher by 1.3 percentage points than in Q3 2014.

**Figure no. 7. Growth in industrial output sold and change in electric energy consumption (YoY change)**




*Source: PSE*

#### 2.2.2.2. Market environment

**Prices of electric energy and related products**

In 2014, prices in the wholesale energy market increased explicitly. The main reason was the introduction of power market elements in the form of payments for maintaining of the OPR (Operating Power Reserve), lack of possibility to import cheaper energy from the neighbouring countries and the inter-operator interconnector exchange used by Polskie Sieci Elektroenergetyczne S.A. (PSE) in order to maintain the stability of the National Power System (KSE). In addition, the growth of energy was affected by weather conditions which did not foster energy generation from hydro and wind sources. The average price on the Day-Ahead Market (RDN) of the Power Exchange (Towarowa Giełda Energii S.A.) (TGE) in 2014 amounted to PLN 179.86/MWh, on the balancing market (CRO) it reached PLN 184.82/MWh. The levels of the aforementioned energy prices in relation to 2013 were higher, respectively, by PLN 26.04 and 28.31/MWh.

Introduction of the payment mechanism due to OPR has significantly contributed to the improvement of results of energy companies, including the Generation Area of TAURON Capital Group.

The significant decline in prices of energy coal, crude oil and natural gas as well as the higher supply of energy from renewable sources, contributed to the decline in electric energy prices in the remaining countries of Europe. In Germany, in 2014 the renewable sources covered approximately 27% of the energy demand which, according to the preliminary estimates in relation to 2013, declined by almost 5%.

The aforementioned downward corrections in commodity markets caused that the price of Brent crude barrel at the end of 2014 reached only ab. USD 57, whereas in mid-June 2014 its cost amounted to ab. USD 115. On average, in 2014 the cost of crude oil barrel reached USD 99.45/bbl, i.e. by approx. USD 9.25 less than in 2013. The energy coal market, due to the considerable oversupply, recorded decline in prices in 2014. At the end of December 2014, annual CIF ARA Y-15 contracts dropped to USD 66.58/Mg in relation to prices at the beginning of 2014 which stayed at the level of USD 86.70/Mg.

**Balance of the National Power System and prices in the Balancing Market**

In 2014, the situation in KSE did not demonstrate any significant changes. According to the PSE data, in 2014, in relation to 2013, the insignificant growth in the domestic electric energy consumption occurred, only by less than 0.5%, reaching 158.7 TWh. On the other hand, electric energy production in Poland dropped by 3.7%, to 156.6 TWh. The balance was compensated through energy import from the neighbouring countries. In 2014 Poland imported over 2.1 TWh of energy, whereas in the previous years it was the net exporter; in 2013 only export reached 4.5 TWh of energy. Import resulted mainly from higher SPOT market prices in Poland. The decline in energy production was visible in the whole generation sub-sector. For generation sources based on lignite, the decline of -4.8% was recorded, whereas for those based on hard coal it reached -5.1%. Even the quantity of energy produced in wind sources increased by only 23.4% in 2014, reaching 7.2 TWh, mainly due to poor wind conditions and the decline in the dynamics of wind sources installation in the system. At the end of 2014, capacity installed in wind farms reached 3,707 MW, whereas at the end of 2013, it reached 3,343 MW.

In accordance with the data provided by the TSO, the weighted average price of electric energy sold freely on the Balancing Market (RB) in 2014 was higher than the price in 2013 by over PLN 18/MWh, which mainly resulted from:

1) growth in prices of $CO_2$ emission allowances affecting the level of the clearing price (CRO) on the RB (by over PLN 6/Mg, on average),

2) introduction of new OPR payment mechanism with the maximum reference price of PLN 37.13/MWh in peak hours.

According to the TSO data for 2014, the following changes were recorded as compared to 2013:

1) explicit decline of output in main coal-fired power plants by ab. 5.1%, and in lignite-fired power plants by ab. 4.8%,
2) increase in electric energy production in wind farms (by ab. 23.4%),
3) decline in electric energy production in the country (by ab. 3.7%),
4) minor increase in domestic electric energy consumption (by ab. 0.5%),
5) significant change of direction in the cross-border exchange from export to import, which has reduced the aggregate domestic output by ab. 6.7 TWh YoY.

This range of growth in imports had an impact on the volume of sales from domestic generation units, also from the Generation Area units. On the other hand, growth in prices on the Balancing Market (and, simultaneously, on the SPOT market) and payments for OPR has a positive impact on the result of the Generation Area.

The figure below presents the average monthly energy prices on the SPOT and RB markets and the average temperatures.

**Figure no. 8. Average monthly energy prices on the SPOT and RB markets and the average temperatures**


In the forward electric energy market, growth in prices was observed both for BASE Y-15 and for PEAK contracts. The annual contract traded with the delivery in 2015, BASE Y-15 recorded growth by almost PLN 20 throughout 2014, reaching the level of PLN 177.00/MWh at the end of December 2014. The average price of the aforementioned contract in the whole period of quotations reached the level of PLN 168.11/MWh, and it was higher by PLN 7.71 in relation to quotations of annual contracts with the delivery in 2014. The highest growth of prices was observed in PEAK contracts whose average price with the delivery in 2015 increased to the level of PLN 219.93/MWh, from the average price for this type of contracts with the delivery in 2014 amounting to PLN 180.54/MWh. At the end of 2014 the price of PEAK Y-15 contracts reached the level of PLN 233.95/MWh, which represents a growth by PLN 41.45/MWh over a year. The growth in prices on the market of forward transactions was affected by fees for maintaining OPR, paid only during peak hours (PEAK).

Contrary to Poland, prices of analogical contracts in Germany recorded the decline by almost EUR 2.6 during 2014, reaching the level of EUR 33.44/MWh.

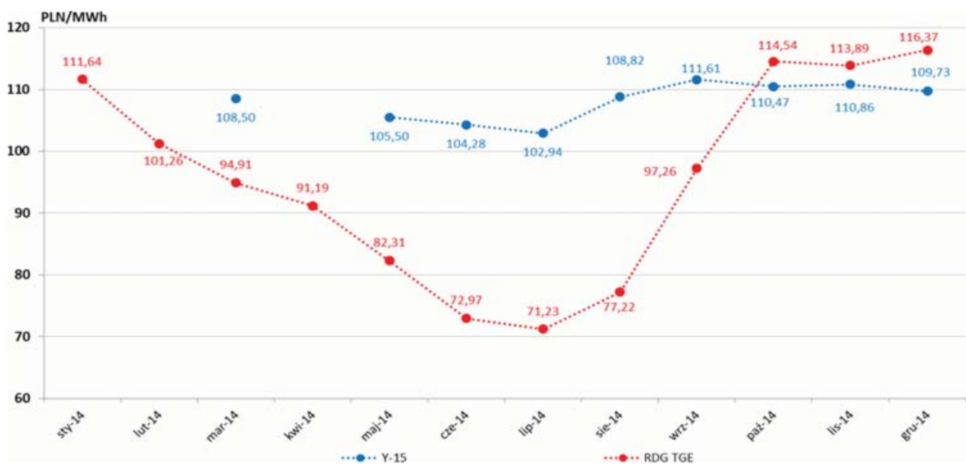
The figure below shows the results of Base Y-15 contract trading.

**Figure no. 9. Trading of BASE Y-15 contracts**


In 2014, volatile situation in the natural gas market was observed, both in Poland and in the neighbouring countries. In the Polish SPOT TGE market, significant price volatility was noticeable, resulting both from seasonal character of gas consumption and from the general global downward trend. Minimum prices at the level of PLN 64.70/MWh were recorded in July, and maximum prices at the level of PLN 120.00/MWh were noted in October 2014. The arithmetic mean of quotations on the RDG market in the whole 2014 amounted to PLN 92.61/MWh, whereas the volume-weighted price reached PLN 103.59/MWh. It should be stressed that gas trading on the spot market reached only approximately 32 GWh. The Polish market is significantly dependent on the situation in the neighbouring markets, in particular, on the German market. For the analogical period, spot prices in balancing areas of GasPool and NCG markets in Germany, converted into PLN, ranged between PLN 62.10/MWh and PLN 112.82/MWh. The total trading volume for both areas reached 50 GWh of gas and the annual average weighted prices amounted to PLN 89.42/MWh for Gaspool and PLN 88.95/MWh for NCG. The forward market also demonstrated significant volatility. Within quotations of Y-15 contracts for the product with the delivery in 2015, the average price settled at the level of PLN 110.47/MWh and ranged between PLN 100.70–113.00/MWh. The trading volume of such contracts amounted to almost 25.5 TWh, although they achieved liquidity only in June 2014.

The figure below presents the average monthly gas prices on the SPOT market and in the quotations of Y-15 contracts.

**Figure no. 10. Average monthly gas prices on the SPOT market and in the quotations of Y-15 contracts**




In 2014, upward trends were noted in the market of $CO_2$ emission allowances. Intensive work of the EC related to the European Union $CO_2$ Emission Trading System (EU ETS) had an impact on the growth of prices. Still in Q2 2013 the EUA units were quoted below EUR 3/Mg of $CO_2$, due to the significant oversupply estimated at a level of over 2 billion pcs. In February 2014, due to the approval of the so-called accelerated backloading path by the EC, allowing for withdrawal of even 400 million of allowances in the same year, their price reached the level of over EUR 7/Mg of $CO_2$. It was almost a double growth as compared to the levels of 2013. Despite the decreased auction volumes, the warm end of 2014 winter and the projected high oversupply of allowances in the system, affected the decline in prices to the levels of EUR 4.50–5.00/Mg of $CO_2$. According to the EC, such low prices are insufficient to stimulate investment in low-emission technologies and significantly deviate against the assumed EUR 20–30/Mg of $CO_2$. Accordingly, the EC proposed the establishment of the Market Stability Reserve (MSR). The main task of this system shall be the fluent regulation of the quantity of allowances in the market through the annual transfer of maximum 12% of allowances surplus to the reserve, until it reaches less than 833 million. In the situation when the aforementioned reserve drops below 400 million, the system has a possibility to introduce 100 million allowances to the market during a given year. It is estimated that MSR shall cause the growth of allowances prices by approximately EUR 15–20/Mg of $CO_2$. The EC proposed 2021 as the first year of operation of the stabilisation reserve. It should be also added that the previous year was a turning point in terms of long-term targets of the EU climate policy. On 23 October 2014, heads of state of the EU member states agreed on new climate targets until 2030. The EU countries have committed to aim at 40% reduction in emission of greenhouse gases in relation to 1990. It is a very ambitious goal considering that until 2020 emissions should be reduced by 20% only, also in relation to 1990. This information had a significant impact on the demand on the market of $CO_2$ emission allowances. At the end of 2014 the price of EUA contracts reached the level of approximately EUR 7/Mg of $CO_2$, while the average price of the allowances in 2014, it reached the level of EUR 5.96/Mg of $CO_2$ and it was higher in relation to 2013 by almost EUR 1.50 (+32%).

The figure below presents the impact of EC activities and political events on quotations of the forward product, EUA Dec-14.

**Figure no. 11. Impact of EC activities and political events on quotations of the forward product, EUA Dec-14**

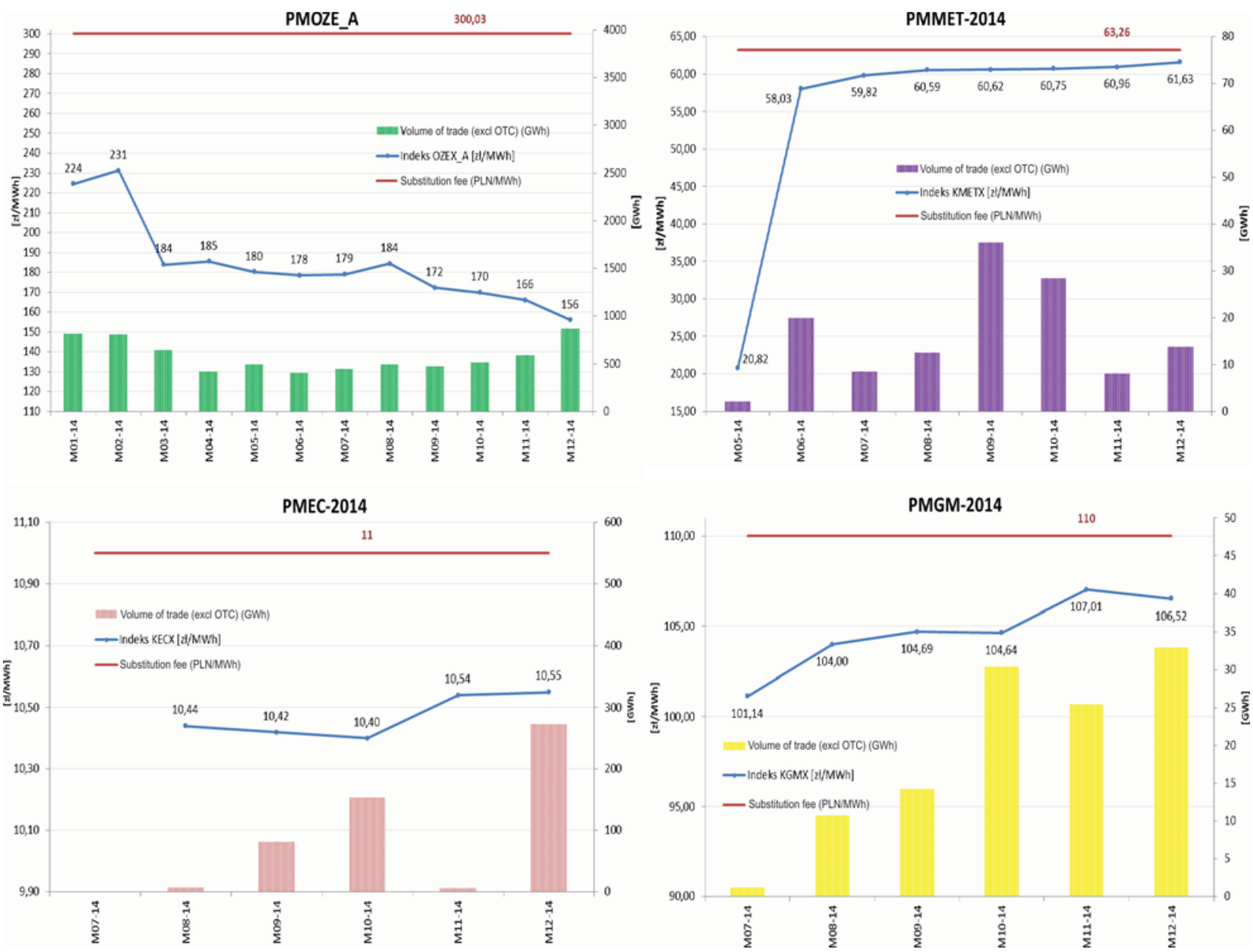

2014 brought significant changes in the market of property rights, associated mainly with the amendments to the legal regulations for the co-generation units. In the first two months of 2014, prices of the OZEX_A index increased from PLN 192.49 to 250.47/MWh, and the balance of the register from January to the final date of redemption on 31 March decreased by almost 5 TWh. Subsequently, until the end of the year, in connection with the uncertainty related to the provisions of the draft amendment to the *Act on renewable energy sources* and the growing oversupply of certificates in the balance, prices of PMOZE_A property rights declined to PLN 153.02/MWh. In this period, the surplus in the PMOZE balance rose by almost 7 TWh to 12.8 TWh. The average price of PMOZE_A units in 2014 reached PLN 186.53/MWh and it was higher by PLN 15.35 than in 2013.

Since mid-2014, due to the amendment to the *Act of 10 April 1997 on Energy Law*, the redemption obligation of property rights confirming generation of electric energy in high-performance coal and gas co-generation has been resumed. Trading of PMEC-2014 and PMGM-2014 certificates was not executed until mid-2014. Sales of property rights for PMGM-2014 gas co-generation started only at the end of July 2014 at a price of PLN 101.14/MWh, which reached the level over PLN 106/MWh by the end of 2014. On the other hand, sales of property rights for PMEC-2014 coal co-generation started in mid-August 2014 at a price of PLN 10.50/MWh, which was maintained within the narrow brackets from PLN 10.35/MWh to PLN 10.53/MWh until the end of 2014. Only rights issued for production in the second half of 2014 shall be eligible for the redemption obligation.

For the PMMET-2014 property rights confirming energy production during methane combustion, the redemption obligation comprised certificates for production in the whole 2014. Prices of these rights in May 2014 remained at a very low level of approximately PLN 20/MWh. However, already in the consecutive month, the prices increased to almost PLN 59/MWh, reaching the level of PLN 61.50/MWh by the end of 2014.

The figure below shows indices of property rights – the so-called “green”, “violet”, “red” and “yellow” certificates.

**Figure no. 12. Indices of property rights**




### 2.2.2.3. Regulatory environment

**Changes in the regulations of the energy sector**

In 2014 the President of ERO maintained the obligation to submit tariffs for households for approval. Accordingly, the trading enterprises had a limited influence on the margin generated in this sales segment (G tariff).

**Arrangements in the scope of $CO_2$ emission allowances**

Since 2013 Phase III of the EU ETS is ongoing which, contrary to Phase II enabled to transfer the surplus of allowances from the previous phase. As of 2009, surpluses of $CO_2$ emission allowances appeared in the EU ETS, as a result of the economic crisis in the EU countries. The large number of allowances on the market has significantly affected the decline in their price which, in relation to the main assumption of the EU ETS, did not encourage industry to invest in modern, low emission technologies. In order to raise prices of allowances, in 2014 the EC reduced the number of allowances issued for auction by 400 million. The said reduction is the result of the so-called backloading, i.e. the reform based on issuing a smaller quantity of allowances for auctions, in the quantity of 900 million in the years 2014–2016 and their increased supply in the years 2019–2020. However, the tool introduced was found insufficient. In order to raise prices of emission allowances, the EC proposed establishing of the MSR.

The detailed description concerning the functioning of the MSR mechanism is included in item 2.2.2.2.

**Lack of final settlements on the scope of the *Act on renewable energy sources (in 2014)***

In 2014, several consecutive drafts of the *Act on renewable energy sources* appeared, which, having been subject to the strong lobbying during social and industry consultations, have not been accepted by the interested parties until the end of 2014. In connection with the foregoing, the final shape of the Act was not adopted in 2014 (the Parliament passed the Act on 20 February 2015). The lack of explicit provisions concerning the assumptions of the support system for the technology of energy generation in renewable sources inhibits the investment and modernisation processes in the Polish energy sector.

**Adoption of the Act on the amendment to the Act on Energy Law – co-generation**

On 14 March 2014 the Parliament of the Republic of Poland adopted the *Act on the amendment to the Act on Energy Law and certain other acts*, i.e. the so-called co-generation act. Following its signing by the President of the Republic of Poland, it was published in the *Journal of Laws on 15 April 2014*, which means that its provisions entered into force as of 30 April 2014.

The co-generation act recovered the support system for the high-performance coal co-generation and gas co-generation functioning until the end of 2012. The support has been introduced for the years 2014–2018. The entry into force of the new co-generation act means the obligation imposed on energy suppliers in terms of purchase and redemption of energy certificates of origin (the so-called "red" certificates – for coal co-generation, the so-called "yellow" certificates for gas co-generation) or payment of the substitution fee. Energy suppliers were charged with additional costs to be incurred in order to fulfil the statutory obligation of redemption of "red" and "yellow" certificates. For the "red" certificates, in each of the years 2014–2018, this obligation amounts to 23.2% of the volume of the energy sold, whereas in case of the "yellow" certificates, this obligation shall grow from 3.9% in 2014 to 8% in 2018, which should contribute to the development of the co-generation sources operating based on gas fuel.

In accordance with the said Act, the ERO President defined the so-called substitution fees for 2014 and 2015 at the following level:

1) PLN 11/MWh, both in 2014 and in 2015, for the "red" certificates,
2) PLN 110/MWh in 2014 and PLN 121.63/MWh in 2015, for the "yellow" certificates.

The level of the substitution fees for the consecutive years will be defined by the ERO President according to the following rules:

1. In case of coal-fired co-generation, the level of the substitution fee, which represents the benchmark for their prices in the system of certificates, may not have a value lower than 5% and higher than 40% of the average price of electric energy sales on the competitive market in the preceding year.
2. In case of gas-fired co-generation, the level of the substitution fee, may not be lower than 15% and higher than 110% of the average price of electric energy sales on the competitive market. The co-generation act, thus, grants broad powers to the ERO President in the scope of development of the substitution fee level.

It will be possible to redeem the certificates originating from production in co-generation in individual years only within the settlement for a given year, i.e. until June of the consecutive year, which is a significant difference in relation to the previously operating mechanisms, when the possibility of "banking" the certificates of the previous years led to the disturbance of the balance between supply and demand and the instability in prices of certificates.

The impact of this regulation on TAURON Capital Group will occur in various Areas and it will be subject to partial mutual compensation. In the Generation and Heat Area revenues due to sales of "red" and "yellow" certificates will be generated, whereas in the Sales Area the need to purchase such certificates will appear for the purpose of redemption.

**Implementation of the service of Operational Power Reserve (OPR)**

In connection with the amendment introduced to the Instructions of Transmission Grid Operation and Maintenance (IRiESP), since the beginning of 2014, the payment mechanism due to the OPR has been functioning. The OPR refers to the generation capacity of active, centrally dispatched generation units, and its settlement is performed exclusively for the peak hours of demand, i.e. between 7:00 a.m. and 10:00 p.m. on all business days. At the same time, this mechanism was undoubtedly one of the driving factors of the growth in electric energy prices in the SPOT and RB markets on peak hours covered by the payment for the reserve.

**Modification of OPR settlement rules**

On 6 November 2014, with the effectiveness as of 1 January 2015, the ERO President approved the IRiESP update card – Balancing of the system and management of system congestions, constituting the modification of the OPR settlement rules. The basic element of this modification is the adjustment of the method of developing the price for OPR, which should ensure the stability of accomplishment of this mechanism's budget in the period of effectiveness of the TSO tariff and mitigation of external factors' impact on the performance of this mechanism. This change shall affect the decline of revenues due to OPR in 2015, gained by the Generation Area company.

**Obligation of public sales of electric energy by generators**

In 2014, the so-called "exchange obligation" was still applicable, according to which the generating enterprises were obliged to sell the obligatory volume at TGE. In 2014 companies of TAURON Capital Group were covered, in accordance with provisions of Article 49a of the *Act of 10 April 1997 on Energy Law*, by the obligation to sell not less than 15% of electric energy generated in a particular year on the commodity exchange (within the meaning of the *Act of 26 October 2000 on commodity exchanges*), or on the market organised by the entity maintaining the regulated market on the territory of the Republic of Poland. It means that sales of electric energy produced by the generation companies of TAURON Capital Group, for the needs of securing the sales position of TAURON Capital Group, may be conducted on the OTC market.

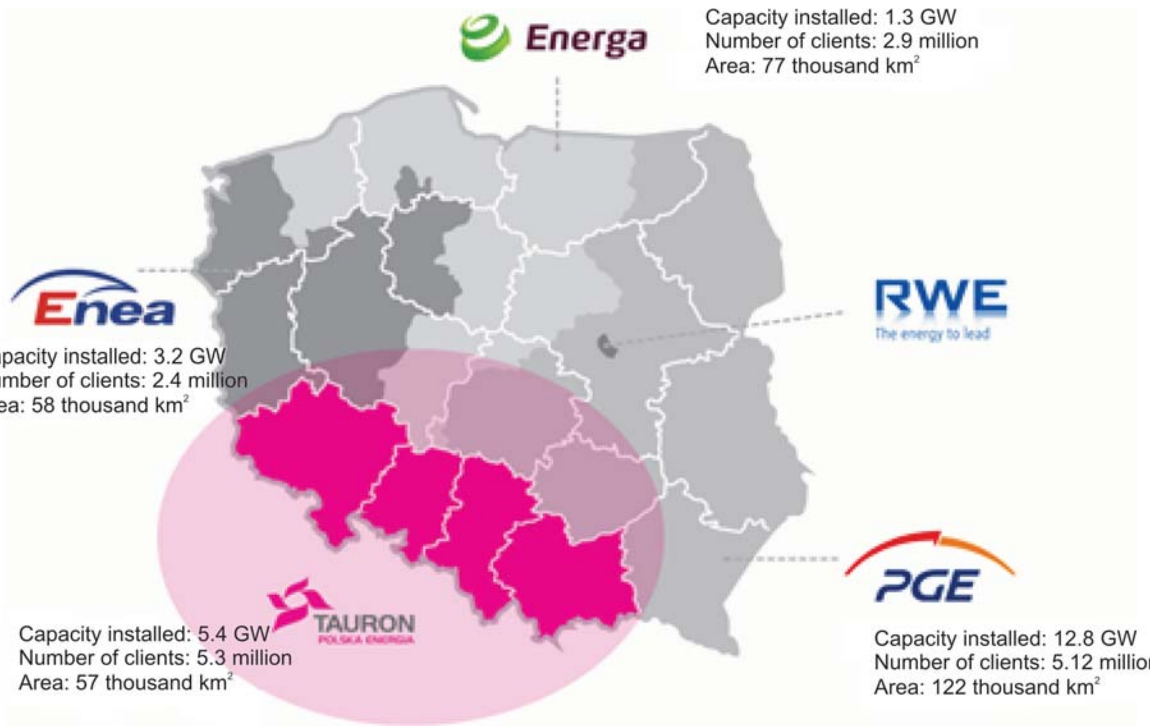
### 2.2.2.4. Competitive environment

**Energy Groups in Poland**

As a result of the reorganisation and consolidation of energy enterprises conducted in Poland, besides TAURON Capital Group, three large, vertically integrated energy groups currently operate: PGE, ENEA and ENERGA S.A. (ENERGA).

The figure below presents the competitive environment of TAURON Capital Group according to the data for 2013.

**Figure no. 13. Competitive environment of TAURON Capital Group (data for 2013)**




Owing to the vertically integrated structure, the above entities have a strong position on the domestic market. Moreover, as a result of privatisation performed in the previous years in some energy enterprises, foreign energy groups are also present on the Polish market.

According to the data for 2013 in the generation sub-sector the consolidated energy groups (PGE, TAURON, ENEA, ENERGA) held over 60% of market share. Moreover, smaller, although important entities on the Polish market of electric energy included: EDF Polska Centrala sp. z o.o (EDF) (10%), Grupa Kapitałowa Zespół Elektrowni Pątnów - Adamów - Konin S.A. (ZE PAK) (7%) and GDF SUEZ Energia Polska S.A. (GDF SUEZ) (5%). The ZE PAK Group is the second generator of electric energy from lignite in Poland, with the share of electric energy generated based on lignite resources at a level of approximately 97%. On the other hand, EDF, besides the 10% share in the domestic electric energy production, has the 15% share in the market of network heat. GDF SUEZ occupies the leading position in the country in terms of biomass use.

In the electric energy distribution sector the energy groups (TAURON, PGE, ENEA, ENERGA) held over 90% of share in the electric energy distribution market. Among other electric energy distributors, RWE Stoen Operator sp. z o.o. is one of the largest, supplying electric energy to approximately 900 thousand clients in Warsaw and the neighbourhood.

TAURON Capital Group is the biggest distributor of electric energy in Poland In 2013, share of TAURON Capital Group in electric energy distribution to end clients amounted to approximately 37%. The distribution grids of TAURON Capital Group cover over 18% of the territory of the country. On the other hand, the share in the market of sales to end consumers amounted to approximately 28%.

TAURON Capital Group is the second biggest electric energy producer in Poland. According to the data for 2013, both in terms of installed capacity and production of electric energy, it was preceded only by PGE. The share in the domestic electric energy production market reached approximately 38% for PGE and 13% for TAURON. Share of both PGE in the Polish market of distribution and sales of electric energy to end consumers reached 26% and 30%, respectively.

The third biggest energy enterprise in Poland is ENEA (data for 2013), with the share in the market of energy production reaching ab. 8%, in the distribution market – ab. 14% and in sales market – ab. 11%.

On the other hand, ENERGA holds share in the Polish market of electric energy production reaching approximately 3% and, respectively, ab. 17% and 15% for each, distribution and sales.

The table below shows information on the capacity installed as at 31 December 2013 and electric energy generated in 2013.

**Table no. 5. Capacity installed and production of electric energy according to energy groups**

| No. | Group | Capacity installed | | Generation* | |
|---|---|---|---|---|---|
| | | Quantity (GW) | Share (%) | Quantity (GW) | Share (%) |
| 1. | PGE | 12.8 | 33 | 62 | 38 |
| 2. | TAURON | 5.4 | 14 | 22 | 13 |
| 3. | ENEA | 3.2 | 8 | 12 | 7 |
| 4. | EDF | 3.0 | 8 | 16 | 10 |
| 5. | PAK | 2.5 | 6 | 11 | 7 |
| 6. | GDF Suez | 1.9 | 5 | 8 | 5 |
| 7. | ENERGA | 1.3 | 3 | 5 | 3 |
| 8. | CEZ | 0.6 | 1 | 3 | 2 |
| 9. | Other | 8.0 | 21 | 25 | 15 |
| | **Total** | **38.6** | **100** | **164** | **100** |

** Quantity of gross electric energy generated in 2013.*
*Source: ARE, information of companies published on websites, own estimates in case of companies publishing net production*

The table below presents the basic information concerning the share of individual energy groups in the scope of electric energy distribution, according to the data for 2013

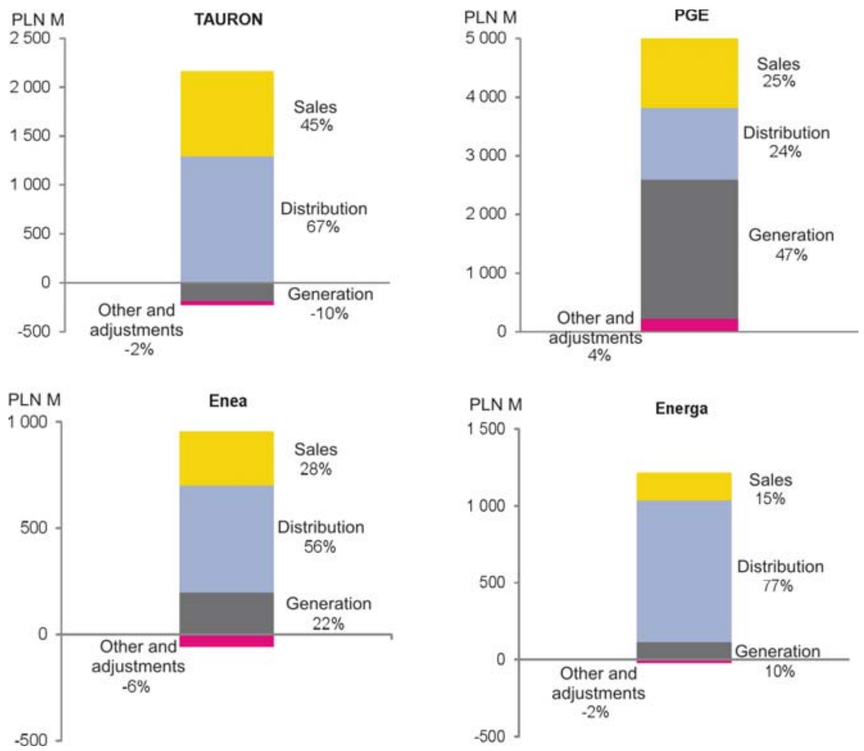
**Table no. 6. Distribution of electric energy to end consumers, according to energy groups**

| No. | Group | Distribution | |
|---|---|---|---|
| | | Quantity (TWh) | Share (%) |
| 1. | TAURON | 45 | 37 |
| 2. | PGE | 32 | 26 |
| 3. | ENERGA | 20 | 17 |
| 4. | ENEA | 17 | 14 |
| 5. | Other | 8 | 6 |
| | **Total** | **122** | **100** |

*Source: ARE, information of companies published on the websites.*

The figures below show information concerning EBIT in the structure, according to main segments.

**Figure no. 14. EBIT – estimated structure according to the main segments in 2013***




** In order to maintain comparability of the presented segments, in the Generation Segment, Mining, RES and Heat are also presented; in the Sales Segment: wholesale and retail sale is included.*
*Source: Annual reports of Companies*

The structure of assets held by TAURON Capital Group, with the considerable share of distribution activities, influences the stabilisation of revenues and results, which positively distinguishes TAURON Capital Group in comparison with other energy groups.

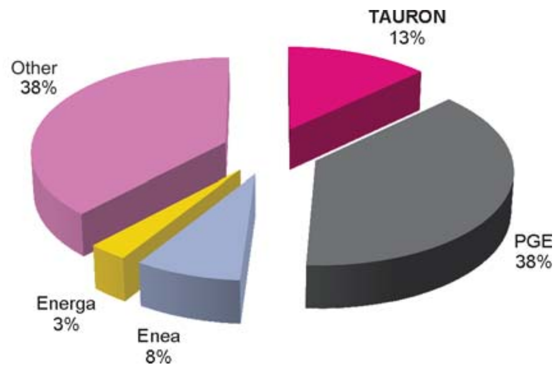
***TAURON Capital Group is the energy enterprise fully integrated vertically, using synergies arising from the scale and scope of the activities carried out***

TAURON Capital Group is a vertically integrated energy enterprise controlling the whole value chain, from coal mining to supply of electric energy to end clients. It performs activities in all key segments of the energy market (excluding electric energy transmission), i.e. in the area of coal mining, generation, distribution as well as trade of electric energy and heat. Access to own coal resources and control of own generation assets increases the stability of revenues and margins of TAURON Capital Group.

**Generation**

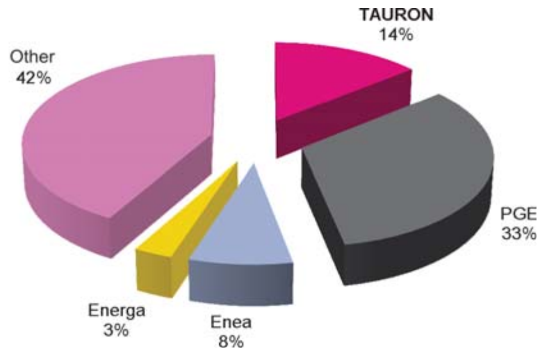
The figures below present information on electric energy generated in 2013 and the capacity installed as at 31 December 2013.

**Figure no. 15. Gross electric energy output – estimated market share in 2013**




*Source: ARE, information of companies published on the websites.*

**Figure no. 16. Installed capacity – estimated market share in 2013**




*Source: ARE, information of companies published on the websites.*

***TAURON Capital Group is the second biggest producer of electric energy in Poland, holding generation assets located in the attractive region of Poland, which enables it to participate actively in building of new generation capacity.***

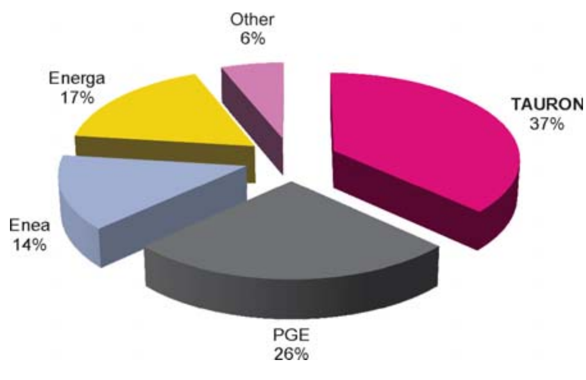
Based on ARE data for 2013, the share of TAURON Capital Group in the domestic market of electric energy generation, measured by the gross electric energy output, amounted to approximately 13%, which placed TAURON Capital Group on the second position in Poland. The generation assets of TAURON Capital Group are concentrated in southern Poland. In this region, coal deposits are also located, used for combustion processes in power plants and co-generation plants of TAURON Capital Group. The location of generation assets of TAURON Capital Group in the vicinity of coal deposits allows for optimisation of costs associated with the transport of this raw material.

The generation assets of TAURON Capital Group, due to their location in southern Poland, have also access to the most developed part of the transmission system in the country, which has positive impact, among others, on enhancement of reliability of the activities carried out and on implementation of the planned investments in the scope of construction of new generation capacity. Thus, the location of assets of TAURON Capital Group in the area of well-developed transmission network and rich coal resources also influences the maintaining of the competitive advantage of TAURON Capital Group against other energy enterprises on the Polish market.

**Distribution**

The following chart presents the basic information concerning the share of individual energy groups in the scope of electric energy distribution according to the data for 2013.

**Figure no. 17. Electric energy distribution – estimated market share in 2013**




*Source: ARE, information of companies published on the websites.*

***TAURON Capital Group is the biggest distributor of electric energy in Poland.***

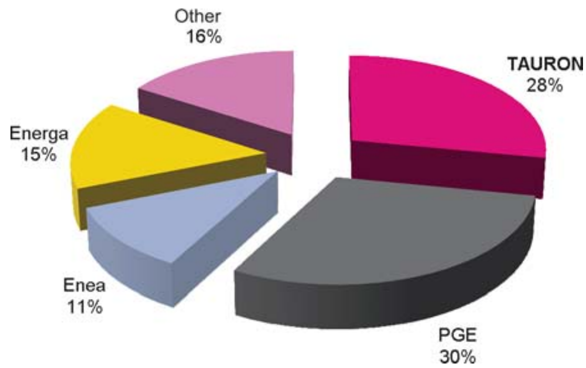
According to the data for 2013, 2012 and 2011 TAURON Capital Group, with the volume of electric energy supplied to end clients, at the level of, respectively, 45.2 TWh, 45.2 TWh and 33.6 TWh, occupied the first position in terms of the quantity of electric energy supplied. In 2014, the volume of energy supplied to end consumers amounted to approximately 45.6 TWh. TAURON Capital Group is the largest electricity distributor in Poland, also in terms of revenues gained from distribution activity.

It should be stressed that the distribution activity of TAURON Capital Group, due to the natural quasi monopoly at the indicated area, is the source of stable and predictable revenues, constituting the essential part of consolidated revenues of the whole TAURON Capital Group. The geographical area of electricity distribution, where the companies of Distribution and Sales Areas have been operating historically, is the area characterised by its high level of industrialisation and dense population, which influences the relevant demand for electric energy, both among households and among enterprises. The number of clients of the Distribution Area exceeds 5.3 million.

**Sales**

The following chart presents the basic information concerning the share of individual energy groups in the scope of electric energy sales to energy consumers, according to the data for 2013

**Figure no. 18. Sales of electric energy to end consumers – estimated market share in 2013**




*Source: ARE, information of companies published on the websites.*

TAURON Capital Group, with the volume of electric energy sales to end consumers at a level of 34.2 TWh in 2013, is the second electric energy supplier in this segment in Poland. On the other hand, in 2013, retail sales of electric energy reached the level of 41.3 TWh. In 2014 the volume of sales of electric energy reached the level of approximately 38.6 TWh, including about 30.9 TWh to end consumers. The number of clients of the Sales Area amounts to approximately 5.3 million.

**Sources of competitiveness**

Individual energy groups are associated with areas where they fulfil the function of DSO. Additionally, the broader and more open competition among the groups is limited by the G tariff regulation (individual clients). However, such limitations do not refer to clients using other tariffs, under which energy groups may compete much more flexibly, in accordance with the adopted assumptions of their market strategies.

The table below presents the main sources of competitiveness.

**Table no. 7. Sources of competitiveness**

| No. | Area of operations | Area of initiatives | Sources of competitiveness |
|---|---|---|---|
| 1. | Mining, Generation | Reducing market risk and supply security risk | Own coal resources |
| | RES, Heat | 1) New investment projects<br>2) Operating expenses | 1) Diversified portfolio of generation capacity<br>2) Improvement of operational effectiveness |
| 2. | Distribution | 1) Operating expenses<br>2) Investment effectiveness<br>3) Improvement of grid reliability indicators | 1) Implementation of target business model<br>2) Cooperation with the ERO President in the scope of remuneration on investment<br>3) Implemented IT systems, separated processes, clear distribution of responsibilities |
| 3. | Sales | 1) Operating expenses<br>2) Margin on sales, development of products adjusted to clients' needs, development in new business areas | 1) Maintained cost discipline<br>2) Brand, current client base, held sales channels, experience in the scope of product and procurement portfolio management |

## 2.3. Timeline of key events

The following table presents the timeline of selected key events associated with the operations of TAURON Capital Group which occurred in 2014.

**Figure no. 19. Timeline of key events**

| EVENTS IN TAURON CAPITAL GROUP IN 2014 | |
|---|---|
| **JANUARY FEBRUARY** | 1. Merger of TAURON EKOENERGIA with MEGAWAT MARSZEWO and BELS INVESTMENT companies.<br>2. Merger of SCE Jaworzno III with the EKOPEC company.<br>3. Division of TAURON Wytwarzanie through separation of ZEC Bielsko-Biała from its structures and transfer of its assets to TAURON Ciepło.<br>4. Assignment of the ownership of TAURON Wydobycie shares held to Kompania Węglowa to the Company, following the approval of their sales by the GM of Kompania Węglowa.<br>5. Obtaining corporate approvals for the implementation of an investment project comprising the construction of two WR-12 boilers on the premises of Central Heating Plant in Zawiercie (TAURON Ciepło).<br>6. Change of company enterprise from "Południowy Koncerny Węglowy S.A." to "TAURON Wydobycie S.A.".<br>7. Commencement of the 2nd stage of works under the project comprising the modernisation of the heating system in municipalities: Dąbrowa Górnicza, Sosnowiec, Będzin and Czeladź. |
| **MARCH APRIL** | 1. Appointment of TAURON Management Board of the 4th common term.<br>2. Signing of the agreement by the Company and PIR concerning the financing of the power unit of 413 $MW_e$ at Łagisza Power Plant (TAURON Wytwarzanie).<br>3. Concluding of the agreement for the intervention cold reserve by TAURON Wytwarzanie with PSE, to comprise two units of Siersza Power Plant and one unit of Stalowa Wola Power Plant.<br>4. A ground breaking ceremony at ZW Tychy (TAURON Ciepło) for the construction of the heating unit with the capacity of 50 $MW_e$ and 86 $MW_t$.<br>5. Concluding of the agreement with GAZ-SYSTEM by TAURON Wytwarzanie, concerning the connection of the CCGT unit of 413 MW capacity, to be established on the premises of Łagisza Power Plant,<br>6. Concluding of the agreement by TAURON Wytwarzanie with the consortium of RAFAKO - MOSTOSTAL for the construction of the power unit of 910 $MW_e$ capacity, for supercritical parameters at Jaworzno III Power Plant (Power Plant II).<br>7. Approval of the TAURON tariff for gas fuels by the ERO President. |
| **MAY JUNE** | 1. Adoption of the resolution by the Ordinary TAURON GM on allocating a part of the profit for the financial year 2013 in the amount of PLN 332,984,384.86 for the dividend.<br>2. Commencement of the deepening of "Janina VI" shaft in TAURON Wydobycie, under the project on *Increasing the production capacity of TAURON Wydobycie through the construction of level 800 m*.<br>3. Adoption of the updated *Corporate Strategy of TAURON Group for 2014–2017 with an outlook until 2023* .<br>4. Awarding TAURON with the distinction *Hero of the Capital Market* granted by the Association of Individual Investors.<br>5. Signing of a letter of intent by TAURON, ENEA, ENERGA and PGE, concerning the cooperation in the scope of research, development and innovation as well as joint implementation of research and development projects. |
| **JULY AUGUST** | 1. Concluding of the consortium agreement by TAURON and 22 institutions, including 18 universities, 2 institutes and 2 enterprises, establishing the Motorway of Technology and Innovation Institute.<br>2. Approval of the tariff for natural high-methane gas for TAURON Sprzedaż by the ERO President.<br>3. Confirmation of the long-term foreign and local currency ratings for the Company at "BBB" level, with stable outlooks by the Fitch Rating Agency.<br>4. Concluding of the credit agreement by TAURON and the European Investment Bank (EIB), worth PLN 295 million, for the implementation of investments in the areas of renewable energy and energy distribution.<br>5. Acquisition of 100% direct share by TAURON in the initial capital of the following companies: TAURON Wytwarzanie, TAURON Wydobycie and KW Czatkowice.<br>6. Concluding of the partnership agreement by companies of TAURON Capital Group and companies of ArcelorMittal Group, concerning the establishment of a joint entity for the implementation of the project in the scope of industrial power engineering.<br>7. Concluding of the agreement by TAURON Ciepło with Control Process S.A. for the construction of three oil and gas boilers with the total capacity of approximately 114 $MW_t$ ZW Katowice.<br>8. Commencement of the installation of the boiler at the site of the power unit with the capacity of 50$MW_e$ and 86 $MW_t$ at ZW Tychy (TAURON Ciepło). |
| **SEPTEMBER OCTOBER** | 1. Concluding of the agreement by PGE, TAURON, ENEA, KGHM concerning the implementation of the joint project on construction of the first Polish nuclear power plant with the capacity of approximately 3 thousand $MW_e$.<br>2. Launching the procedure aimed at commencement of the implementation of the investment project comprising the construction of a flue gas treatment installation, including the modernisation of boilers at ZW Nowa (in TAURON Ciepło).<br>3. Launch of the construction of the power unit of 910 $MW_e$ capacity at Jaworzno III Power Plant (Power Plant II).<br>4. Issuing of the approval of the OCCP President for the concentration based on the implementation of the joint project in the scope of nuclear energy by PGE, TAURON, ENEA, KGHM within the PGE EJ1 company.<br>5. Confirmation of the long-term foreign and local currency international rating for the Company at "BBB" level, with stable outlooks by the Fitch Rating Agency.<br>6. Granting the main award to TAURON for *The best annual report 2013*, for the best annual report of TAURON Capital Group for 2013. |

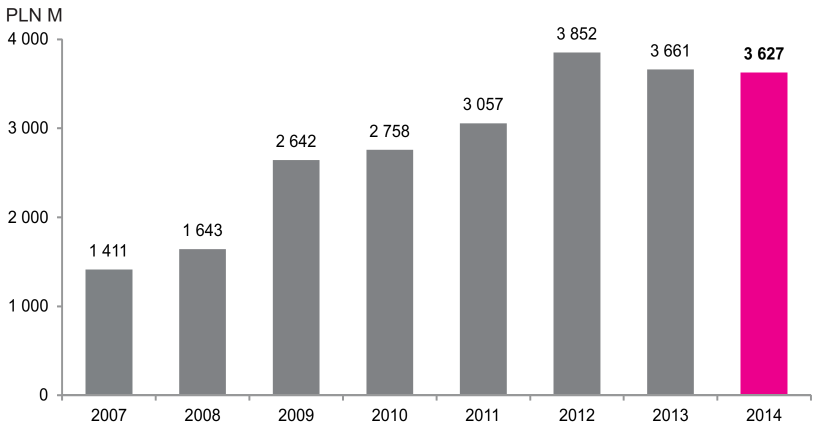
**NOVEMBER DECEMBER**

1. Issuance of five-year unsecured bonds with the value of PLN 1,750,000 thousand, by TAURON on the domestic market.
2. Signing the agreement by TAURON EKOENERGIA for the construction of Stage II of Marszewo Wind Farm, with the capacity of 18 MW.
3. Handing over of the construction site of the power unit of 910 $MW_e$ capacity at Jaworzno III Power Plant (Power Plant II) by TAURON Wytwarzanie.
4. Registration of the PGK established for 2015–2017 by TAURON and the key companies of TAURON Capital Group.
5. Issuing of the approval by the OCCP President for the concentration based on implementation of the joint project in the scope of power engineering by TAURON and ArcelorMittal within the TAMEH HOLDING company.
6. Issue of fifteen-year registered bonds with the value of EUR 168,000 thousand by TAURON Sweden Energy on the German market.
7. Approval of the tariff for electric energy for TAURON Dystrybucja and the tariff for electric energy sales for consumers in G tariff groups for TAURON Sprzedaż by the President of ERO.
8. Completion of the heating network modernisation by TAURON Ciepło for the following municipalities: Dąbrowa Górnicza, Sosnowiec, Będzin and Czeladź.

## 2.4. Financial results of TAURON Capital Group

The figure below presents the EBITDA results of TAURON Capital Group in 2007–2014.

**Figure no. 20. EBITDA of TAURON Capital Group in 2007–2014**




The table below shows the EBITDA results of TAURON Capital Group, divided into individual Business Areas (Segments) for the years 2012–2014. Data for individual Areas do not include consolidation exclusions.

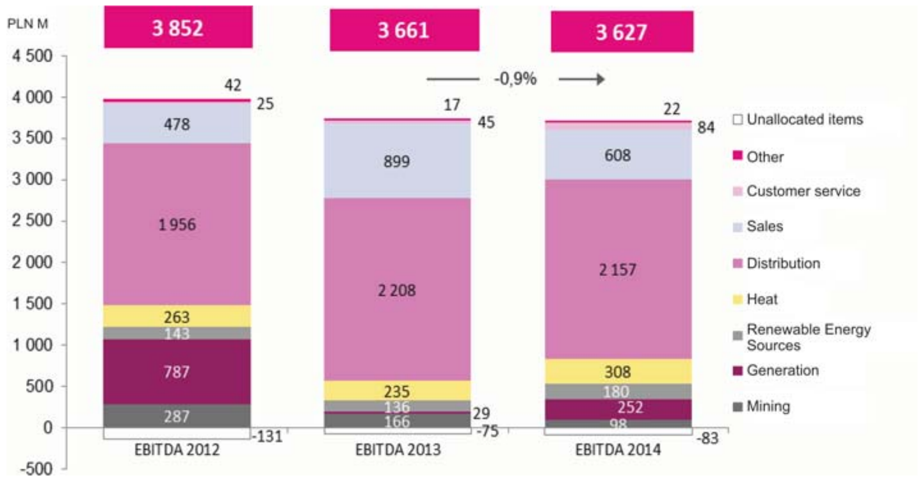
**Table no. 8. EBITDA results of TAURON Capital Group, divided into Business Areas***

| No. | EBITDA (PLN thous.) | 2014 | 2013 | 2012 | Dynamics (2014/2013) | Change (2014–2013) |
|---|---|---|---|---|---|---|
| 1. | Mining | **98,412** | **165,783** | 287,431 | 59% | (67,371) |
| 2. | Generation | **251,838** | **28,852** | 787,322 | 873% | 222,986 |
| 3. | RES | **180,166** | **135,563** | 143,450 | 133% | 44,603 |
| 4. | Heat | **308,407** | **235,453** | 263,052 | 131% | 72,954 |
| 5. | Distribution | **2,157,136** | **2,208,381** | 1,955,896 | 98% | (51,245) |
| 6. | Sales | **608,213** | **899,208** | 478,342 | 68% | (290,995) |
| 7. | Customer Service | **84,165** | **45,283** | 25,131 | 186% | 38,882 |
| 8. | Other | **22,158** | **17,485** | 42,347 | 127% | 4,673 |
| *9.* | Unallocated items | *(83,395)* | *(74,524)* | *(131,346)* | *112%* | *(8,871)* |
| | **Total EBITDA** | **3,627,100** | **3,661,484** | **3,851,625** | 99% | **(34,384)** |

** The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in Table no. 34 of this report.*

The figure below presents the structure of EBITDA of TAURON Capital Group in 2012–2014.

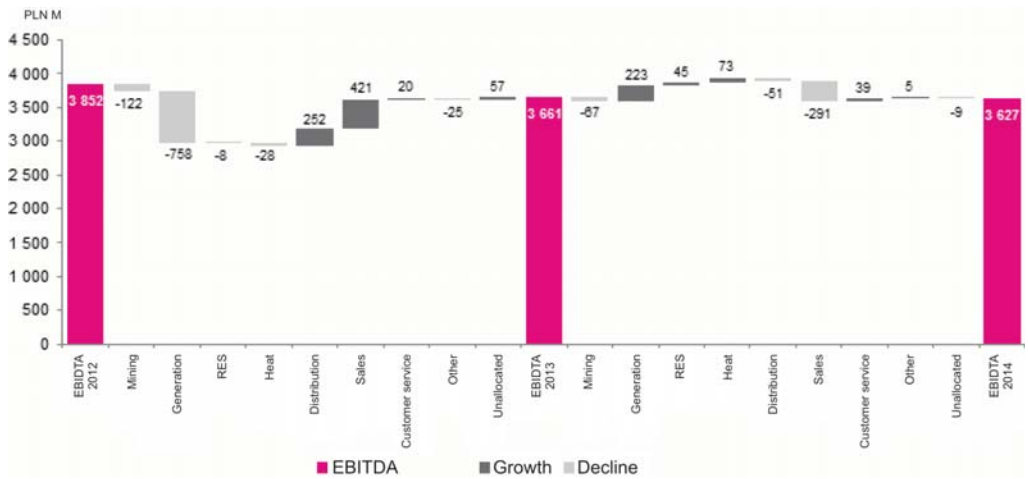
**Figure no. 21. Structure of EBITDA of TAURON Capital Group in 2012–2014**




The Distribution Area and Sales Area have the highest share in EBITDA of TAURON Capital Group.

The figure below presents the change in EBITDA results of TAURON Capital Group in the years 2012–2014.

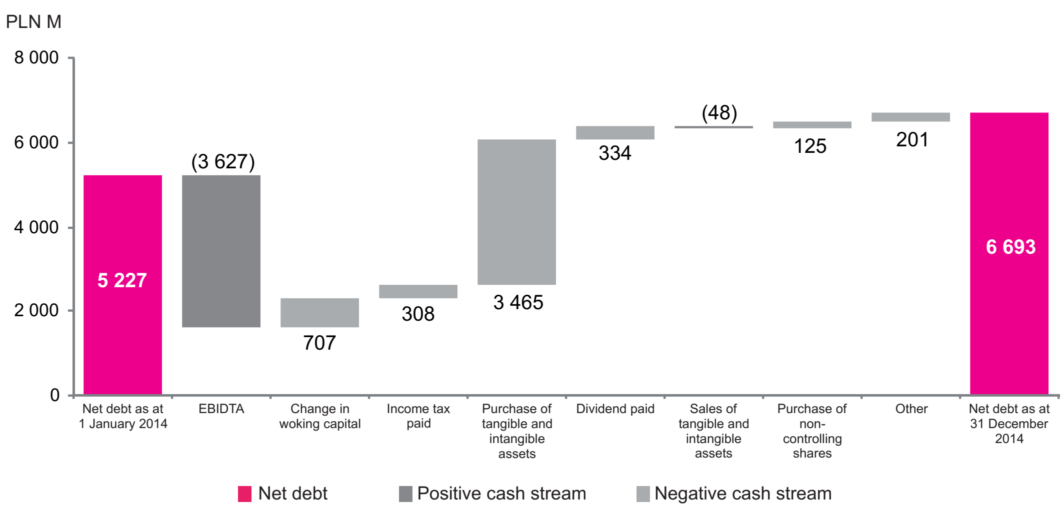
**Figure no. 22. Change in EBITDA of TAURON Capital Group in 2012–2014**




**Cash flows of TAURON Capital Group in 2014**

The figure below presents cash flows of TAURON Capital Group in 2014.

**Figure no. 23. Cash flows of TAURON Capital Group in 2014**



### 2.4.1. Mining Area

The table below presents the results of the Mining Area in the years 2012–2014.

**Table no. 9. Results of Mining Area***

| Specification (PLN thous.) | 2014 | 2013 | 2012 | Dynamics (2014/2013) | Change (2014–2013) |
|---|---|---|---|---|---|
| **Mining** | | | | | |
| **Revenue on sales** | **1,194,024** | **1,397,506** | **1,477,835** | **85.4%** | **(203,482)** |
| *coal – coarse and medium assortments* | *359,857* | *525,419* | *493,103* | *68.5%* | *(165,562)* |
| *steam coal* | *803,647* | *835,355* | *948,567* | *96.2%* | *(31,708)* |
| *other revenues* | *30,520* | *36,732* | *36,165* | *83.1%* | *(6,212)* |
| **Operating profit** | **(6,829)** | **65,786** | **174,945** | **–** | **(72,615)** |
| Amortisation and depreciation | 105,241 | 99,997 | 112,486 | 85.4% | (203,482) |
| **EBITDA** | **98,412** | **165,783** | **287,431** | **68.5%** | **(165,562)** |

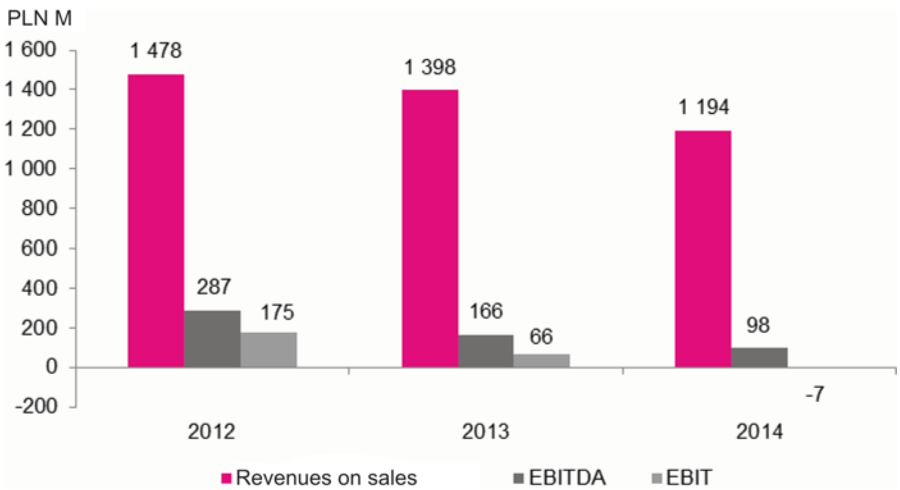
** The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in item 4.7. of this report.*

The operating results, EBIT and EBITDA of the Mining Segment in 2014 reached a lower level than in 2013, which was affected by the following factors:

1) decline in the volume of coal sold by 10.9%, resulting from the growth of coal import from the eastern markets, decline in export and decreased demand of consumers due to the warm winter. The quantitative decline was recorded in all assortments, but it was most significant in case of coarse and medium assortments,
2) lower prices of coal sold, by 4.0% on average, which results from the change in the pricing policy of the largest domestic coal producer, decline of global prices and changes in the sales structure,
3) decreased cost of own coal sold, resulting from lower production costs, mainly in the scope of energy consumption costs, stone storage services and forwarding service,
4) higher other operating revenues, which is the effect of the VAT refund received, related to free coal allowance, obtained subsidies and cancellation of liabilities in the scope of real estate tax,
5) growth in costs associated with actuarial provisions (arising from the change in the discount rate adopted for the actuarial valuation).

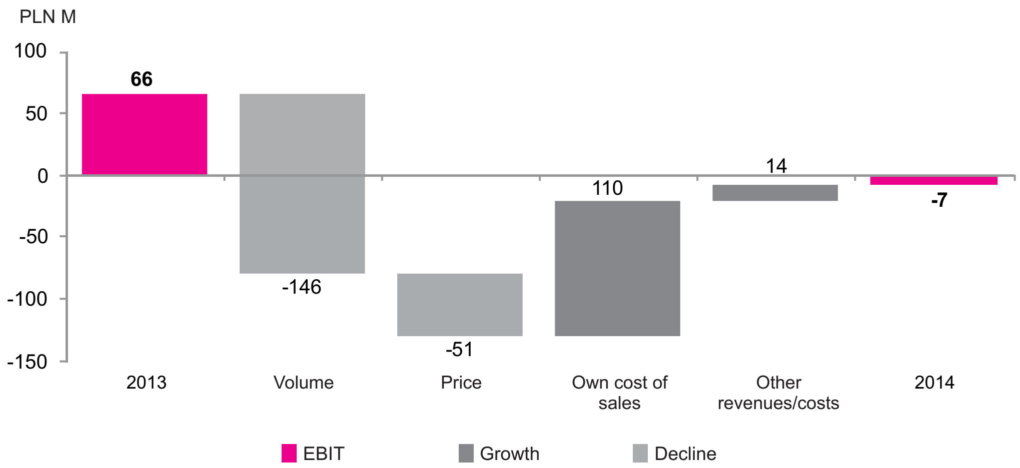
The figure below shows the financial data of the Mining Area for the years 2012–2014.

**Figure no. 24. Financial data of the Mining Area for the years 2012–2014**




The figure below shows the EBIT result of the Mining Area, including the significant factors influencing the YoY change.

**Figure no. 25. EBIT result of Mining Area**




### Strategy and the strategic priorities

TAURON Capital Group is one of the largest hard coal consumers in Poland. The strategic goal of the Mining Area is to secure the availability of this key fuel for TAURON Capital Group using the natural synergies within TAURON Capital Group as well as to maximise the margin mass generated by sales of other products. The strategic priority in the nearest years will involve gradual growth of commercial coal production, strict control of coal mining costs, continuous enhancement of the Mining Area effectiveness and improvement of the quality of the products supplied.

### Major investments

In 2014, in the Mining Area the total capital expenditures incurred reached approximately PLN 189 million, including the following strategic investment projects:

1) PLN 22.5 million for the construction of "Grzegorz" shaft, including the construction of infrastructure and the accompanying headings in Zakład Górniczy Sobieski (ZG Sobieski) (the investment will be continued in the following years),
2) PLN 82.5 million for increasing of the production capacity of TAURON Wydobycie based on the deposits held, through the construction of 800 m level and commissioning of the fourth wall in ZG Janina (the investment will be continued in the following years),

The expenditure in this area is incurred for the preparation and service of extraction activity in two mining plants: ZG Sobieski and ZG Janina (mainly the purchase of machines and equipment, tunnelling of excavations, preparation of longwalls).

### Development perspectives

According to the available forecasts and analyses, the market conditions under which the producers of hard coal shall act, will continue to be difficult and demanding. Nevertheless, coal will still serve as the basic fuel used in the Polish energy sector, including TAURON Capital Group, and due to the aforementioned investments, the percentage share of coal from own coal mines in the structure of purchases of TAURON Capital Group will continue to grow, with the simultaneous increase in efficiency. Within the Corporate Strategy perspective, reaching of coal fuel supply to TAURON Capital Group from own sources at a level of 5.5 million Mg is assumed, which would constitute 50–70% of TAURON Capital Group demand.

## 2.4.2. Generation Area

The table below presents the results of the Generation Area in the years 2012–2014.

**Table no. 10. Results of the Generation Area***

| Specification (PLN thous.) | 2014 | 2013 | 2012 | Dynamics (2014/2013) | Change (2014–2013) |
|---|---|---|---|---|---|
| **Generation** | | | | | |
| **Revenue on sales** | **3,218,162** | **4,574,265** | **5,565,468** | **70.4%** | **(1,356,103)** |
| *electric energy* | *2,815,018* | *4,160,801* | *4,161,753* | *67.7%* | *(1,345,783)* |
| *heat* | *129,616* | *142,067* | *219,768* | *91.2%* | *(12,451)* |

| Specification (PLN thous.) | 2014 | 2013 | 2012 | Dynamics (2014/2013) | Change (2014–2013) |
|---|---|---|---|---|---|
| *property rights arising from certificates of electric energy origin* | *237,284* | *197,798* | *410,178* | *120.0%* | *39,486* |
| *greenhouse gas emission allowances* | *1* | *43,614* | *163,591* | *0.0%* | *(43,613)* |
| *compensation due to LTC termination* | *0* | *(18,886)* | *567,012* | *–* | *18,886* |
| *other revenue* | *36,243* | *48,871* | *43,165* | *74.2%* | *(12,628)* |
| **Operating profit** | **(189,247)** | **(458,954)** | **272,294** | **–** | **269,707** |
| Amortisation and depreciation | 441,085 | 487,806 | 515,028 | 90.4% | (46,721) |
| **EBITDA** | **251,838** | **28,852** | **787,322** | **872.9%** | **222,986** |

** The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in item 4.7. of this report.*

In 2014 revenues on sales in the Generation Segment were lower by approximately 30% as compared to 2013. The decrease in revenues on electric energy sales is the result of both the lower sales volume and the lower electric energy sales price. The decline of revenues due to this title was partly compensated by the revenues from operational power reserve.

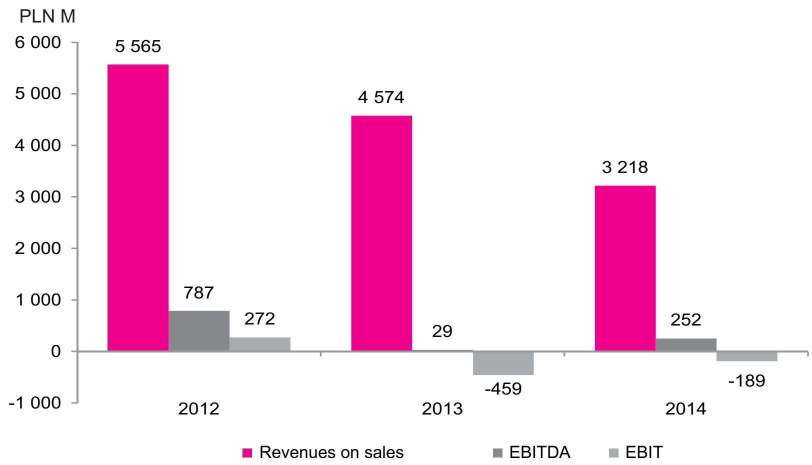
As compared to the previous year, higher revenues were recorded for sales of property rights to certificates of origin of electric energy generated in RES (due to the higher production volume) and in co-generation (in 2013 no support for co-generation was available, in 2014, the support was recovered as of 30 April 2014). Revenues on sales of heat were lower than in 2013, mainly due to high ambient temperatures.

The operating results, EBIT and EBITDA of the Generation Segment in 2014 reached a higher level than in 2013, which was mainly affected by the following factors:

1) impairment losses of tangible fixed assets
   a) as a result of the conducted tests for permanent impairment of value:
      – in 2013 impairment losses of tangible fixed assets for the amount of PLN 275.6 million were applied,
      – in 2014 impairment losses of tangible fixed assets for the amount of PLN 54.9 million were applied (assets included in Stalowa Wola Power Plant),
   b) in Q4 2014 the reversal of impairment losses of Blachownia Power Plant production assets was performed (included as of 10 December 2014 into TAMEH POLSKA), for the amount of PLN 17.4 million,
2) lower average price of electric energy sales (decline by 8.0% YoY),
3) lower sales volume of electric energy from own production (2013: 17.2 TWh; 2014: 13.0 TWh) – the above decline was significantly affected by external factors described in item 2.2.2. of this Report as well as the adopted strategy of electric energy volume contracting,
4) revenues from operational power reserve: – the result of changes in the rules of determining and settlement of receivables for OPR in the market of systemic services, introduced by TSO as of 1 January 2014,
5) lower unit variable cost of electric energy – mainly the effect of lower prices of coal fuel and gas,
6) low margin on electric energy trading – as a result of lower trading volume (2013: 3.8 TWh; 2014: 0.9 TWh) and the significantly lower unit margin,
7) lower costs of provision for covering the deficit of $CO_2$ emission allowances – in 2014 in the calculation of $CO_2$ provision, allowances received free of charge have been included (related to 2013), which results in the surplus of allowances in relation to emission for 2014. At the same time, those allowances were not included in the settlement for 2013, which resulted in high costs of the provision at that time,
8) growth in costs associated with actuarial provisions (arising from the change in the discount rate adopted for the actuarial valuation).

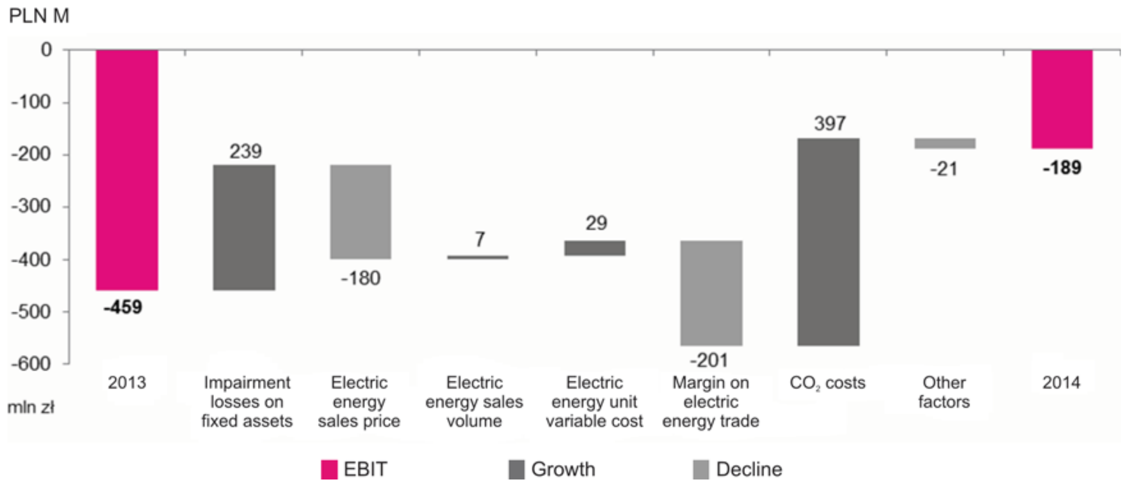
The figure below shows the financial data of the Generation Area for the years 2012–2014.

**Figure no. 26. Financial data of the Generation Area for the years 2012–2014**




The figure below shows the EBIT result of the Generation Area, including the significant factors influencing the YoY change.

**Figure no. 27. EBIT result of the Generation Area**




### Strategy and the strategic priorities

The strategic goal of the Generation Area is the construction of the portfolio of generation assets, optimum in terms of its profitability and risk, and its effective exploitation. The strategic priorities in the forthcoming years will focus on investment in new generation capacity in diversified technologies (coal, gas) and optimisation of operating costs, as well as mitigation of risk arising from the infringement of environmental use conditions.

### Major investments

In 2014, in the Generation Area the total capital expenditures incurred reached PLN 403.5 million, including the following strategic investment projects:

1) PLN 190.9 million for two programmes on construction of flue gas denitrification installations and modernisation of 200 MW blocks in Jaworzno Power Plant and in Łaziska Power Plant,
2) PLN 58.1 million for construction of the coal-fired unit of 910 MW capacity in Jaworzno III Power Plant.

The investment project in Stalowa Wola is also under implementation, with participation of the strategic partner, PGNiG, comprising the construction of the CCGT unit of 449 $MW_e$ capacity, with the heat generation component of 240 $MW_t$ capacity (the completion of this investment is scheduled in 2015). Moreover, works associated with the construction of the CCGT unit of 450 MW capacity in Łagisza Power Plant are in progress.

### Development perspectives

According to the available forecasts and analyses, the macroeconomic and sectoral conditions under which the producers of electric energy will act shall be similar to the current conditions over the next several years. However, certain improvement of the situation may be associated with the difficulties to cover the power demand by the national generation units, expected from 2016. The main reason is the insufficient scope of construction of new generation sources required to cover the domestic demand for power and electric energy, under the conditions of the growing demand following the economic growth and the necessity to abandon the exploitation of old generation units.

The results of the Generation Area are also positively affected by mechanisms introduced by the TSO due to the aforementioned, forecast deficit in power and electric energy. In 2014, the TSO introduced the OPR based on the rule that the operator shall pay owners of generation sources whose operations are unprofitable for abandoning their disconnecting, on account of the security of the whole power system. Another mechanism is the intervention cold power reserve to be introduced by the TSO as of 2016 based on the principle that the TSO shall pay owners of generation sources for maintaining their preparedness to launch the reserve during the expected period of power deficit. One of the conditions to fulfil in order to be eligible to the tender procedure for this reserve is holding of the temporary derogation of sources applying for the reserve against the requirements of the EU Directive on industrial emissions (IED) to enter into force as of 2016, which shall tighten the environmental protection standards.

### 2.4.3. RES Area

The table below presents the results of the RES Area in the years 2012–2014.

**Table no. 11. Results of the RES Area***

| Specification (PLN thous.) | 2014 | 2013 | 2012 | Dynamics (2014/2013) | Change (2014–2013) |
|---|---|---|---|---|---|
| **RES** | | | | | |
| **Revenue on sales** | **280,998** | **204,495** | **206,581** | **137.4%** | **76,503** |
| *electric energy* | *137,437* | *118,330* | *88,730* | *116.1%* | *19,107* |
| *property rights arising from certificates of electric energy origin* | *142,283* | *85,529* | *117,172* | *166.4%* | *56,754* |
| *other revenue* | *1,278* | *636* | *679* | *200.9%* | *642* |
| **Operating profit** | **102,577** | **92,978** | **103,879** | **110.3%** | **9,599** |
| Amortisation and depreciation | 77,589 | 42,585 | 39,571 | 182.2% | 35,004 |
| **EBITDA** | **180,166** | **135,563** | **143,450** | **132.9%** | **44,603** |

** The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in item 4.7. of this report.*

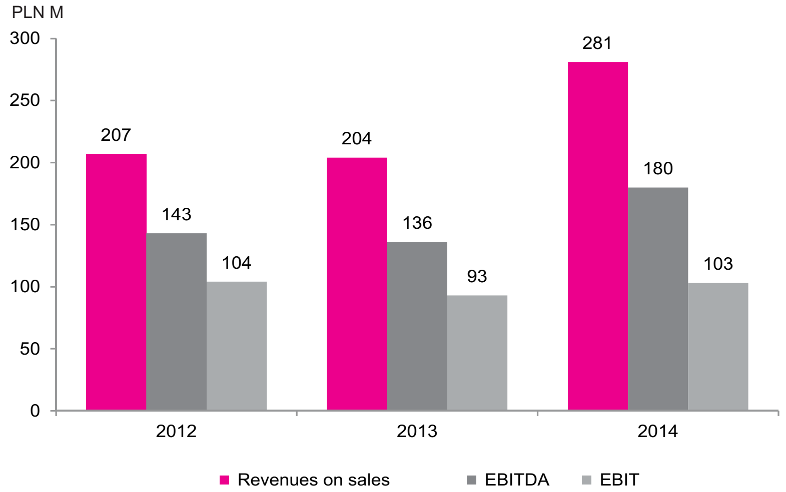
In 2014 revenues on sales in the RES Segment reached a level higher than in 2013, mainly due to the higher sales volume of electric energy and property rights from wind farms (effect of whole year operations of Wicko and Marszewo wind farms) and the higher price of property rights to certificates of origin of electric energy generated from RES. Lower price of electric energy sales had an adverse effect on revenues.

The operating results, EBIT and EBITDA of the RES Segment in 2014 reached a higher level than in 2013, which was mainly affected by the following factors:

1) recognising the full year of exploitation of Wicko and Marszewo wind farms commissioned in Q4 2013 (with the total installed electric capacity of 122 MW), which was reflected in the growth of sales volume of electric energy and property rights from the wind farms,
2) maintaining the sales level of electric energy and property rights from hydroelectric power plants YoY,
3) higher sales prices of green property rights,
4) lower sales prices of electric energy,
5) growth of fixed costs reflecting the full year of operation of Wicko and Marszewo wind farms.

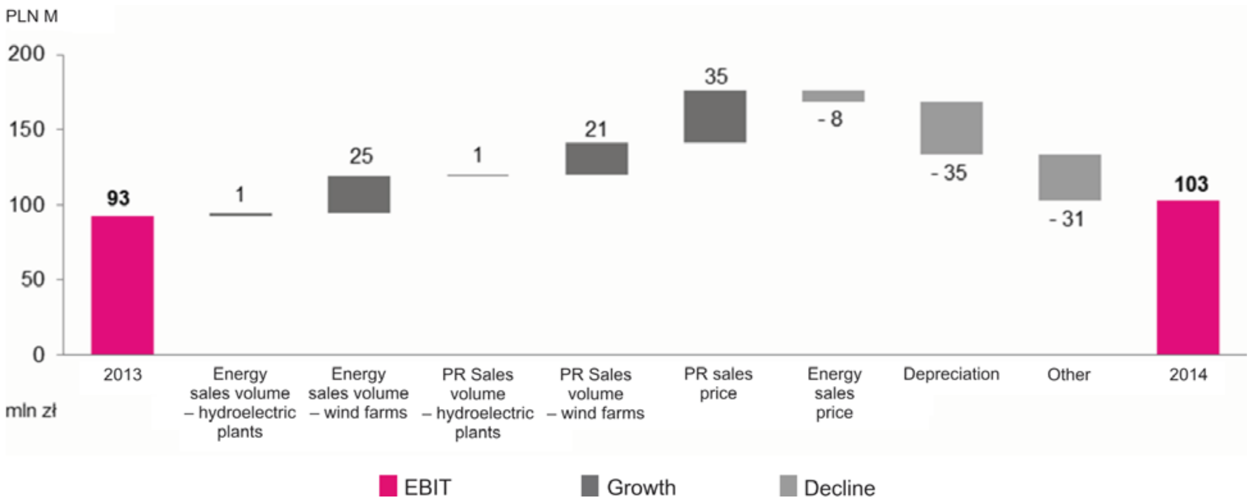
The figure below shows the financial data of the RES Area for the years 2012–2014.

**Figure no. 28. Financial data of the RES Area for the years 2012–2014**




The figure below shows the EBIT result of the RES Area, including the significant factors influencing the YoY change.

**Figure no. 29. EBIT result of the RES Area**




### Strategy and the strategic priorities

The strategic goal of the RES Area is to increase revenues of TAURON Capital Group from production of energy from renewable sources. This goal shall be achieved through investment in new renewable sources in the most effective technologies and improvement of effectiveness in the use of existing resources.

The activities of the RES Area of TAURON Capital Group are coherent with the assumptions of the energy policy of the EU and the country, namely, the intensification of measures aimed at increasing the renewable energy share in the total production of electric energy. In the perspective of the Corporate Strategy, TAURON Capital Group should hold RES sources at a level of 800 MW (including biomass), which shall constitute 15% of the generation assets portfolio of TAURON Capital Group. Currently, TAURON Capital Group is the owner of hydroelectric power plants and wind farms with the total capacity installed reaching 323 MW. The consistent policy of improvement of the operating effectiveness is also implemented.

### Major investments

In 2014, in the RES Area, the total capital expenditure incurred amounted to approximately PLN 116 million, including PLN 20.6 million for the construction of the Marszewo Wind Farm – stage II, with the capacity of 18 MW (the implementation is scheduled in 2015).

Moreover, in 2014 expenditure of approximately PLN 84.3 million was incurred for modernisation of hydroelectric power plants, including improvements representing the strategic investment projects: Otmuchów Hydroelectric Power Plant – PLN 17.3 million (the project was completed in 2014), Pilchowice I Hydroelectric Power Plant – PLN 21.1 million (completion scheduled in 2016), Bobrowice I Hydroelectric Power Plant – PLN 10.3 million (completion schedules in 2015).

**Development perspectives**

The most significant factors influencing the development perspectives of the area include the regulations of the sector, mainly the provisions related to the support of the so-called clean energy, and the requirements associated with the EU climate policy.

TAURON monitors the market environment and analyses its impact on its own operations. In February 2015 the Parliament adopted the *Act on renewable energy sources*, introducing new rules concerning the support to energy generated in renewable sources. One of the basic amendments to the applicable regulations is the change of the system for the certificates of origin of energy into the auction system. In return for winning of an auction, the support for 15 years shall be guaranteed. The entry into force of the new Act is the risk factor which shall accelerate the implementation of the launched investment projects and result in their completion by the end of 2015. Assessment of the first effects of the new Act will be possible following the analysis of first auction results.

### 2.4.4. Heat Area

The table below presents the results of the Heat Area in the years 2012–2014.

**Table no. 12. Results of the Heat Area**

| Specification (PLN thous.) | 2014 | 2013 | 2012 | Dynamics (2014/2013) | Change (2014–2013) |
|---|---|---|---|---|---|
| **Heat** | | | | | |
| **Revenue on sales** | **1,355,454** | **1,337,722** | **1,136,408** | **101.3%** | **17,732** |
| *electric energy* | *312,055* | *342,310* | *250,881* | *91.2%* | *(30,255)* |
| *heat (including transmission)* | *722,057* | *745,803* | *629,691* | *96.8%* | *(23,746)* |
| *property rights arising from certificates of electric energy origin* | *58,008* | *3,194* | *20,925* | *1816.2%* | *54,814* |
| *wind of blast furnace* | *159,422* | *147,565* | *146,327* | *108.0%* | *11,857* |
| *compressed air* | *71,079* | *70,272* | *75,155* | *101.1%* | *807* |
| *other revenue* | *32,833* | *28,578* | *13,430* | *114.9%* | *4,255* |
| **Operating profit** | **158,763** | **110,909** | **169,800** | **143.1%** | **47,854** |
| Amortisation and depreciation | 149,644 | 124,544 | 93,252 | 120.2% | 25,100 |
| **EBITDA** | **308,407** | **235,453** | **263,052** | **131.0%** | **72,954** |

** The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in item 4.7. of this report.*

Revenue on sales of the Heat Segment in 2014 reached a level similar to that achieved in the previous year. The decline was related to the revenue on sales of heat and transmission services of electric energy and heat, whereas the revenues on sales of property rights arising from certificates of electric energy origin and sales of wind of blast furnace and compressed air, were higher.

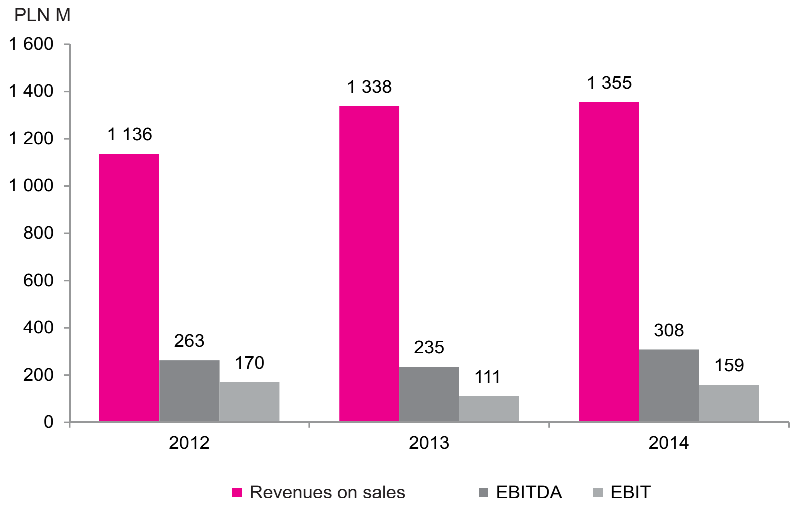
The operating results, EBIT and EBITDA in 2014 reached a higher level than in 2013, which was mainly affected by the following factors:

1) recognising the write down on the value of "red" and "yellow" certificates in the first half of 2013 – in connection with the unavailability of the support system for co-generation after 31 March 2013 as well as due to the uncertainty related to the introduction of the planned legal solutions in this area, the write down on the value of the held stocks of "red" and "yellow" certificates was applied, to the zero value (a one-off event),
2) recognising the surplus in the value of the acquired shares in the joint project of TAMEH POLSKA over the value of the assets contributed in the form of an organised part of Elektrownia Blachownia and ZW Nowa enterprises (in other operating revenues; a one-off event),
3) lower volume of heat sales and distribution arising from the reduced heat demand, caused by higher average ambient temperatures in the heating season of 2014 (+6.5°C) in relation to 2013 (+4.3°C),
4) higher sales volume of electric energy from own production (2013: 1.54 TWh; 2014: 1.66 TWh),
5) lower average price of electric energy sales (decline by 8.5% YoY),
6) higher heat sales prices (increase by 6.5% YoY),

7) higher margin on certificates – higher volume of production from biomass (both co-inceneration and dedicated installations); in addition, in 2014 revenues on “red” and “yellow” property rights occurred (in 2013 co-generation was not supported),
8) higher depreciation costs – due to all-year depreciation costs of BC-50 unit in Bielsko-Biała, commissioned in Q4 2013.

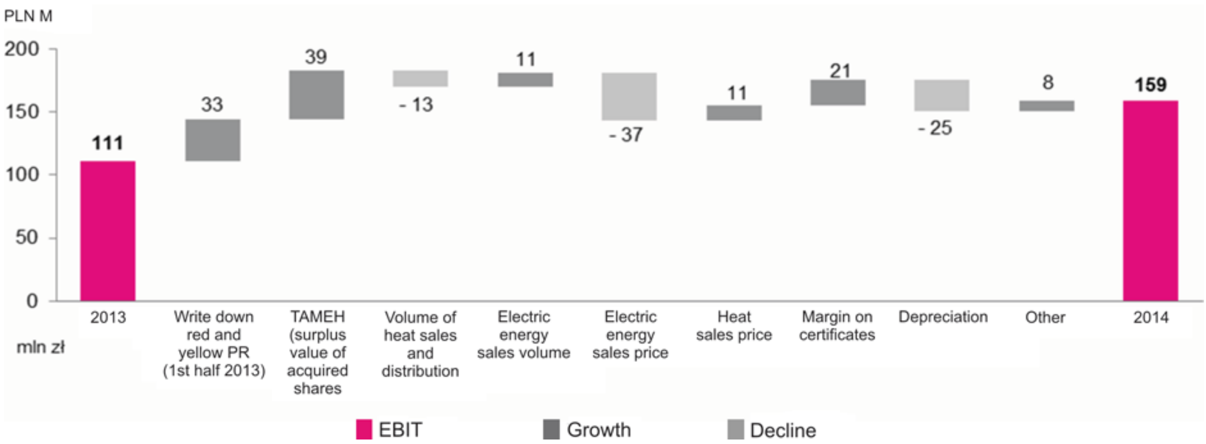
The figure below shows the financial data of the Heat Area for the years 2012–2014.

**Figure no. 30. Financial data of the Heat Area for the years 2012–2014**




The figure below shows the EBIT result of the Heat Area, including the significant factors influencing the YoY change.

**Figure no. 31. EBIT result of the Heat Area**




### Strategy and the strategic priorities

TAURON Capital Group is the leader on the local heat market. The strategic goal of the segment is to generate stable revenues of TAURON Capital Group due to production of electric energy and heat in co-generation as well as heat distribution and sales, based on the cost effective approach. The strategic priorities in the nearest years shall include growth of production in co-generation, improvement of operational effectiveness through cost optimisation as well as growth of systemic heat sales to the newly developed facilities, so far heated by alternative heat source.

### Major investments

In 2014, in the Heat Area the total capital expenditures incurred reached approximately PLN 335.6 million, including the following strategic investment projects:

1) PLN 128.4 million for the construction of the BC-50 block in ZW Tychy (scheduled delivery of the project in 2016),
2) PLN 21.7 million for the construction of peak load boilers in ZW Katowice (scheduled delivery of the project in 2016).

Moreover, in 2014 expenditure of approximately PLN 84.2 million was incurred for the maintenance and development of heat networks. The value of expenditure at ZW Nowa is also included in the expenditures of the Heat Area.

**Development perspectives**

The distribution activity in the scope of heat is fully regulated, which affects the stability of the situation in this area. In the EU, production of electric energy in co-generation is perceived as one of the most effective methods for $CO_2$ emission reduction, which provides good perspectives for this activity for the future. In 2014 support for co-generation until 2018 was recovered in Poland. Within the strategic perspective, the Heat Area shall maintain the portfolio of investments in heat sources and heating networks ensuring covering of the demand for systemic heat.

### 2.4.5. Distribution Area

The table below presents the results of the Distribution Area in the years 2012–2014.

**Table no. 13. Results of the Distribution Area***

| Specification (PLN thous.) | 2014 | 2013 | 2012 | Dynamics (2014/2013) | Change (2014–2013) |
|---|---|---|---|---|---|
| **Distribution** | | | | | |
| **Revenue on sales** | **6,074,646** | **5,997,470** | **6,077,498** | **101.3%** | **77,176** |
| *distribution services* | *5,656,807* | *5,531,970* | *5,583,720* | *102.3%* | *124,837* |
| *connection fees* | *121,044* | *160,269* | *182,632* | *75.5%* | *(39,225)* |
| *maintenance of street lightning* | *111,634* | *105,952* | *100,090* | *105.4%* | *5,682* |
| *other revenue* | *185,161* | *199,279* | *211,056* | *92.9%* | *(14,118)* |
| **Operating profit** | **1,209,344** | **1,295,639** | **1,077,388** | **93.3%** | **(86,295)** |
| Amortisation and depreciation | 947,792 | 912,742 | 878,508 | 103.8% | 35,050 |
| **EBITDA** | **2,157,136** | **2,208,381** | **1,955,896** | **97.7%** | **(51,245)** |

** The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in item 4.7. of this report.*

In 2014, as compared to 2013, the Distribution Segment achieved growth in revenues by about 1.3%, decline of results at the EBIT and EBITDA level by 6.7% and 2.3%, respectively.

The total revenues gained in 2014 were higher as compared to 2013, due to:

1) growth of consumption in case of consumers from A and B tariff groups, determined by the growth in output sold,
2) decline in electric energy intake by end consumers connected to the low voltage grid,
3) growth of sales price of the distribution service – the application of the tariff adopted for 2014 had an impact on the growth of the average YoY rate for distribution services provided to end consumers by 1.6%, taking into account the structure of sales to individual consumers and the structure of variable and fixed rates (the main factor determining the growth of tariff is the transferred growth of the transitional and qualitative TSO fee),
4) decrease of connecting fees – as a result of application, in particular, in the second half of 2014, of lower rates of fees for clients connected to the LV grid, agreed with the ERO for 2014 and as a result of postponing the delivery of the investment projects associated with connecting clients to the MV grid.

Higher costs of operating activities also affected the change in the operating result of the Distribution Segment, in relation to 2013. The main reasons of changes include:

1) much higher rate of the transitional and qualitative TSO fee (this growth has been taken into account in the tariff for 2014; considering the level of transfer of the TSO rates in the tariff, the net effect is favourable for TAURON Dystrybucja),
2) higher purchase volume of transmission services due to the decline of generation in case of generators connected to the distribution grid,
3) lower level of balance difference and lower indicator of the balance difference, as a consequence of the decline in sales to consumers in low voltage grid, strongly exposed to grid losses, and the increase in sales to consumers from high voltage grid, less burdened with grid losses (in Q1 and Q3 2014 the indicator was lower than in the corresponding period of 2013, only in Q4 2014 the indicator reached the level slightly higher than in Q4 2013, in cumulative terms, the deviation of the indicator amounts to 6%); the decline in the volume of losses also arises from the continuous technical activities in the grid,

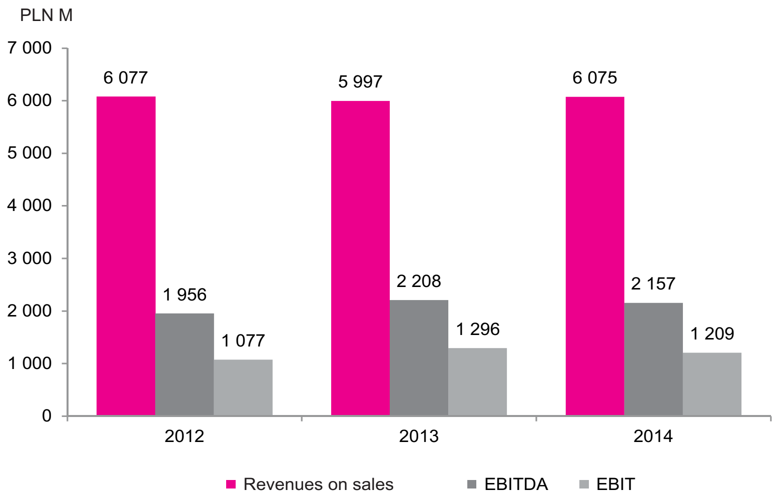
4) significantly lower price of balancing energy losses, being the resultant of prices of energy purchase and resale in TAURON Capital Group.

In the scope of fixed costs, growth was recorded in relation to 2013. The following factors affected their level:

1) reduction of remuneration costs in their part resulting from employment redundancy (in particular, under the *Voluntary Redundancy Programme*),
2) higher costs of actuarial provision (mainly in connection with the change in the discount rate),
3) growth of the scope of services provided by companies of TAURON Capital Group (among others, in the area of customer service),
4) growth of depreciation costs and tax on grid assets as a result of the implemented investment projects.

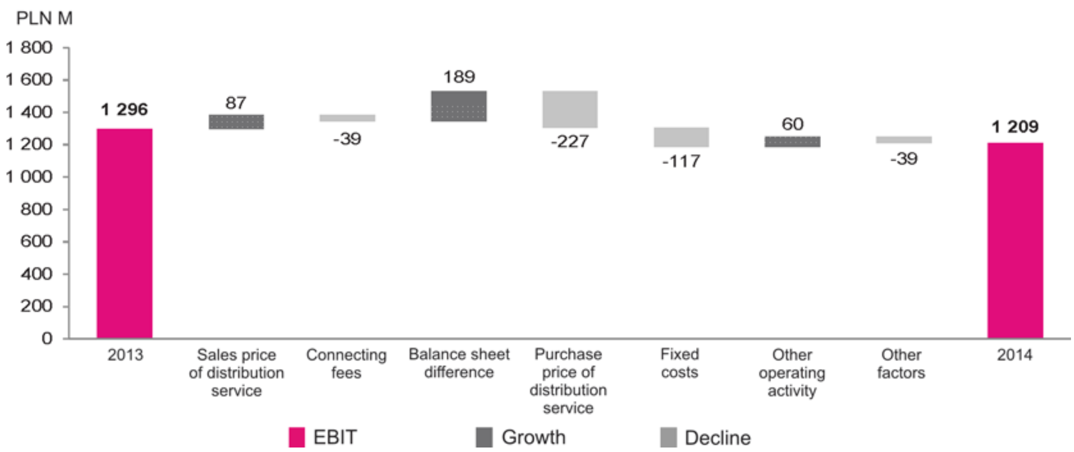
The figure below presents the financial data of the Distribution Area for the years 2012–2014.

**Figure no. 32. Financial data of the Distribution Area for the years 2012–2014**




The figure below shows the EBIT result of the Distribution Area, including the significant factors influencing the YoY change.

**Figure no. 33. EBIT result of the Distribution Area**




**Strategy and the strategic priorities**

The main goal of the Distribution Area is to generate stable revenue with simultaneous cost optimisation and improvement in the quality of the services provided. Management of operating costs level and investment effectiveness are the key areas of generating the financial result of distribution system operators.

As a result of cost optimisation, the Distribution Area implements the effectiveness improvement programme, which mainly focuses on employment reduction and elimination of duplicating functions, optimisation of external services and consumption of materials, as well as optimisation of the balance sheet difference through mitigation of the technical and commercial losses.

The Distribution Area aims at improvement in the quality of the services provided through the increase in the security of supplies and the effectiveness of the network performance. In order to achieve its goals, the Distribution Area shall mainly implement investment in modernisation and replacement of the existing assets as well as connecting new consumers and new sources.

**Major investments**

In 2014, in the Distribution Area the total capital expenditures incurred reached PLN 1,934.8 million. The main directions of investment included:

1) PLN 512.1 million for investment associated with connecting of new consumers,
2) PLN 1,151.3 million for investments associated with the modernisation and replacement of the grid.

Moreover, in 2014 the expenditure of approximately PLN 18.3 million was incurred for the implementation of the strategic investment project on *Management System of Grid Assets* (the project will be continued in the following years).

**Development perspectives**

The economic development in the region and the technological progress in the scope of telemechanics, automatic power system protection, communications and information technology, open new opportunities for the management of electric energy distribution. The latest technical achievements enable instant response to changes in the distribution system in order to ensure the highest standards for the provision of distribution services. Factors essential for the continued development of the energy sector shall include *smart grid* and/or *smart metering*. Such solutions shall introduce additional functionalities, both on the side of suppliers and clients, definitely influencing the development of the sector. The quality of the distribution services provided in Poland, including the number and time of interruptions in supplies, significantly deviates against the European Union standards. In order to achieve the improvement of the quality, significant investment expenditure is required. The direction and pace of changes in the area of electric energy distribution shall depend on the system of regulations and tariff calculation.

### 2.4.6. Sales Area

The table below presents the results of the Sales Area in the years 2012–2014.

**Table no. 14. Results of the Sales Area***

| Specification (PLN thous.) | 2014 | 2013 | 2012 | Dynamics (2014/2013) | Change (2014–2013) |
|---|---|---|---|---|---|
| **Sales** | | | | | |
| **Revenue on sales** | **15,277,451** | **18,017,593** | **18,529,846** | **84.8%** | **(2,740,142)** |
| *electric energy, including:* | *9,708,534* | *11,702,924* | *12,516,460* | *83.0%* | *(1,994,390)* |
| *revenue on retail sales of electric energy* | *8,313,924* | *10,128,338* | *11,503,784* | *82.1%* | *(1,814,414)* |
| *greenhouse gas emission allowances* | *183,451* | *367,103* | *376,240* | *50.0%* | *(183,652)* |
| *fuels* | *1,935135* | *2,337,073* | *1,727,565* | *82.8%* | *(401,938)* |
| *distribution service (transferred)* | *3,332,151* | *3,495,185* | *3,804,158* | *95.3%* | *(163,034)* |
| *other services, including commercial services* | *118,180* | *115,308* | *105,423* | *102.5%* | *2,872* |
| **Operating profit** | **582,307** | **864,579** | **452,113** | **67.4%** | **(282,272)** |
| Amortisation and depreciation | 25,906 | 34,629 | 26,229 | 74.8% | (8,723) |
| **EBITDA** | **608,213** | **899,208** | **478,342** | **67.6%** | **(290,995)** |

** The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in item 4.7. of this report.*

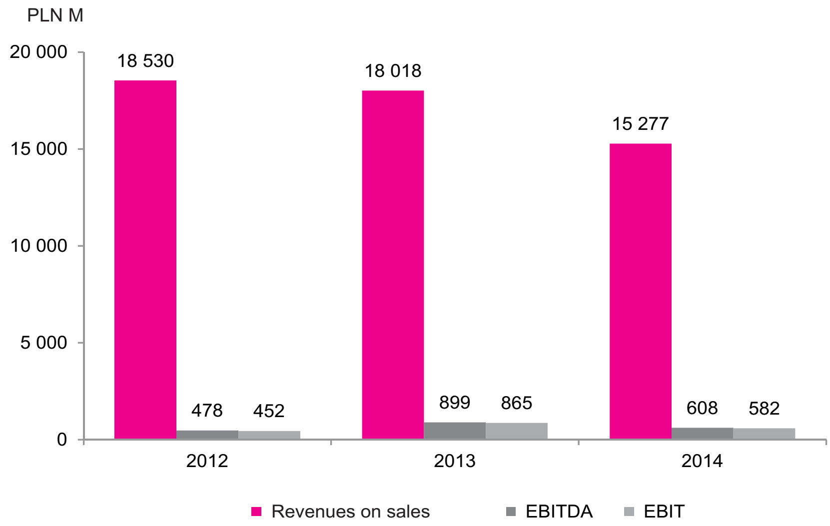
Revenues on sales in 2014 reached the level lower by 15.2% as compared to 2013. Events that occurred during 2013, associated with the contracting in the SPOT market, hedging of property rights, volatility of consumer demand volumes, settlements of the balancing market, caused that in 2013 it was possible to obtain much higher margins than in 2014. At the same time, in 2013 favourable changes of market prices occurred, influencing the high level of results in each portfolio. Moreover, in 2013 one-off events took place which were not recorded in 2014 at a comparable scale; it refers both to transactions on property rights and the accelerated contracting of rights to $CO_2$ emission.

The operating results, EBIT and EBITDA in 2014 reached a lower level than in the previous year, which was mainly affected by the following factors:

1) lower sales prices of electric energy (by 12.1% on average), as well as the lower sales volume (by 2.7 TWh); the lower level of sales price of electric energy in 2014 arises from the reduction of prices for individual clients, approved by the ERO President in the tariff, reduction of sales prices in connection with the loyalty actions; the purchase cost of conventional energy in the wholesale market was also lower, both for forward and SPOT transactions,
2) the reduction of retail sales volume was observed, in particular, in the mass segment, in G and C1x tariff groups as well as in business segment. The lower sales to strategic clients was affected by the decline in electric energy demand as well as the intensified activity of competitive companies,
3) a one-off event in 2013 (related to property rights trading) resulting in the increase of the result by approximately PLN 78 million,
4) growth in costs of the property rights redemption obligation for PMOZE and PMMET in 2014 and the recovery of the redemption obligation of property rights from co-generation (both coal- and gas-fired),
5) lower level of revenues on fuel sales, resulting from lower fuel prices and the decline in the demand for electric energy, in particular, energy produced in generation sources using hard coal, which was reflected in the reduced demand for steam coal,
6) lower level of revenues on sales of greenhouse gases emission allowances as a result of the accelerated contracting of $CO_2$ emission rights in 2013.

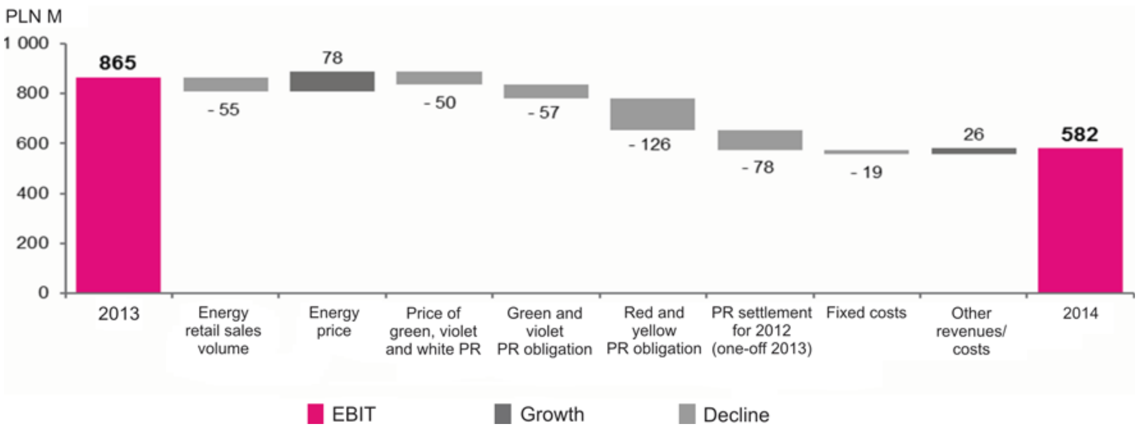
The figure below shows the financial data of the Sales Area for the years 2012–2014.

**Figure no. 34. Financial data of the RES Area for the years 2012–2014**




The figure below shows the EBIT result of the Sales Area, including the significant factors influencing the YoY change.

**Figure no. 35. EBIT result of the Sales Area**



**Strategy and the strategic priorities**

The strategic priority of the Sales Area is to maximise the 1st stage margin from electric energy sales, with the simultaneous optimisation of the level of own costs. The key tasks of the Sales Area include: maintaining of the most profitable clients, creating channels for acquisition of new clients, as well as building of the effective sales organisation.

The basic and direct tool of the sales company to be used for margin generation is the relevant development of final prices, excluding sales prices in G tariff (i.e. in the household segment) for which the approval of prices by the ERO President is still obligatory. The Company shapes retail prices on the basis of costs associated with energy sales and considering the risk associated with the resignation of clients and lack of possibility to acquire new ones. The Sales Area optimises the results of its activities through maximising the mass of margin on electric energy sales and other services, with the simultaneous management of the procurement portfolio and costs of the Area.

**Major investments**

In 2014, in the Sales Area the total capital expenditures incurred reached PLN 5.9 million, mainly for the purchase of licences and software, and vehicles.

**Development perspectives**

In the area of sales competition of entities selling electric energy is increasing, leading to margin erosion. The additional factor that may influence the reduction of margins is the situation in the wholesale energy market. The wholesale energy market demonstrates significant volatility in prices, which makes both a threat and an opportunity for conducting sales activities. The threat is associated with the limited possibility to implement the rise in prices for end clients in case of the growth in wholesale energy prices. In addition, the volume is limited, which may not be covered by the change in price due to the contracts concluded with clients for a definite time, at a fixed price determined in advance. On the other hand, the appropriate management of sales prices, in case of decline in wholesale prices, in particular, in the segment of mass clients, enables to obtain the additional margin.

The marked impact on the operating activities of energy enterprises is associated with the continuing liberalisation of the Polish energy market. The target is to liberalise prices in G tariff. The derogation from the obligation to submit the tariffs for approval will liberate the competitive activities in the household segment, which offers a considerable potential for implementation of the margin mass.

Besides the competition stimulated by the regulatory authorities, the competition between energy holdings is also developing in the product and marketing area. In 2014 TAURON Capital Group gained the opportunity of parallel offering of electric energy and natural gas products to its business Clients. Activities aimed at launching projects consisting in combining electric energy sales offers with other suppliers of utilities are under implementation.

### 2.4.7. Customer Service Area

The table below presents the results of the Customer Service Area in the years 2012–2014.

**Table no. 15. Results of the Customer Service Area***

| Specification (PLN thous.) | 2014 | 2013 | 2012 | Dynamics (2014/2013) | Change (2014–2013) |
|---|---|---|---|---|---|
| **Customer Service** | | | | | |
| **Revenues on sales** | **610,021** | **492,583** | **338,644** | **123.8%** | **117,438** |
| *customer service, accounting and IT* | *604,118* | *486,247* | *337,312* | *124.2%* | *117,871* |
| *other revenue* | *5,903* | *6,336* | *1,332* | *93.2%* | *(433)* |
| **Operating profit** | **41,120** | **26,837** | **12,008** | **153.2%** | **14,283** |
| Amortisation and depreciation | 43,045 | 18,446 | 13,123 | 233.4% | 24,599 |
| **EBITDA** | **84,165** | **45,283** | **25,131** | **185.9%** | **38,882** |

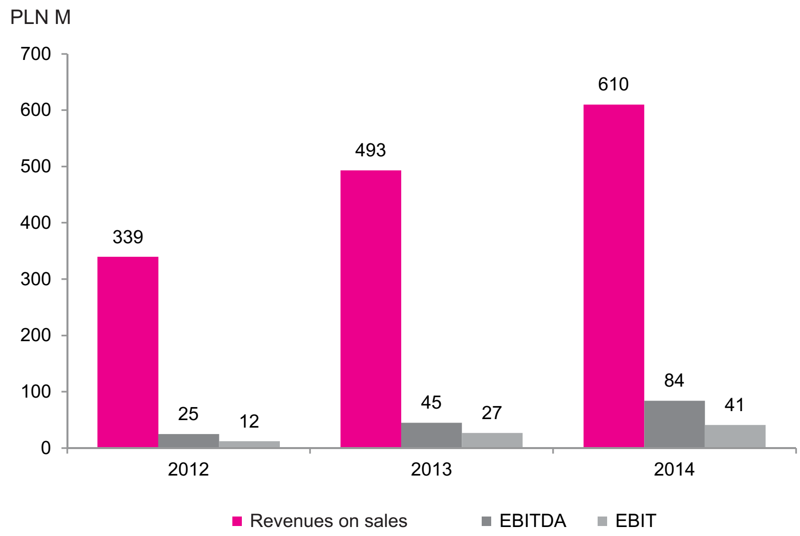
** The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in item 4.7. of this report.*

In 2014 the process of migration of customer service, accounting and IT functions from companies of TAURON Capital Group to the Customer Service Segment was continued, including assets used in the companies for the fulfilment of these functions, which has contributed to the growth of revenues of the Area. This process started in 2012; in 2013 migration of IT functions and accounting functions from selected companies of TAURON Capital Group took place, continued in the current reporting year.

The extension of the spectrum of the services provided is associated with the growth in costs of the activities conducted, mainly in the scope of external services and labour costs. The increase in the scope of the services rendered is reflected in the growth of the Customer Service Area results. The value of the assets taken over and the investments carried out both in relation to fixed assets and intangible assets (mainly as a result of implementation of modern IT systems) have an impact on the YoY growth of depreciation value and the value of tangible fixed assets.

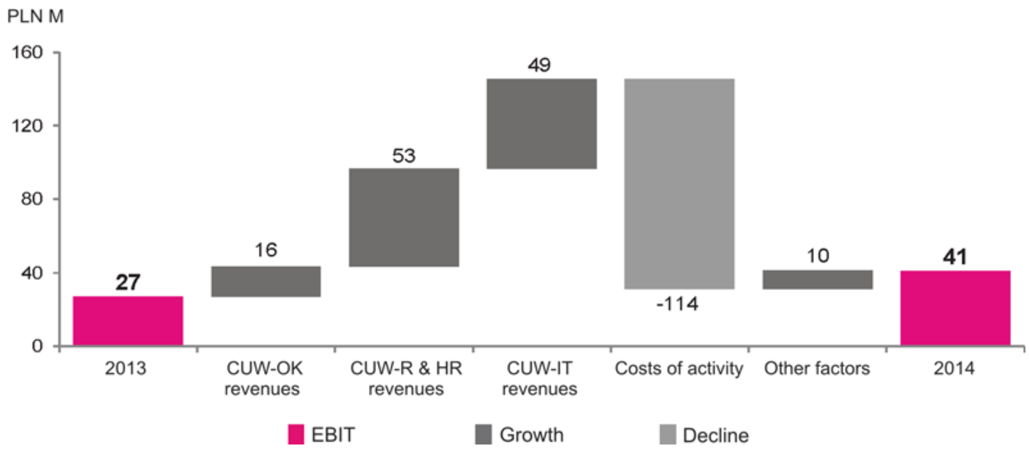
The figure below shows the financial data of the Customer Service Area for the years 2012–2014.

**Figure no. 36. Financial data of the Customer Service Area for the years 2012–2014**




The figure below shows the EBIT result of the Customer Service Area, including the significant factors influencing the YoY change.

**Figure no. 37. EBIT result of the Customer Service Area**




**Strategy and the strategic priorities**

The main goal of the Customer Service Area is to provide services to the Sales and Distribution Areas in the scope of contacts and settlements with clients, at a high qualitative level and cost effective as well as to provide the support function to Business Areas of TAURON Capital Group. The Area harmonises and centralises customer service processes, leading to cost optimisation and quality improvement, providing tools and services enabling business growth in the Sales Area. The Area is responsible for the effective centralisation of support functions in the scope of accounting and IT, which shall contribute to the growth in cost effectiveness of the whole TAURON Capital Group and management quality improvement.

**Major investments**

In 2014, in the Customer Service Area the total capital expenditures incurred reached PLN 96.3 million. They include mainly the expenditures on IT systems.

**Development perspectives**

The growing competition in the energy market requires undertaking of measures influencing further improvement of cost effectiveness and the quality of the services provided. The Customer Service Area, through the professional and efficient client service and adjustment of the IT tools to business needs, shall significantly influence the development of the Sales Area. The current market trends explicitly indicate transfer of customer service to alternative channels. The development of online service, the growth in use of Internet and mobile technologies systematically increases, which enforces continuous adjustment of service quality to clients' expectations and requirements. The Customer Service Area continues and finalises the centralisation of common functions in a single entity, consequently improving the efficiency of performance and cost effectiveness of TAURON Capital Group.

### 2.4.8. Other Area

The table below presents the results of the Other Area in the years 2012–2014.

**Table no. 16. Results of the Other Area***

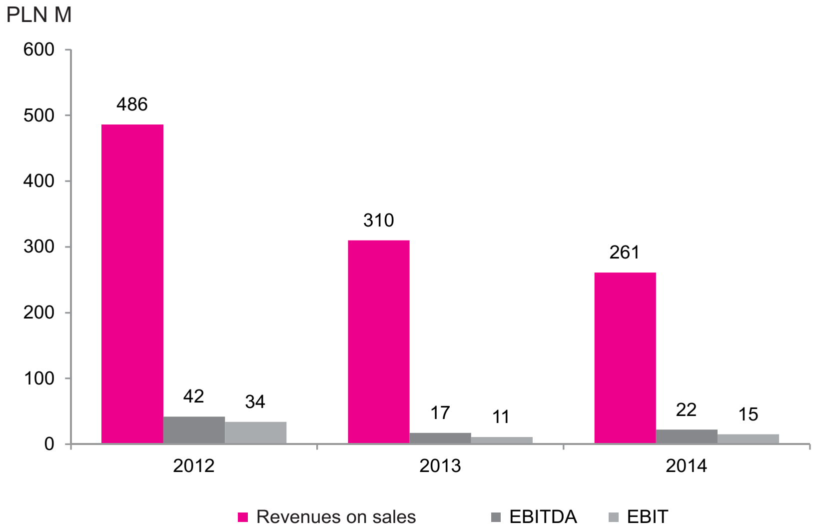
| Specification (PLN thous.) | 2014 | 2013 | 2012 | Dynamics (2014/2013) | Change (2014–2013) |
|---|---|---|---|---|---|
| **Other** | | | | | |
| **Revenue on sales** | **261,063** | **310,212** | **486,288** | **84.2%** | **(49,149)** |
| *electric energy* | *67,395* | *131,563* | *311,774* | *51.2%* | *(64,168)* |
| *property rights arising from certificates of electric energy origin* | *101,197* | *86,436* | *72,594* | *117.1%* | *14,761* |
| *grinding plant products* | *54,929* | *56,834* | *64,254* | *96.6%* | *(1,905)* |
| *grit and stone* | *35,403* | *33,739* | *34,893* | *104.9%* | *1,664* |
| *other revenue* | *2,139* | *1,640* | *2,773* | *130.4%* | *499* |
| **Operating profit** | **15,473** | **10,816** | **34,048** | **143.1%** | **4,657** |
| Amortisation and depreciation | 6,685 | 6,669 | 8,299 | 100.2% | 16 |
| **EBITDA** | **22,158** | **17,485** | **42,347** | **126.7%** | **4,673** |

** The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in item 4.7. of this report.*

The revenues of the Other Area gained in 2014 reached 84.2% of the value of revenues gained in the previous year, which was affected by sales of a lower volume of energy and sorbents, with the simultaneous decline in the average sales prices in almost each product offered in the market by companies of the segment. Gaining better YoY results by the Other Area results from achievement of better margins on the sales of products than in 2013 as well as from savings in costs of materials and energy consumption.

The figure below shows the financial data of the Other Area for the years 2012–2014.

**Figure no. 38 Financial data of the Other Area for the years 2012–2014**



**Major investments**

In the Other Area the level of capital expenditures incurred in 2014 reached 8.6 million. The investments were mainly implemented by KW Czatkowice with the purpose of optimisation of costs incurred by this company.

**Development perspectives**

The growing competition on the aggregate market requires undertaking of actions which shall affect further effectiveness improvement. At the same time, the company of the Other Area – KW Czatkowice, conducts the ongoing monitoring of the situation in the markets, searches for new applications for the products currently manufactured, optimises the methods of use of the acquired raw materials, conducts projects with the use of preferential measures aimed at raising the competitiveness of the plant.

## 2.5. Basic products, goods and services

The table below presents volumes of production and sales in TAURON Capital Group for the years 2014–2012.

**Table no. 17. Volumes of production and sales for the years 2014–2012**

| No. | Volumes of production and sales | unit | 2014 | 2013 | 2012 | Dynamics (2014/2013) |
|---|---|---|---|---|---|---|
| 1. | Commercial coal production | *M Mg* | **5.40** | 5.45 | 5.57 | 99.1% |
| 2. | Generation of electric energy (net production of TAURON Capital Group), including: | *TWh* | **15.37** | 19.39 | 19.11 | 79.3% |
| | *Net production of Generation Area* | *TWh* | ***12.96*** | *17.24* | *17.60* | *75.2%* |
| | *Net production of RES Area* | *TWh* | ***0.75*** | *0.61* | *0.45* | *123.0%* |
| | *Net production of Heat Area* | *TWh* | ***1.66*** | *1.54* | *1.06* | *107.8%* |
| 3. | Generation of electric energy from renewable sources of TAURON Capital Group, including: | *TWh* | **1.79** | 1.38 | 1.21 | 129.7% |
| | *Production from biomass of Generation and Heat Area* | *TWh* | ***1.04*** | *0.77* | *0.76* | *135.1%* |
| | *Production of hydroelectric power plants and wind farms of RES Area* | *TWh* | ***0.75*** | *0.61* | *0.45* | *123.0%* |
| 4. | Heat generation by TAURON Capital Group, including: | *PJ* | **13.41** | 15.62 | 16.36 | 85.9% |
| | *Heat production by Generation Area* | *PJ* | ***4.36*** | *5.17* | *7.98* | *84.3%* |
| | *Heat production by Heat Area* | *PJ* | ***9.06*** | *10.45* | *8.38* | *86.7%* |
| 5. | Distribution of electric energy | *TWh* | **47.90** | 47.90 | 47.85 | 100.0% |
| 6. | Retail sales of electric energy (in total, by Areas: Sales, Generation and Heat) | *TWh* | **38.59** | 41.30 | 44.74 | 93.4% |
| 7. | Number of clients – Distribution | *thous.* | **5,378** | 5,334 | 5,302 | 100.8% |

## 2.6. Sales markets and sources of supply

### 2.6.1. Sales markets

**Mining Area**

The TAURON Wydobycie company acting within the Mining Area is a producer of coal offered for sale on the market in coarse, medium coal assortments and as steam coal dust. Depending on the coal assortment, the coal has the following trade parameters:

1) calorific value from 19 MJ/kg to 23 MJ/kg,
2) ash content from 9% to 16%,
3) sulphur content from 1% to 1.4%.

TAURON Wydobycie conducts the sales of coal in two directions:

1) sales of fine coal and coal sludge to power plants and co-generation plants,
2) sales of thick, medium and small amount of fine coal sizes through the organized sales network all over the country.

Sales of coal from TAURON Wydobycie is mainly provided in the region of southern and central Poland, in particular, the following provinces: Śląskie, Małopolskie, Podkarpackie, Świętokrzyskie and Dolnośląskie.

In 2014, sales of hard coal by TAURON Wydobycie amounted to approximately 4.9 million Mg, including 3.5 million Mg (about 72%) to the companies of Generation and Heat Segments of TAURON Capital Group. As compared to 2013, it means the decline by approximately 10.9%; the highest decline was recorded in the scope of coarse and medium assortments sold outside TAURON Capital Group.

The lower level of sales results mainly from the market situation of the mining industry, increased import of coal, mainly from the eastern markets, lower production of electric energy from hard coal (in favour of lignite) and increased electric energy production from RES, accompanied by the simultaneous decline in energy demand among consumers. Production of commercial coal in 2014 amounted to approximately 5.40 million Mg and it was lower by ab. 1% in relation to 2013.

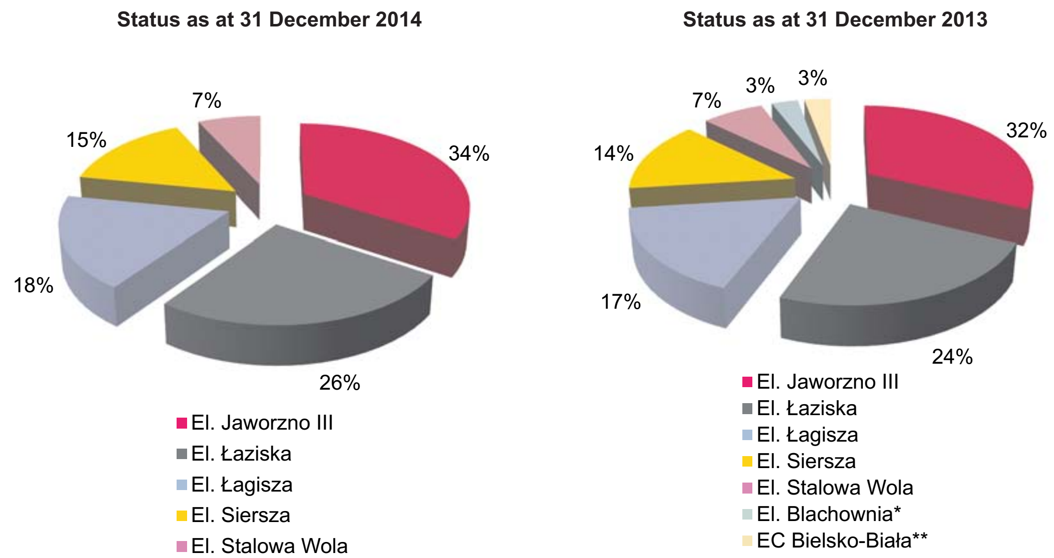
**Generation Area**

The basic activity of the Generation Area within TAURON Capital Group comprises the generation of electric energy and heat, in 2014 provided by 6 conventional power plants: Jaworzno III, Łaziska, Łagisza, Siersza, Blachownia and Stalowa Wola. As of 10 December 2014, Blachownia Power Plant was incorporated into TAMEH POLSKA.

The total installed electric capacity of the generation units of the Generation Area reached 4,506 $MW_e$ at the end of 2014. The main fuels used in the production process include hard coal, biomass as well as coke-oven gas and high-methane gas.

The figure below presents the structure of installed electric capacity of the Generation Segment according to the status on 31 December 2014 and 31 December 2013.

**Figure no. 39. Structure of installed electric capacity of the Generation Segment according to the status as at 31 December 2014 and 31 December 2013**




** On 10 December 2014 TAURON Wytwarzanie was divided through separation allocation of Blachownia Power Plant to the TAMEH Polska company.*
*** On 2 January 2014 TAURON Wytwarzanie was divided through separation allocation of ZEC Bielsko-Biała to the company TAURON Ciepło belonging to the Heat Segment.*

In 2014 the electric energy generated by the Generation Area was sold mainly to the Sales Area of TAURON Capital Group (59%), as well as to external consumers, including end consumers. In 2014, the share of energy sales on the balancing market was significantly higher in relation to 2013.

The profitability of the Generation Area is influenced, among others, by the RB mechanisms which, under their shape applicable in 2013, did not transfer the costs of maintaining the so-called “cold reserve”. As of 1 January 2014, pursuant to the decision of the ERO President, a new mechanism for OPR payments was introduced, proposed by the TSO at the end of 2013. The operation of this mechanism is based on payment for power available to the TSO at systemic units, not sold in the wholesale trade. The mechanism enables to recover – partly – the fixed costs incurred by such entities (including the so-called “cold reserve”), which significantly improves the profitability of the Generation Area. Introduction of this mechanism resulted from the necessity to maintain the relevant level of installed capacity in KSE, in connection with the forecast possibility of KSE imbalance in the nearest years. Following the modifications, this mechanism shall also apply in 2015.

Heat produced by Generation Business Area is sold to TAURON Capital Group companies which deal with distribution and sales of heat, as well as to external consumers.

Moreover, due to electric energy generation in RES as well as in co-generation, the Generation Area acquires certificates of origin, which are subsequently purchased by the companies of the Sales Area and submitted to the President of ERO, to be redeemed. Companies generating electric energy in co-generation started to receive the certificates of energy origin (the so-called “red” and “yellow” certificates) only as of May 2014, due to the delay in the legal provisions regulating the support system for energy generation in high-performance co-generation facilities. As of 30 April 2014 the support system for high-performance co-generation was recovered. The amendment to the *Act of 10 April 1997 on Energy Law* and certain other acts, extends the functioning of the support system for producers of electric energy and heat in the co-generation process until 2018.

**RES Area**

Electric energy generated in 2014 by the RES Area constituted 5% of the total energy generated within TAURON Capital Group. This energy was sold within TAURON Capital Group to TAURON Sprzedaż (about 50%) and to TAURON (about 4%), as well as outside TAURON Capital Group – to ENEA and ENERGA OBRÓT S.A. companies (approximately 46%). The property rights obtained due to production of electric energy in RES were sold to companies of TAURON Capital Group, for the purpose of redemption, and to ENEA.

**Heat Area**

The core activity of the company TAURON Ciepło, carried out on the basis of concessions granted by the President of URE covers:

1) generation of heat and electric energy,
2) heat trading,
3) heat transmission and distribution.

This activity is performed on the territory of Śląskie, Dolnośląskie and Małopolskie provinces. TAURON Ciepło has its own heat sources with the total installed heat capacity of 1,282 MW (excluding ZW Nowa transferred to the TAMEH POLSKA company as of 10 December 2014). Heat production in 2014 by the Heat Area reached about 9.1 PJ, and the total heat sales – 12.9 PJ. The share of heat produced in own sources in the total volume of heat sales amounted to about 63% in 2014.

Production of electric energy by the Heat Area reached approximately 1.7 TWh in 2014.

In 2014, an important consumer of heat and electric energy, and other utilities (wind of blast furnace, compressed air, technological steam, etc.) was ArcelorMittal. The output of ZW Nowa (industrial cogeneration plant) is mainly targeted at providing ArcelorMittal with the aforementioned energy media required for the technological process. The level of ArcelorMittal demand and, consequently, the production of ZW Nowa, is determined by the situation in the metallurgical market. In connection with the establishment of a joint undertaking under the form of the TAMEH Polska company by TAURON and ArcelorMittal, as of 10 December 2014 ZW Nowa was transferred to this company.

**Distribution Area**

The company TAURON Dystrybucja acts as the DSO, pursuant to the decision of the President of ERO. The Distribution Area provides services to approximately 5,380 thousand of end consumers.

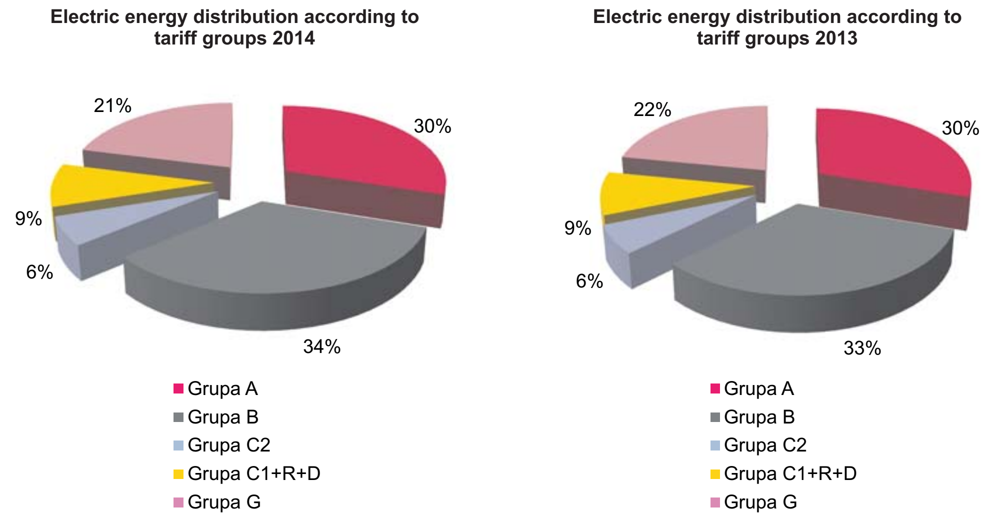
The activities of the Distribution Segment cover the area of about 57 thousand km$^2$, located mainly in the Śląskie, Małopolskie, Dolnośląskie and Opolskie provinces and, in addition, in the Podkarpackie, Łódzkie and Świętokrzyskie provinces. The operating functions are fulfilled by eleven branches of the company, located in: Bielsko-Biała, Będzin, Częstochowa, Gliwice, Jelenia Góra, Kraków, Legnica, Opole, Tarnów, Wałbrzych and Wrocław.

In 2014 the sales volume of electric energy distribution services amounted to 47.9 TWh, i.e. that it remained at a level similar to 2013.

In the volume of supply of the distribution services sales to tariff consumers in the scope of individual levels of voltage makes 95.25%: high voltage (A group), medium voltage (B group) and low voltage (C,G,R). The total level of electric energy supplied in 2014 within sales of distribution services to tariff consumers connected to the TAURON Dystrybucja grid, amounted to 45.6 TWh (estimated) and it was higher as compared to 2013 by about 43.5 GWh, i.e. by 1%.

The figure below presents the distribution of electric energy according to tariff groups for 2013 and 2014.

**Figure no. 40. Distribution of electric energy according to tariff groups [MWh]**




Sales of distribution services is carried out on the basis of comprehensive agreements as well as agreements on provision of distribution services concluded with consumers. The first of the aforementioned types of agreements covers both sales of electric energy by the companies of the Sales Area and supply of energy by the company acting as the DSO. The second type of agreements regulates only supplies of electric energy by the company acting as the DSO. In case of that type of agreements, purchase of electric energy is regulated in separate agreements for electric energy sales, concluded by the consumer with the seller selected by it.

Share of sales value of distribution services under the comprehensive agreements, in the total value of sales of distribution services to end consumers in 2014 reached about 60%. On the other hand, the volume of supply under comprehensive agreements within the total volume of supply to end consumers reached about 41%.

**Sales Area**

The Sales Business Area comprises activities in the scope of electric energy sales and the wholesale trading of electric energy and other products of the energy market. Operations in the area of sales cover sales of electric energy to end customers, including key accounts. On the other hand, operations within wholesale trading comprise mainly wholesale trade of electric energy, trade and management of $CO_2$ emission allowances, property rights arising from the energy certificates of origin natural gas trading.

In 2014, in the Sales Area TAURON Capital Group acted in the market environment where the level of competitiveness in individual segments did not change significantly as compared to the previous years. In 2014, the market of households (individual clients), irrespective of its announced liberalisation, was still subject to the obligation of sales prices approval by the President of ERO. The effect of this situation was the low competitiveness in this market segment. According to the data of ERO, from mid-2007 until the end of November 2014, i.e. as of the beginning of the energy market liberalisation, approximately 288 thousand households that changed the energy supplier were recorded. It is much more than in 2013, however, taking into account the potential of this segment, i.e. the total number of households in Poland, this figure makes only a limited percentage and it is only the beginning of the liberalisation process of this market segment.

The opposite situation is observed in the segment of institutions and economic entities (business client) where the competition is high and companies have benefited from the liberalisation of electric energy prices for several years. The progress in liberalisation has caused that a business client with rising awareness expects competitive solutions. The intensified sales activity of energy companies exerts increasing price pressure; new entities competing for a client appeared and the transparency of the mechanisms of energy market is a must in any activities on this market. According to the ERO data, from mid-2007 until the end of November 2014 almost 123 thousand institutional entities which changed the energy supplier were recorded.

In 2014 over 182 thousand consumers of electric energy changed their supplier (including approximately 30 thousand institutional clients and approximately 152 thousand households). In 2014 the dynamics of changes in case of households amounted to 112.2%, and in case of institutional entities – to 32.6%. Since the beginning of the energy market liberalisation, i.e. since mid-2007, approximately 288 thousand households and almost 123 thousand institutional clients have changed their electric energy supplier.

In 2014 the total retail sales of electric energy conducted by the Sales Area to approximately 5.3 million clients reached about 38.3 TWh, i.e. 93.3% of the level reached in 2013 when the sales amounted to about 41.0 TWh. The decline in the volume of sales results mainly from the reduced demand among clients from A and C tariff groups, as well as from the reduced energy demand in the group of strategic and mass clients.

The segmentation of clients used by TAURON Capital Group (strategic, business and mass clients), depending on the quantity of electric energy consumed, is aimed adjusting the product offer, sales channels and marketing communication to the expectations in the specific segment of clients.

The table below presents categories of TAURON Capital Group end clients, resulting from the segmentation used and the specific nature of their business:

**Table no. 18. Categories of end consumers of TAURON Capital Group**

| No. | Group of clients | Description of clients |
|---|---|---|
| 1. | Strategic clients | Clients 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, among others: metallurgical industry, chemical industry, mining industry, automotive industry |
| 2. | Business clients | Clients with the annual potential energy consumption at a level above 250 MWh (not consumers), or purchasing energy based on the provisions of the *Act of 29 January 2004 on Public procurement law*, i.e. entities representing other sectors of industry, producers of equipment, consumers from food industry, public sector, construction sector and public utilities sector |
| 3. | Mass clients – small and medium-sized enterprises | Clients dealing with sales, services, banking, catering and small entrepreneurs |
| 4. | Mass clients – households | Households |

The table below presents information on the volume of electric energy sold by companies of TAURON Capital Group, operating in the area of electric energy sales to clients as well as on numbers of clients, divided into individual client segments in 2014.

**Table no. 19. Quantity of electric energy sold By the Sales Area and the number of clients in 2014**

| No. | Kind of clients | Volume of sold of Electric Energy (in TWh) | Number of clients (in thousand) |
|---|---|---|---|
| 1. | Strategic clients | 10.0 | 0.03 |
| 2. | Business clients | 12.5 | 130 |
| 3. | Mass clients, including: | 12.1 | 5,128 |
| | *households* | *9.4* | *4,787* |
| 4. | Sales to TAURON Dystrybucja to cover balancing differences | 3.6 | 0.001 |
| | **Total Sales Area** | **38.3** | **5,258** |

The process of the progressing liberalisation and the associated clients' rising awareness in the scope of mechanisms of energy market functioning is reflected in the level of loyalty in individual segments of purchasers. This situation results in activities in the scope of protection of own client base against the actions of the competition, through the introduction of loyal customer agreements. The highest level of progress of this process in noted among clients of the business segment of TAURON Capital Group where over 95% of the volume of the agreements concluded results from individually negotiated commercial terms.

The migration process of clients from the mass segment (individual clients and small and medium enterprises) from the tariff area to the product area is currently under development. At the end of 2014 TAURON Capital Group sold energy to about 23% of clients of this segment based on agreements with a guarantee of commercial terms and conditions in the specific period (loyalty agreements), and 77% of clients bought energy at tariff prices.

The key element of the commercial offer for mass clients in 2014 was the combined product called *Elektryk (Electrician),* based assistance functionality, used by over 160 thousand clients. Within the framework of the campaign *TAURON means more than electricity,* in 2014 TAURON Sprzedaż started the pilot sales of gas to mass market clients and introduced the offer for clients buying coal. Changes introduced in the consumer law had a significant impact on the organisation of sales and service processes in 2014. The aforementioned elements shall also affect sales functioning and sales offer in 2015 and in the subsequent years. All sales activities in 2014 were conducted with the intention to maintain the expected level of sales margins and to build the potential for sales of other services and additional products in the subsequent years.

Gas fuel trading is a new commercial area in the activities of TAURON Capital Group. Within the framework of this process, gas sales in the group of business clients was commenced by concluding the first contracts with price guarantee for the client. In 2015 introduction of a regular offer for gas fuel supply to current and potential clients from the business market is planned.

### 2.6.2. Supply sources – fuels

**Coal**

In 2014 the purchase of coal by TAURON was continued for the needs of TAURON Wytwarzanie and TAURON Ciepło based on the multi-annual and annual agreements. In 2014, about 42% of the current demand of TAURON Capital Group for fuel required for generation of electric energy and heat was satisfied by hard coal coming from own coal mines. The remaining part of the demand was covered from external sources, where Kompania Węglowa constituted the highest share (about 43.5% of the demand).

**Biomass**

In order to provide the supply of fuels for the needs of electric energy and heat generation by units using biomass as a fuel in the technological process, the Company acquired biomass under the multi-annual and annual agreements for the purchase of biomass from national producers and suppliers. The said agreements covered the purchase of biomass for the co-burning process and for the needs of dedicated units 100% supplied with biomass.

In 2014, for the co-burning process the total of 204 thousand Mg were purchased, entirely comprising the agro biomass. For boilers burning biomass in 100%, the Company purchased the total of 818 thousand Mg, including 180 thousand Mg of agro biomass, the remaining part constituting wood biomass. The Company conducted resale of biomass purchased pursuant to the aforementioned agreements to TAURON Wytwarzanie and TAURON Ciepło under separate agreements on biomass sales for the co-burning process and to the dedicated RES units.

**Gas**

In 2014 TAURON continued the supplies of high-methane gas to Stalowa Wola Power Plant (TAURON Wytwarzanie) and to ZEC Bielsko-Biała EC 1 (TAURON Ciepło). The gas supplied by the Company was purchased under the comprehensive agreement on gas fuel supply and the agreement with PGNiG.

On the other hand, the coke-oven gas was supplied by TAURON to Blachownia Power Plant (TAURON Wytwarzanie). The said gas was purchased by TAURON from ArcelorMittal Poland, Zdzieszowice Branch, under the multiannual agreement for the supply of coke-oven gas. The transmission of the coke-oven gas was conducted under the agreement for the provision of transmission services of the coke-oven gas concluded with Polska Spółka Gazownictwa sp. z o.o. Oddział w Zabrzu, Zakład w Opolu Zabrze Branch, Plant in Opole.

Sales of the coke-oven gas and the high-methane gas was performed on the basis of the 2nd Tariff for gas fuels and the comprehensive agreements for the supply of the coke-oven gas and the high-methane gas concluded with TAURON Wytwarzanie.

The table below presents the level of fuel supplies delivered by TAURON in 2014 to entities of TAURON Capital Group.

**Table no. 20. Fuel supplies delivered to entities of TAURON Capital Group**

| No. | Fuel type | unit | TAURON Wytwarzanie | TAURON Ciepło | TAURON Sprzedaż | TAMEH POLSKA |
|---|---|---|---|---|---|---|
| 1. | Coal | *Mg* | 6,895,756 | 943,777 | | 14,020 |
| 2. | Biomass | *Mg* | 676,233 | 346,524 | | |
| 3. | Coke-oven gas | *[1,000 $m^3$]* | 366,539 | | | |
| 4. | Natural gas | *[1,000 $m^3$]* | 1,356 | 682 | 1,003 | |

**Value of sales in the domestic and foreign markets**

The activities of TAURON Capital Group are mostly conducted in the Polish market where the value of sales in the years 2014 and 2013, excluding the intra-group sales, amounted to PLN 17,953,310 thousand and PLN 18,588,972 thousand, respectively.

The value of sales to foreign clients in the years 2014 and 2013, excluding the intra-group sales, amounted to PLN 487,453 thousand and PLN 542,200 thousand, respectively.

## 2.7. Important events and achievements of TAURON Capital Group with significant impact on its operations

The most important events with significant impact on operations of TAURON Capital Group, which occurred during the financial year 2014, as well as until the day of this report are listed below:

**Important corporate events in 2014**

***Extraordinary General Meeting of the Company***

On 7 January 2014 the Extraordinary General Meeting of the Company was held, which adopted the amendments to the Articles of Association of the Company, defined the number of members of the Supervisory Board (9 persons) and appointed Mr Aleksander Grad as a member of the Supervisory Board. On 10 February 2014 the Supervisory Board of the Company adopted the consolidated text of the *Articles of Association of TAURON Polska Energia S.A.* (Company Articles of Association) comprising the aforementioned amendment.

Detailed information concerning the adopted amendments to the Company Articles of Association is included in item 6.8.1 hereof.

The Company informed of the aforementioned events in the current reports no. 1/2014, no. 2/2014, no. 3/2014 of 7 January 2014, no. 5/2014 of 16 January 2014 and no. 11/2014 of 10 February 2014.

***Dismissal and appointment of Supervisory Board member of the Company***

On 22 January 2014 the Minister of Treasury, acting pursuant to § 23 item 1 p. 3 of the Company Articles of Association, dismissed Mr. Rafał Wardziński from the Supervisory Board of TAURON and appointed Agnieszka Woś.

The Company informed of the aforementioned events in the current reports no. 8/2014 and no. 9/2014 of 22 January 2014.

***Delegating the Member of the Supervisory Board to the temporary performance of activities of the Company Management Board Member and submission of resignation from the function fulfilled***

On 10 February 2014 the Supervisory Board of TAURON adopted the resolution on delegating the Member of the Supervisory Board, Aleksander Grad to the temporary performance of the duties of Vice President of TAURON Management Board in the period from 11 February 2014 until 11 May 2014.

On 17 March 2014, the Member of the Supervisory Board, Mr Aleksander Grad, resigned from his function of the Member of the Supervisory Board, delegated to the temporary performance of the Vice President of the Management Board, effective as of 17 March 2014. In connection with the expiry of the mandate of the above mentioned Supervisory Board Member, the time for which he was delegated to temporarily perform the duties of the Vice President of the Management Board was reduced and ended on the day the above resignation was submitted.

The Company informed of the aforementioned events in the current reports no. 12/2014 of 10 February 2014 and no. 14/2014 of 17 March 2014.

***Dismissal and appointment of Members of the Company Management Board***

On 17 March 2014 the Supervisory Board, upon adopting of the relevant resolutions, dismissed all Management Board Members and appointed the Company Management Board for the 4th common term.

Detailed information concerning the dismissal and appointment of the Management Board is included in item 6.11.1 hereof.

The Company informed of the aforementioned event in the current reports no. 15/2014 and no. 16/2014 of 17 March 2014.

***Recommendation of the Management Board concerning the dividend payout***

On 15 April 2014 the Management Board of the Company made the decision concerning the recommendation to the Company Ordinary GM concerning the level of dividend to be paid to the Company shareholders in the amount of PLN 262,882,409.10, from the net profit gained in 2013, which means the amount of PLN 0.15 per single share. At the same time, the Management Board indicated that the recommendation shall be subject to the assessment by the Company Supervisory Board. Simultaneously, the Management Board decided to submit the recommendation to the Company Ordinary GM defining:

1) 14 August 2014 as the dividend record day,
2) 4 September 2014 as the dividend payment day.

The recommendation of the Management Board regarding the amount of dividend to be paid to Company shareholders was prepared after taking into account the current TAURON Capital Group development plan comprising the implementation of the adopted investment programme requiring significant financial resources exceeding the current cash flows from TAURON Group operating activities. The funds to remain in the Company will be used in total for the execution of the investments, at the same time, reducing the demand for further financing and limiting the increase of debt ratio. On 18 April 2014 the decision of the Management Board concerning the dividend payment was positively assessed by the Company Supervisory Board.

On 15 May 2014 the Ordinary General Meeting of the Company adopted the resolution on profit distribution for the financial year 2013 and defining of the amount allocated for payment of the dividend to shareholders, the dividend record day and the dividend payment day.

In accordance with the aforementioned resolution, the Ordinary GM allocated the amount PLN 350,509,878.80 for payment of the dividend for shareholders from the net profit for the financial year 2013, which means that the amount of the dividend per share was PLN 0.19. Simultaneously, the General Meeting defined the dividend record day for 14 August 2014 (the day of dividend) and the date of the dividend payment for 04 September 2014 (the day of dividend payment).

The Company informed of the aforementioned events in the current reports no. 18/2014 of 15 April 2014, no. 21/2014 of 18 April 2014, no. 24/2014 and no. 25/2014 of 15 May 2014.

***Ordinary General Meeting of TAURON***

On 15 May 2014 the Ordinary GM of the Company was held, which, among others, adopted the resolutions on approval of the Consolidated financial statement of TAURON Capital Group and the Report of the Management Board on Activities of TAURON Capital Group for the financial year 2013, the financial statement of TAURON and the Report of the Management Board on the operations of the Company for the financial year 2013, on acknowledgement of the fulfilment of duties by members of the Management Board and the Supervisory Board of the Company, on profit distribution for the financial year 2013 and determining of the amount allocated for the payment of dividend for shareholders as well as defining the dividend record day and the dividend payment day.

The Company informed of the aforementioned event in the current reports no. 24/2014 and no. 25/2014 of 15 May 2014.

***Appointment of Supervisory Board members of TAURON Company***

On 15 May 2014 the Minister of Treasury, acting pursuant to § 23 section 1 item 1) and 3) of the Company Articles of Association appointed the following persons as members of the Supervisory Board for the 4th common term of office: Andrzej Gorgol, Michał Michalewski, Marek Ściążko, Antoni Tajduś, Agnieszka Woś.

Moreover, the Ordinary GM of the Company, acting pursuant to § 22 section 1 of the Company Articles of Association adopted the resolution on appointment of Jacek Szyke as the member of the Supervisory Board for the 4th common term of office as of 15 May 2014.

The Company informed of the aforementioned event in the current report no. 26/2014 of 15 May 2014.

***Request to convene Extraordinary General Meeting of the Company appointment of the Supervisory Board Members***

On 29 July 2014 the Company, in electronic form, a request from KGHM – the shareholder representing 10.39% of the share capital of the Company, to convene an urgent Extraordinary General Meeting of the Company, pursuant to the Company Articles of Association and the By-Laws of the Company General Meeting, and to include an item concerning supplementary election of new members of the Company Supervisory Board on the agenda of the Meeting. In the rationale KGHM stressed that extending the current composition of the Supervisory Board would enable wider representation of shareholders in the Supervisory Board and have a positive impact on implementation of statutory responsibilities of this governing body.

On 1 September 2014, in connection with the aforementioned request, the Extraordinary GM of the Company was held which adopted the resolution concerning defining of the number of Supervisory Board members and the resolution concerning the appointment of the following persons as members of the Company Supervisory Board of the 4th common term, as of 1 September 2014: Maciej Koński, Leszek Koziorowski and Maciej Tybura.

The Company informed of the aforementioned events in the current reports no. 32/2014 of 30 July 2014, no. 33/2014 of 5 August 2014, no. 35/2014 and 36/2014 of 1 September 2014.

**Important business events in 2014**

***Fulfilment of the last condition precedent regarding the transfer of ownership of TAURON Wydobycie shares to TAURON***

On 15 January 2014 the GM of Kompania Węglowa approved the sales of 16,730,525 registered shares of TAURON Wydobycie in favour of TAURON. Consequently, the last condition required to transfer the ownership of the aforementioned shares to TAURON was fulfilled. Following the payment of the remaining amount, i.e. PLN 77,500 thousand to the benefit of Kompania Węglowa on 22 January 2014, the ownership of the said shares held by Kompania Węglowa was transferred to TAURON.

Detailed information on the aforementioned event is included in item 1.3.2 hereof.

The Company informed of the fulfilment of the aforementioned condition in the current report no. 6/2014 of 16 January 2014.

On 28 August 2014, TAURON purchased the remaining shares of TAURON Wydobycie from TAURON Wytwarzanie, in the amount of 18,473,553 shares, constituting 52.48% of the share in the initial capital of this company. As a result, TAURON directly holds 100% shares in the initial capital of TAURON Wydobycie.

***Information on the provision recognised in the financial statement of TAURON Capital Group for 2013, concerning free $CO_2$ emission allowances which were not received in 2013***

On 28 January 2014 the Company informed of anticipated impact of a non-cash one-off event in the form of the provision recognised in annual consolidated financial statements of TAURON Capital Group and related to free greenhouse gas emission allowances in the Generation and Heat Segments, which were not received in 2013. In accordance with the adopted accounting policy, the provision for emission allowances of gases that are included in emission allowance scheme is charged against (taxes and charges) in the case when the actual emission level exceeds the volume of free emission allowances held by the TAURON Group on the balance sheet date. The provision to cover the cost of deficit is charged to the value of emissions purchased or contracted for this purpose, at arm's length prices as at the balance sheet date, in relation to unhedged deficit of allowances (if such situation occurs).

In accordance with *Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC*, TAURON Capital Group is entitled to receive free emission allowances pursuant to Article 10c of the aforementioned Directive ("derogation allowances"). TAURON Capital Group applied for derogation allowances, however, as they had not been allocated until 31 December 2013, which, in accordance with the adopted accounting policy prevents the possibility to recognise derogation allowances when calculating the amount of the provision for carbon dioxide emissions, the provision due to emission in the consolidated financial statements of the TAURON Capital Group for 2013 was higher than initially estimated by approximately PLN 270,000 thousand (about PLN 260,000 thousand in the Generation Segment and by about PLN 10,000 thousand in the Heat Segment), which accordingly decreased EBITDA result by this amount. Recognition of the provision reduced the net financial result of TAURON Capital Group for 2013 by the amount of approximately PLN 219,000 thousand.

At the same time, the Company has informed that due to the applied policy of risk management and securing the market position in the scope of emission allowances, TAURON Capital Group companies hold in their registers of $CO_2$ emission allowances the amount of allowances sufficient to cover the 2013 emissions. The allowances were initially purchased to be used in the consecutive years and the related expenses have not been recognised in costs for 2013.

The Company informed of this event in the current report No. 10/2014 of 28 January 2014.

***RAFAKO - MOSTOSTAL consortium extended validity of the offer for the construction of the power unit at Jaworzno III power plant***

On 27 February 2014 the Company was informed that the validity of the offer submitted by the consortium of RAFAKO - MOSTOSTAL under the tender procedure on selection of the general contractor of the 800–910 MW power unit at Jaworzno III power plant was prolonged until 30 April 2014. The above consortium also submitted an annex to the bank bid bond extending validity of this guarantee until 30 April 2014, inclusive.

The Company informed of this event in the current report no. 13/2014 of 27 February 2014.

***Update of Corporate Strategy***

On 2 June 2014 the Company Management Board adopted and the Supervisory Board issued a positive opinion on the document entitled *Corporate Strategy of TAURON Group for 2014–2017 with an outlook until 2023*. The adopted document is an update of the *Corporate Strategy of TAURON Group for 2011–2015 with an outlook until 2020*.

Detailed information on the aforementioned event is included in item 1.4.1 hereof.

The Company informed of this event in the current report no. 28/2014 of 2 June 2014.

***Exceeding of the 10% equity threshold of the Company within the trading turnover between TAURON Capital Group companies and PSE Group companies***

On 7 July 2014, the Company received from PSE documents concerning the mutual provision of services to companies of TAURON Capital Group, enabling the settlement with PSE Group companies, with reference to the current reports: no. 1/2012 of 5 January 2012, no. 37/2012 of 7 November 2012 and no. 42/2013 of 15 October 2013, regarding trade turnover between companies of TAURON Capital Group and PSE. In accordance with the aforementioned documents, as at 15 October 2013, i.e. as at the day of submission of the current report no. 42/2013, the net trade turnover generated between companies of TAURON Capital Group and companies of PSE Group amounted to about PLN 2,035 million (including approximately PLN 1,389 million of cost items for TAURON Capital Group companies, and about PLN 646 million of revenue items), accordingly, the value of turnover exceeded 10% of the Company equity.

The turnover of the highest value, i.e. about PLN 707 million net, was generated under the agreement of 16 December 2013, concluded between TAURON Dystrybucja and PSE. The subject of the aforementioned Agreement, concluded for indefinite period of time, is the provision of transmission services by PSE, understood as the transport of electric energy via the transmission grid. Its estimated value over a period of 5 years following its conclusion, is about PLN 6,661 million. The settlements for the services are conducted in accordance with the rules and rates approved by the President of the ERO, defined in the tariff, and raking into account the provisions of the IRiESP. The above mentioned Agreement does not stipulate any liquidated damages and it does not contain any conditions precedent or terminating conditions.

The Company informed of the aforementioned event in the current report no. 30/2014 of 8 July 2014.

***Confirming of the Fitch agency rating for TAURON***

On 18 July 2014, the Fitch rating agency informed of their decision to sustain the rating for the Company in foreign and local currency at the “BBB” level, with stable perspective. According to the Fitch agency, the ratings reflect the leading position of TAURON Capital Group in electric energy distribution and generation segments in Poland. Significant share of stable and predictable distribution segment in the EBITDA result (60% in 2013) has a positive impact on the rating. The ratings are limited by poorer financial results of the generation segment, limited diversification of fuels (dominating position of hard coal) and the increasing leverage resulting from major capital expenditures spent on replacement and development of generation capacity.

On 24 October 2014, the Fitch rating agency informed of their decision to sustain the international long-term rating for the Company in foreign and local currency at the “BBB” level, with stable perspective. The Fitch rating agency also assigned TAURON the international short-term foreign and local currency Issuer Default Rating of “F3”, a National long-term rating of “A(pol)” with Stable Outlook and assigned the expected national senior unsecured rating of “A(pol)(EXP)” to the planned bond issue.

According to the Fitch agency, the ratings reflect the leading position of TAURON Capital Group in electric energy generation segment in Poland. Significant share of stable and predictable distribution segment in the EBITDA result has a positive impact on the rating. At the same time, the ratings are constrained by worse financial performance of the generation segment, concentrated generation fuel mix (mostly coal-fired plants) and Fitch’s forecasts of a weakening of credit metrics, mostly due to large replacement and expansionary CAPEX in the generation segment.

The Company informed of the aforementioned events in the current reports no. 31/2014 of 18 July 2014 and no. 40/2014 of 24 October 2014.

***Shareholders’ Agreement signed as part of nuclear power plant preparation and construction project***

On 3 September 2014, the Shareholders’ Agreement was concluded between PGE, TAURON, KGHM and ENEA, pursuant to which TAURON, KGHM and ENEA, as Business Partners, will purchase from PGE, under a separate agreement, 30% shares in total (each of the Business Partners will purchase 10% shares) in a special purpose vehicle – PGE EJ 1 which is responsible for preparation and execution of the investment comprising construction and operation of the first Polish nuclear power plant of approximately 3 thousand $MW_e$ capacity.

Detailed information on the aforementioned event is included in item 1.4.3.2 hereof.

The Company informed of the aforementioned events in the current reports no. 38/2014 of 3 September 2014 and no. 39/2014 of 9 October 2014.

***Approval of the tariff for electric energy sales for TAURON Dystrybucja and TAURON Sprzedaż by the ERO President***

On 17 December 2014 the Company was were informed that the tariff for electricity for TAURON Distribution had been approved by the President of ERO. The approved tariff rates for 2015 are higher than the rates applicable in 2014 by 4.74% on average.

On the same day, the Company was informed of the approval of the tariff for electric energy by the ERO President for the company TAURON Sprzedaż, for the period until 31 December 2015, related to consumers in G tariff groups (connected to the TAURON Dystrybucja grid excluding the Gliwice district), to which TAURON Sprzedaż provides a comprehensive service.

In accordance with the applicable regulations, the new tariffs may come into force 14 days after they have been published in the bulletin of the ERO President, at the earliest. Decisions concerning the approval of new tariffs are announced in the bulletin of the ERO President, posted on the ERO website www.ure.gov.pl.

The Company informed of the aforementioned events in the current reports no. 43/2014 and no. 44/2014 of 17 December 2014.

**Other events in 2014**

***Signing the agreement with PSE for the "cold reserve"***

On 26 March 2014, TAURON Wytwarzanie signed an agreement with PSE for the provision of the "cold intervention reserve" service, comprising units no. 3 and 6 in Siersza Power Plant and unit no. 8 in Stalowa Wola Power Plant, belonging to TAURON Wytwarzanie. The total installed capacity of the units covered by the reserve is 376 MW. The service will be provided in the years 2016–2017, with a possibility to extend it until 2019.

The provision of the "cold intervention reserve" is based on dispatching and using the generation units by the TSO for intervention balancing of active power balance to maintain the operational security of the National Power System (KSE) after 2015. The providers of the new service may include centrally dispatched generation units which were to be permanently decommissioned after 2016 due to technical, economic and environmental reasons. The extension of the lifetime of the old power blocks is expected to provide for safe level of power reserves until the new generation sources appear in the electric power system.

***Merger of TAURON Ciepło S.A. and Enpower service***

On 30 April 2014 the merger of companies: Enpower Service (the Acquiring Company) and TAURON Ciepło S.A. (the Acquired Company) was registered. At the same time, the change of the Acquiring Company name to "TAURON Ciepło sp. z o.o." occurred.

The detailed description of the aforementioned event is included in item 1.3.2. hereof.

***Activities in the scope of gas trading***

In connection with the liberalisation of gas trading in Poland, TAURON Capital Group successively builds competence in the scope of gas trading. As of January 2014, TAURON conducts active operations in the area of wholesale gas trading. The Company is an active participant of the following exchanges: TGE in the scope of Day-Ahead Market (RDNg) and Forward Market (RTTg), European Energy Exchange (EEX) in EEX Spot Market and EEX Derivatives Market segments. The Company has been registered on the PRISMA European Capacity Platform GmbH enabling active participation in the mechanism of transmission capacity allocation. It provides the opportunity to secure the needs of import or export from/to the national gas system of the German market on competitive basis. The Company also cooperates with the GASPOOL Balancing Service GmbH gas hub, ONTRAS Gastransport GmbH and GASCADE Gastransport operators and with the customers in the scope of purchase / sales of gas in the Polish and German OTC markets.

On 3 May 2014 a new Tariff for Gas Fuel of TAURON Polska Energia entered into force, effective for a period of 12 months following its entry into force. TAURON Capital Group, as the first of the Polish energy groups, gained the opportunity of parallel offering of electric energy and natural gas products to its business clients. In the framework of the operations commenced in the gas markets, TAURON concluded three first gas contracts with clients outside TAURON Capital Group, for the total volume of approximately 171 GWh. In order to hedge these contracts, daily, monthly, quarterly and annual gas products were purchased on the wholesale market.

On 17 July 2014, the ERO President approved the Tariff for high-methane natural gas for TAURON Sprzedaż for a period of 12 months following its adopting for application. At the same time, in Q3 2014, the TAURON Sprzedaż company reached the legal and organisational capacity for the commencement of gas fuel sales in the business market area. The commencement of gas fuel sales in 2014 resulted in the introduction of the TAURON Gas product dedicated to the segment of business clients into the offer. The commencement of gas sales offering in the mass market is scheduled for 2015.

***Development of the Centre of Common Services (CUW)***

In May 2014 the Programme on *Integration of IT Functions* was completed, under which the Centre of Common IT Services was established (CUW IT), providing IT services to all companies of TAURON Capital Group. Within the framework of the Programme, IT assets, key agreements with external suppliers were transferred to CUW IT and assumptions of new corporate governance in the IT area were implemented, in particular, new organisational and corporate structures. The new organisation, through standardisation of processes and services as well as centralisation of key IT tools, shall allow for cost optimisation of IT functioning in TAURON Capital Group as well as efficient responding to the changing requirements of individual business areas.

In 2014 works commenced in 2012 under the Programme on *Integration of the Accounting Function* were continued, associated with the organisation of the Centre of Common R Services (CUW R) in the TAURON Obsługa Klienta, providing services in the accounting area. CUW R provides the financial and accounting services to the following companies: TAURON, TAURON Wytwarzanie, TAURON Sprzedaż, TAURON Sprzedaż GZE, TAURON Ciepło, TAURON Obsługa Klienta, TAURON Dystrybucja Serwis, TAURON Dystrybucja and TAURON EKOENERGIA. Under the aforementioned Programme, an integrated SAP system was implemented.

***Agreement of Polish energy groups related to innovation***

On 26 June 2014, four biggest Polish energy enterprises: ENEA, ENERGA, PGE and TAURON signed a letter of intent concerning close cooperation in the scope of research, development and innovation as well as joint implementation of projects related to research and development. The main goal is the intensive search for technological solutions corresponding to the key challenges faced by the Polish energy sector.

The selected research projects will focus, among others, on the reduction of emission in the process of electric energy generation as well as increasing the effectiveness of energy distribution and use. The development of smart distribution and transmission grids is also essential, to assist the implementation of such projects as "smart house" or storage of electric energy. The coordinated process of research works will not only provide the added value in the form of scale effect and technological synergy, but it will also contribute to the more comprehensive exploitation of the Polish scientific and research potential, which will provide a significant development stimulus for the regional academic centres, business partners and for the whole economy.

Joining efforts of the partners to the agreement on the platform of research and development projects will also enable more effective use of EU funds allocated for innovation, available in the years 2014–2020, as well as facilitate and allow for more flexible acquisition of additional external capital. At the next stage of cooperation the signatories of the letter of intent plan to develop optimum mechanisms for implementation of research and development projects, adequate to the regulatory, formal and legal and business requirements.

The above activity is included in the implementation of the goals defined in the updated Corporate Strategy which focuses on the model of management of the research and development area in TAURON Capital Group. The goal of effective management of research and development activities in subsidiaries of TAURON Capital Group is aimed at intensifying the innovation development processes and maximising the benefits arising from the access to knowledge and experience gained by implementing such undertakings. It is also required to improve the effectiveness of applying for external funds for innovation in view of the opportunities and challenges facing the power engineering sector.

***Winding up and liquidation of the PEPKH subsidiary***

On 2 July 2014 the Extraordinary GM of the company acting under the enterprise name PEPKH, adopted the resolutions on winding-up and liquidation of the PEPKH company, in which TAURON holds 100% interest in the share capital and 100% share in the general number of votes at the GM.

On 27 October 2014 the motion for bankruptcy liquidation of the aforementioned company was filed to the District Court in Tarnów, 5th Commercial Department.

On 11 December 2014, the District Court in Tarnów, 5th Commercial Department, issued the decision on dismissal of the motion filed by the PEPKH company in liquidation, with its seat in Tarnów, concerning the declaration of its bankruptcy comprising the liquidation of its assets.

Detailed information concerning the winding up and liquidation of the PEPKH company is included in item 1.3.2 hereof.

The Company informed of the aforementioned events in the current reports no. 29/2014 of 2 July 2014, no. 41/2014 of 27 October 2014 and no. 42/2014 of 16 December 2014.

***Signing the agreement of the consortium establishing the Motorway of Technology and Innovation Institute***

On 15 July 2014, 23 institutions, including: 18 universities, 2 institutes and 3 enterprises (including TAURON) signed the consortium agreement establishing the Motorway of Technology and Innovation Institute. The leaders of the project are two Polish technical universities: Wrocław University of Technology and AGH University of Science and Technology. The partners of the consortium will closely collaborate on implementation of large research and development projects, and they also intend to concentrate their activities within the substantive areas compliant with the research fields defined by the project on *Technological Foresight of Industry – InSight 2030* as well as with the national and regional smart specialisations.

***Signing the Partnership Agreement with ArcelorMittal***

On 11 August 2014, TAURON, together with companies of TAURON Capital Group (i.e. TAURON Wytwarzanie and TAURON Ciepło) and ArcelorMittal, together with companies of ArcelorMittal Group, concluded the Shareholders' Agreement concerning establishing of an entity implementing the investment and operating tasks in the area of industrial power engineering.

The goal of the parties to the Shareholders' Agreement is to achieve the return on engaged assets at the expected level and, among others, the implementation of an investment programme adjusting the assets to the environmental requirements, as well as possibly full exploitation of metallurgical gas for the production of power media. The Agreement was concluded for a period of 15 years, with a possibility of its extension.

Detailed information concerning establishing of the joint entity for the implementation of the aforementioned tasks is included in item 1.3.2 hereof.

***The project associated with the planned separation of wind assets***

Since August 2014 the project concerning the separation of wind assets from TAURON EKOENERGIA and their transfer to the Marselwind special purpose vehicle. The said project is aimed at ensuring the off-balance sheet financing for the purchase of wind assets.

Detailed information concerning the implementation of the aforementioned project is included in item 1.3.2 hereof.

***Tax Capital Group***

Due to the expiry of the three year period of Tax Capital Group (PGK) scheduled on 31 December 2014, on 22 September 2014 selected companies of TAURON Capital Group concluded the PGK agreement in the form of the notarial deed. On 20 November 2014, the Head of the First Silesian Tax Office in Sosnowiec issued the decision concerning the registration of PGK for a period of three consecutive fiscal years, i.e. from 1 January 2015 to 31 December 2017. The following companies have been included in the new PGK: TAURON, TAURON Wytwarzanie, TAURON Dystrybucja, TAURON EKOENERGIA, TAURON Obsługa Klienta, TAURON Sprzedaż, TAURON Ciepło, ENPOWER sp. z o.o. (Enpower), TAURON Ubezpieczenia, Energopower sp. z o.o., TAURON Wydobycie, TAURON Sprzedaż GZE and KW Czatkowice. The objective of PGK is to optimise the fulfilment of the obligations associated with the settlement of corporate income tax by key companies of TAURON Capital Group, and to enable, among others:

1) acceleration of settlement of tax losses, i.e compensation of tax losses of one of the companies through tax profit of other company throughout the same fiscal year,
2) common application at the level of PGK for individual interpretation of tax law within the scope of corporate income tax which, in case of favourable interpretation, will result in relevant protection for all entities included in PGK.

***Implementation of the Internet Portal for TAURON Capital Group – the solution awarded in the international competition***

In 2014 the project related to the launch of TAURONET was completed, i.e. an internal portal constituting a central platform for the exchange of information and group work, both in the organisational-process area and in technological-system terms in the entire TAURON Capital Group. Access to the system has been guaranteed to 15 thousand employees, whereas it is used by over 7 thousand users on an on-going basis, who may apply it within several thematic areas. Nielsen Norman Group (Fremont, California, USA) selected TAURONET as one of top ten intranet systems worldwide in 2015.

**Important events after 31 December 2014**

***Initial interest in buying all or part of KWK Brzeszcze mining assets contributed by Kompania Węglowa S.A. to Spółka Restrukturyzacji Kopalń S.A. (Mine Restructuring Company)***

In response to the inquiry from Kompania Węglowa S.A. and Spółka Restrukturyzacji Kopalń S.A. of 16 January 2015 regarding possible purchase of all or a part of mining assets belonging now to Kompania Węglowa, TAURON expressed its initial interest in buying all or a part of KWK Brzeszcze assets. The final decision regarding the purchase of all or a part of KWK Brzeszcze mining assets will be taken following a detailed analysis, including economic and technical analyses, that would confirm the possibility of economically viable coal mining. TAURON Group owns two mining facilities and thus has competence and experience in the scope of management and restructuring of mining facilities. The possible acquisition of all or a part of KWK Brzeszcze assets should enable TAURON to increase the level of coverage of coal demand by internal resources in generation plants of TAURON Capital Group, which is in line with the assumptions of the Corporate Strategy.

The Company informed of this event in the current report no. 2/2015 of 16 January 2015.

In relation to the aforementioned event, on 2 February 2015 the Company established the team to carry out the comprehensive analysis of KWK Brzeszcze, comprising, in particular, specific legal, financial, technical and geological aspects. Moreover, as a result of the team’s work, the analysis of variants will be prepared, concerning the purchase of all or a part of the coal mine from the company Spółka Restrukturyzacji Kopalń S.A. or from Kompania Węglowa, including indication of effects for both variants. Opportunities of potential cooperation with the financial or infrastructural partner will be also analysed (terms of such cooperation supported by the market research). Moreover, the analysis will also comprise the structure of the transaction based on the special purpose vehicle (SPV), assuming the lack of consolidation of assets purchased and, at the same time, the elimination of risk associated with the potential deterioration of financial indicators of TAURON Capital Group, in particular, the net debt to EBIDTA ratio.

The advisory team referred to above, based on the first stage of the analyses performed, recommended the purchasing path of the aforementioned assets, in accordance with the variant assuming their acquisition from the company Spółka Restrukturyzacji Kopalń S.A. The Management Board has accepted the above recommendation as a direction.

***Increasing the provision for employee benefits***

In Q4 2014 the Company increased the provisions for employee benefits (a non-monetary one-off event), deciding to reduce the discount rate, due to the decline of market interest rates. Actuarial gains and losses related to jubilee bonuses in the amount of approximately PLN 114 million have reduced the financial result of TAURON Group for Q4 2014, and the amount of approximately PLN 322 million has been charged to "other comprehensive income" and has no impact on the financial result of TAURON Capital Group.

The Company informed about impact of non-monetary one-off events on consolidated financial results of TAURON Capital Group for Q4 2014 in the current report no. 3/2015 of 18 February 2015.

***Listing of TAURON Polska Energia S.A. bonds on Catalyst market***

On 18 February 2015 the Management Board of BondSpot S.A. adopted the resolution concerning the decision on listing 17,500 series TPEA1119 TAURON bearer bonds with the total nominal value of PLN 1,750,000 thousand and the unit nominal value of PLN 100 thousand, on the alternative trading system on Catalyst market. The resolution came into force as of the day of its adoption.

The Company informed of this event in the current report no. 4/2015 of 18 February 2015.

**Other important events**

In addition, events resulting from the contracts and agreements concluded, significant for the operations, described in item 2.8.1 of this report should be also considered as important events of material impact on operations of TAURON Capital Group in the financial year 2014.

## 2.8. Information on agreements concluded by companies of TAURON Capital Group

### 2.8.1. Agreements significant for operations of TAURON Capital Group

In the financial year 2014 the companies of TAURON Capital Group concluded the following agreements significant for operations of TAURON Capital Group:

***Signing the material agreement with RAFAKO - MOSTOSTAL consortium for the construction of a power unit at Jaworzno III power plant***

On 17 April 2014 the subsidiary, TAURON Wytwarzanie, as the Ordering Party, signed the agreement with the RAFAKO - MOSTOSTAL consortium as the Contractor, for the construction of the 910 $MW_e$ ultra-supercritical unit at Jaworzno III power plant (Power Plant II), including: steam boiler, turbine set, main building, electrical part and the process control system, and automatic system of the unit. The Contract has been concluded under the following terms and conditions:

1. The subject of the Contract is the design and construction by the Contractor on a turn-key basis of 910 $MW_e$ gross capacity ultra-supercritical unit including steam boiler, turbine set, main building, electrical part, process control system, and automatic system of the unit.
2. The remuneration of the Contractor for the delivery of the subject of the Contract amounts to PLN 4,399,038,500 net and will be increased by applicable VAT. The remuneration payable to the Contractor is a lump sum remuneration. Pursuant to the agreement, RAFAKO is responsible for execution of 99.99% of works covered by the Contract and is entitled to receive remuneration corresponding to the above mentioned share in works required by the Contract.
3. The deadline for the completion of the subject of the Contract is 59 months starting from the date of signing the Contract.
4. The Contractor is entitled to receive an advance payment for execution of the Contract in the amount of 10% of gross remuneration. To receive the advance payment, the Contractor is obliged to submit to the Ordering Party an advance payment guarantee for the amount of the advance payment.
5. The Contractor has submitted to the Ordering Party a performance guarantee in the form of bank guarantees and insurance guarantee and in money, to the amount required for the subject Contract to be effective. Pursuant to the Contract, the amount of the Performance Bond is 10% of the Contractor's gross remuneration. Once the unit is commissioned, the Performance Bond will be reduced to 3% of the Contractor's gross remuneration and should

also secure the Ordering Party's claims under implied warranty for defects in the subject of the Contract over a warranty period of 24 months following the date of commissioning of the unit and final acceptance of the unit by the Ordering Party, however, some elements of the unit are covered by an extended warranty of 60 months.

6. The Ordering Party is entitled to calculate liquidated damages in the case of undue performance of the Contract by the Contractor up to the total amount of 25% of net remuneration payable to the Contractor. The Ordering Party is entitled to claim compensation exceeding liquidated damages defined in the Contract.
7. The Contractor shall be liable for due performance of the Contract by subcontractors hired to perform the Contract.

The Project is in line with the Corporate Strategy which stipulates building of the sustainable generation portfolio consisting of units based on coal, gas technologies and renewable energy sources. The investment in the construction of the generation unit at Elektrownia Jaworzno III shall contribute to securing TAURON Capital Group position as the second largest electricity generator on the domestic market. The Contract has been recognised as material due to the fact that its value exceeds 10% of equity of the Company.

The Company informed of this event in the current report no. 19/2014 of 17 April 2014.

***Signing the agreement concerning the contract for construction of the power unit at Elektrownia Jaworzno III***

On 17 April 2014, with reference to the agreement concluded with the RAFAKO - MOSTOSTAL consortium, for the construction of ultra-supercritical 910 $MW_e$ unit at Jaworzno III power plant (Power Plant II), TAURON Wytwarzanie, as the Ordering Party, concluded the agreement with the RAFAKO - MOSTOSTAL consortium and with the companies: Siemens sp. z o.o. and Siemens Aktiengesellschaft (hereinafter jointly referred to as: Siemens), Rafako's subsidiary - E003B7 Sp. z o.o. (SPV-Rafako), as well as Bank Gospodarstwa Krajowego S.A. (BGK), PKO BP S.A. (PKO BP) and PZU S.A. (hereinafter jointly referred to as Financial Institutions), defining the terms and conditions of cooperation between the parties regarding Contract execution (the Agreement). Pursuant to the Agreement, the Ordering Party approved the text of the subcontractor agreement between Rafako and SPV-Rafako (SPV-Rafako Subcontractor Agreement) and agreed to conclude it, and parties to the Agreement decided that SPV-Rafako should perform their obligations under the SPV-Rafako Subcontractor Agreement to the benefit of the Ordering Party. In addition, the Ordering Party approved the text of the subcontractor agreement between SPV-Rafako and Siemens referred to in the current report published by RAFAKO, no. 16/2014 of 15 April 2014 (Siemens Subcontractor Agreement) and agreed to conclude it.

Pursuant to the Agreement:

1) the parties agreed that for the works performed by SPV-Rafako under the SPV-Rafako Subcontractor Agreement, in order to fulfil the Ordering Party's obligation to pay remuneration to RAFAKO under the Contract and RAFAKO's obligation to pay remuneration to SPV-Rafako under SPV-Rafako Subcontractor Agreement, the Ordering Party has undertaken to pay remuneration for Contract execution directly to SPV-Rafako in the form of transfer within the meaning of Article 921(1) of the Civil Code,
2) the parties agreed that for the works performed by Siemens under the Siemens Subcontractor Agreement, in order to fulfil the Ordering Party's obligation to pay remuneration to RAFAKO under the Contract, RAFAKO's obligation to pay remuneration to SPV-Rafako under SPV-Rafako Subcontractor Agreement and SPV-Rafako's obligation to pay remuneration to Siemens under Siemens Subcontractor Agreement, the Ordering Party has undertaken to pay remuneration for Contract execution directly to Siemens in the form of transfers within the meaning of Article 921(1) of the Civil Code,
3) the parties agreed that performance guarantee (referred to in current report No. 19/2014 item 5) will be submitted partly in the form of bank and insurance performance bond issued by Financial Institutions upon SPV-Rafako's request for the benefit of the Ordering Party, and partly in cash out of which the amount of PLN 40 million was submitted by RAFAKO prior to Contract signing and PLN 30 million will be paid within 6 months following signing of the Agreement,
4) the parties agreed on the manner of advance payment by the Ordering Party under the Contract (referred to in current report No. 19/2014 items 4 and 5) as well as the manner of submitting the advance payment guarantee to the Ordering Party;
5) RAFAKO undertakes to provide SPV-Rafako with the necessary support in execution of the Agreement and SPV-Rafako Subcontractor's Agreement by making the relevant resources available, in particular, the technical, financial and human resources, to SPV-Rafako.

The Company informed of the aforementioned event in the current report no. 20/2014 of 17 April 2014.

With reference to the provisions of § 91 item 6 point 3 of the Regulation of the Minister of Finance of 19 February 2009 on *current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state*, the Company hereby informs that it is not aware of any other agreements concluded, significant for the operations of the Company, other that the agreements mentioned above, including the agreements concluded between shareholders (partners), insurance agreements, cooperation or collaboration agreements.

### 2.8.2. Significant transactions with affiliated entities concluded under conditions other than on arm's length basis

All transactions with affiliated entities are concluded on arm's length basis.

Detailed information on significant transactions with affiliated entities has been provided in note 48 of the consolidated financial statements for the year ended on 31 December 2014.

### 2.8.3. Information on agreements on credits and loans raised and terminated

**Working capital facilities**

In accordance with the financial model adopted in TAURON Capital Group, only TAURON may act as the party to working capital credits and loans raised with external institutions.

In 2014 TAURON continued to use the overdraft facility in the amount of PLN 300,000 thousand on the basis of the Agreement with Bank Pekao S.A., (Pekao Bank) concluded in December 2011, with the repayment term falling on 31 December 2014. The credit agreement was associated with the cash pooling system operating in TAURON Capital Group until 31 December 2014, serviced by Pekao Bank. The aforementioned credit agreement expired on 31 December 2014.

In connection with the term character of the Agreement described above, as a result of the public procurement procedure ended on 18 December 2014, the Company concluded the agreement on overdraft facility with PKO BP S.A. bank (PKO BP bank) for the amount of PLN 300,000 thousand, which has become effective as of 30 December 2014, with the repayment term falling on 29 December 2017.

At the same time, under the same public procurement procedure, PKO BP bank granted the Company the intraday limit in the amount of PLN 500,000 thousand for the period from 18 December 2014 to 17 December 2017. It should be indicated that the intraday limit is a daily limit that has to be fully repaid by the end of each day on which it was used.

The agreements on working capital financing concluded with PKO BP bank, referred to above, are associated with the new Agreement on real cash pooling services concluded on 18 December 2014 with the aforementioned bank with the effective term until 17 December 2017.

TAURON also used the overdraft facility in the amount of EUR 26,500 thousand in Nordea Bank Finland Plc., with the repayment term falling on 31 January 2014. The facility was used for the needs of clearing the transactions of purchase/exchange of $CO_2$ emission allowances. The credit was repaid on time.

In accordance with the foregoing, on 30 January 2014, for the needs of clearing the transactions of purchase/exchange of $CO_2$ emission allowances, the Company concluded the overdraft agreement with Nordea Bank Polska S.A. (currently: PKO BP bank) up to the amount of EUR 25,000 thousand, with the repayment term until 31 December 2015. Pursuant to the annex of 21 March 2014, the subjective scope of the agreement was extended by a possibility to finance electric energy trading.

The table below presents detailed specification of agreements for working capital facilities effective in TAURON Capital Group in 2014.

**Table no. 21. Specification of agreements for working capital facilities effective in TAURON Capital Group (commencing and continuing in 2014)**

| No. | Type of agreement | Type and level of interest rate | Amount of credit/loan (in thousand) | Term of effectiveness | Balance as at 31 December 2014 (in thousand) |
|---|---|---|---|---|---|
| 1. | Overdraft facility | WIBOR O/N + fixed margin | PLN 300,000 | 1 January 2012 – 31 December 2014 | PLN 0 |
| 2. | Overdraft facility | EONIA + fixed margin | EUR 26,500 | 10 January 2013 – 31 January 2014 | EUR 0 |
| 3. | Overdraft facility | EURIBOR 1M + fixed margin | EUR 25,000 | 30 January 2014 – 31 December 2015 | EUR 2,796 |
| 4. | Overdraft facility | WIBOR O/N + fixed margin | PLN 300,000 | 30 December 2014 – 29 December 2017 | PLN 0 |
| 5. | Intraday Limit | None | PLN 500,000 | 18 December 2014 – 17 December 2017 | PLN 0 |

The cash pooling structure operating in TAURON Capital Group is based on loans between the participants of the structure. Accordingly, the daily turnover of cash under the cash pooling forms transactions of granting / repayment of loans. The total amount of loans granted to TAURON in 2014 by companies of TAURON Capital Group amounted to PLN 15,110,868 thousand, whereas the total amount of loans granted by TAURON to TAURON Capital Group companies amounted to PLN 1,976,861 thousand (it should be indicated that the loans drawn by a given company of TAURON Capital Group simultaneously represent the loans granted by TAURON, and consequently, the loans drawn by TAURON simultaneously represent the loans granted by other companies of TAURON Capital Group).

The table below presents the balance of the loans granted within the cash pooling system, according to the entity structures, which amounted to PLN 37,085 thousand as at 31 December 2014.

**Table no. 22. Balance of loans granted to the Company by the subsidiaries under the cash pooling system as at 31 December 2014**

| No. | Company name | Amount of the loan (in PLN thousand) |
|---|---|---|
| 1. | TAURON Ciepło | 21,033 |
| 2. | TAURON Dystrybucja | 5,875 |
| 3. | TAURON Wydobycie | 3,836 |
| 4. | TAURON Sprzedaż | 3,314 |
| 5. | TAURON Obsługa Klienta | 2,526 |
| 6. | KW Czatkowice | 334 |
| 7. | TAURON Dystrybucja Serwis | 126 |
| 8. | TAURON Wytwarzanie | 19 |
| 9. | TAURON Dystrybucja Pomiary | 11 |
| 10. | TAURON Sprzedaż GZE | 6 |
| 11. | TAURON EKOENERGIA | 2 |
| 12. | TAURON Wytwarzanie GZE | 2 |
| 13. | TAURON Ubezpieczenia | 1 |
| | **Total** | **37,085** |

The loans drawn within the cash pooling, in relation to all participants (excluding TAURON) are of short-term nature, to be used for financing of current operations of the specific TAURON Capital Group company. In accordance with the applicable liquidity policy, TAURON as the cash pooling manager, holding the consolidation account, has a possibility to use the resources within a longer period of time (mainly for the purpose of granting intercompany financing, fund depositing). In 2014, the loans granted within the cash pooling system held interest rate based on WIBID O/N and WIBOR O/N adjusted by fixed margin. The individual loans did not have a specific maturity date. The ultimate deadline for drawing a loan was 31 December 2014, i.e. the last day of cash pooling agreement effectiveness. The loans were repaid on 2 January 2015.

**Investment facilities**

On 18 July 2014 the Company concluded the facility agreement with the European Investment Bank (EIB) for the total amount of PLN 295,000 thousand. TAURON Capital Group shall use funds acquired from the EIB facility for the development of distribution grids (inter alia, for the construction of about 11 thousand new connection points) and modernisation of the existing infrastructure. These activities will mainly enable connection of new clients (public institutions, individual clients and enterprises) to the existing distribution grid. Under the project, TAURON Capital Group shall also implement a pilot programme on smart metering, aimed at applying technologies facilitating data management as well as ensuring information flow between clients and energy suppliers. The funds acquired from EIB shall be also allocated for the modernisation of several hydroelectric plants of TAURON Capital Group in order to improve production capacity and operational effectiveness.

The loan shall be repaid within a period of up to 12 years as of the day of its disbursement, however, not later than in 2027.

### 2.8.4. Information on loans and sureties granted as well as sureties and guarantees received

**Loans granted**

In 2014 the Company continued the intragroup management of financial resources in TAURON Capital Group, through the cash pooling system implemented in 2010, whose structure is based on loans granted between its members.

The detailed description of the loans granted in included in item 2.8.3. hereof.

Irrespective of the cash pooling operating in TAURON Capital Group, pursuant to the agreement concluded on 8 October 2014 between the Company and TAMEH HOLDING, TAURON granted loans in the total maximum amount of PLN 500 thousand, with the repayment term until 31 March 2015. The loan was disbursed on 10 October 2014.

At the same time, pursuant to the agreement concluded on 20 June 2012 between the Company, PGNiG and EC Stalowa Wola, TAURON granted a VAT loan to EC Stalowa Wola, whose funds shall be used for financing of the VAT payable due to implementation costs of the investment involving the construction of the CCGT unit in Stalowa Wola, with the capacity of 449 $MW_e$ and 240 $MW_t$.

The table below presents the disbursements and repayments of the VAT loan performed in 2014.

**Table no. 23. Disbursements and repayments of the VAT loan in 2014**

| No. | Date of taking out a loan | Date of loan repayment | Amount (in PLN thousand) |
|---|---|---|---|
| 1. | 14 January 2014 | 11 April 2014 | 1,000 |
| 2. | 7 February 2014 | 11 April 2014 | 500 |
| 3. | 17 March 2014 | 11 April 2014 | 4,350 |
| 4. | 29 August 2014 | 20 November 2014 | 5,850 |
| 5. | 3 December 2014 | 5 January 2015 | 5,850 |

**Sureties and guarantees granted and received**

The guaranties, sureties and commitments granted in 2014 arise from the adopted financing model of TAURON Capital Group companies and they were provided on account of the conducted trading operations and as the collateral for repayment of loans granted, among others by the Regional Fund of Environmental Protection and Water Management in Katowice (WFOŚiGW Katowice) and the Regional Fund of Environmental Protection and Water Management in Kraków (WFOŚiGW Kraków).

The table below presents detailed specification of guaranties, sureties and commitments effective according to the status as at 31 December 2014.

**Table no. 24. The table below specifies the agreements on sureties, guarantees and commitments effective as at 31 December 2014**

| No. | Beneficiary | Agreement | Party to the agreement | Amount (in PLN thousand) | Date of effectiveness |
|---|---|---|---|---|---|
| 1. | WFOŚiGW Katowice | Collateral agreement | TAURON Wytwarzanie | 40,000 | 15 December 2022 |
| 2. | WFOŚiGW Katowice | Aval agreement | TAURON Ciepło | 30,000 | 15 December 2022 |
| 3. | WFOŚiGW Katowice | Aval agreement | TAURON Ciepło | 1,180 | 01 May 2016 |
| 4. | WFOŚiGW Kraków | Surety agreement | KW Czatkowice | 513 | 31 July 2018 |
| 5. | WFOŚiGW Kraków | Surety agreement | KW Czatkowice | 256 | 31 October 2018 |
| 6. | WFOŚiGW Kraków | Surety agreement | KW Czatkowice | 128 | 31 October 2018 |
| 7. | WFOŚiGW Kraków | Surety agreement | KW Czatkowice | 154 | 31 October 2018 |
| 8. | WFOŚiGW Kraków | Surety agreement | KW Czatkowice | 94 | 15 January 2019 |
| 9. | Bondholders | Corporate guarantee | TAURON Sweden Energy | 716,066 | 03 December 2029 |
| 10. | Abener Energia S.A. | Surety agreement | EC Stalowa Wola | 62,582 | 12 September 2018 |
| 11. | CEZ a.s. | Corporate guarantee | TAURON Czech Energy | 14,918 | 30 June 2015 |
| 12. | SPP CZ a.s. | Collateral agreement | TAURON Czech Energy | 1,279 | 31 January 2016 |
| 13. | PSE | Collateral agreement | TAURON Wytwarzanie | 5,000 | 4 August 2019 |

Within TAURON Capital Group the following agreements related to the issuance of bank guarantees are also effective:

1) framework agreement of 22 September 2011, including its subsequent annexes, for granting bank guarantees, concluded with PKO BP bank, with the effective term until 31 December 2016 for the amount of PLN 100,000 thousand, to be used by TAURON and its subsidiaries,
2) framework agreement of 6 May 2013, with the subsequent annex, concerning the limit for bank guarantees, concluded with Bank Zachodni WBK S.A. (BZ WBK bank), with the effective term until 6 May 2015, with the limit amounting to PLN 150,000 thousand, to be used by TAURON in favour of Izba Rozliczeniowa Giełd Towarowych S.A. (Commodity Exchange Clearing House) (IRGIT) with its seat in Warsaw.

The table below presents the specification of bank guaranties and re-guarantees under the agreements effective according to the status as at 31 December 2014.

**Table no. 25. Specification of bank guaranties granted under the agreements effective as at 31 December 2014**

| No. | Bank | Company | Beneficiary | Type of guarantee | Amount (in thousand) | Date of commencement | Date of effectiveness |
|---|---|---|---|---|---|---|---|
| 1. | PKO BP | TAURON | CAO | payments | EUR 1,000 | 1 January 2012 | 5 February 2016 |
| 2. | PKO BP | TAURON | PSE | bid bond | PLN 6,500 | 11 November 2014 | 31 December 2014 |
| 3. | PKO BP | KW Czatkowice | PGNiG Termika S.A. | performance bond | PLN 55 | 7 October 2013 | 31 August 2015 |
| 4. | PKO BP | KW Czatkowice | PGE Górnictwo i Energetyka Konwencjonalna S.A. | performance bond | PLN 436 | 18 December 2013 | 30 January 2016 |
| 5. | PKO BP | TAURON Dystrybucja Serwis | EUROVIA POLSKA S.A. | performance bond | PLN 23 | 21 December 2013 | 04 January 2016 |
| 6. | PKO BP | TAURON Dystrybucja Serwis | Dragados Oddział w Polsce S.A. | performance bond | PLN 193 | 1 April 2014 | 31 December 2016 |
| 7. | PKO BP | TAURON Sprzedaż | PSE | performance bond | PLN 281 | 1 January 2014 | 30 January 2015 |

At the same time, within TAURON Capital Group, in order to hedge the transactions executed by the Company at Power Exchange (Towarowa Giełda Energii S.A.)

(TGE) in electric energy markets and participation in the system of securing the liquidity of transaction settlement, in 2014, the following agreements were effective, pursuant to which TAURON Wytwarzanie granted the surety to the Company in favour of IRGIT due to the settlement of future transactions:

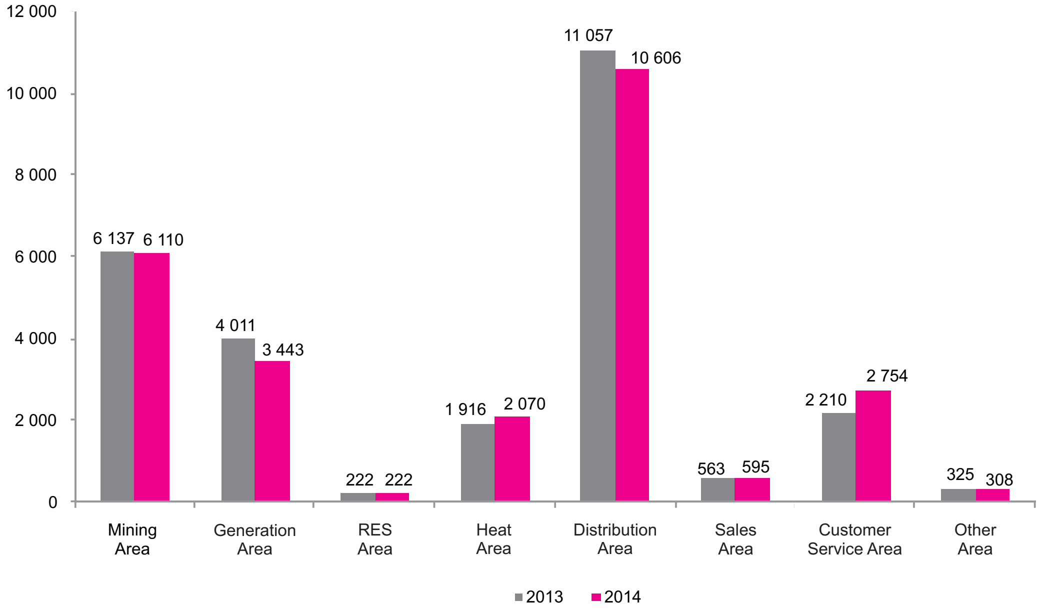
1) the agreement concluded on 22 August 2013 for the amount of PLN 45,000 thousand, effective until 31 March 2014,
2) the agreement concluded on 6 October 2014 for the amount of PLN 80,000 thousand, effective from 13 October 2014 until 31 March 2015.

### 2.9. Information concerning employment

In 2014 the average employment in TAURON Capital Group in FTEs reached 26,108 FTEs, which means the reduction against the average employment in 2013, which amounted to 26,441 FTEs.

The average employment in TAURON Capital Group in FTEs (rounded to a full FTE), divided into Segments of operations in the years 2013–2014, is presented in the figure below.

**Figure no. 41. Average employment in TAURON Capital Group in 2013 and 2014 (FTEs)***



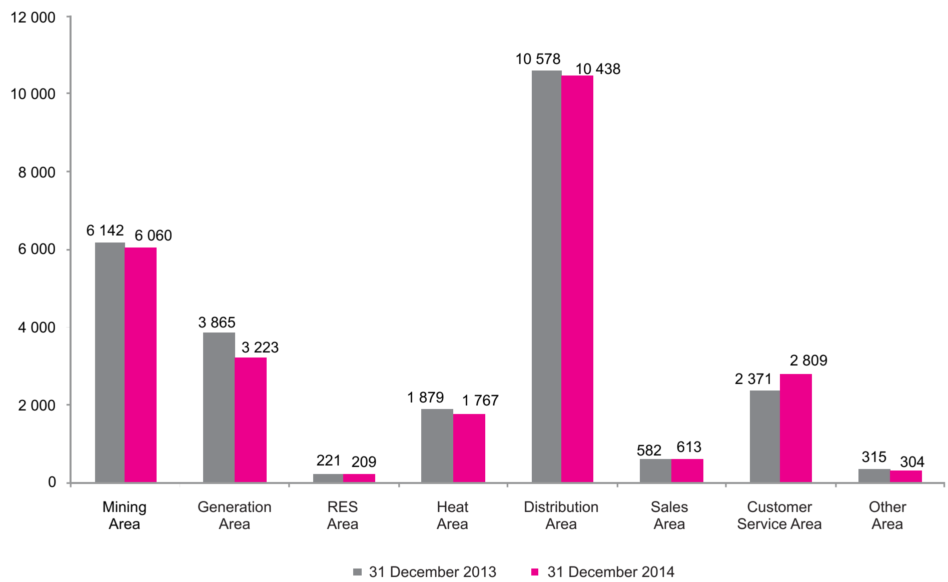

** The average employment comprises the TAURON Dystrybucja Pomiary company which, since 1 January 2014, has been covered by the consolidated reporting, and the AUTOZET and EL-AUTO companies, which were incorporated into TAURON Dystrybucja Serwis as of 30 April 2014.*

Changes in the level of the average employment in individual Areas in 2014, as compared to the average employment in 2013, result, among others, from the *Voluntary Redundancy Programmes* implemented, among others, in the following Areas: Distribution, Generation, Heat, Customer Service, RES, as well as mobility of employees between individual Areas (in particular, migration of employees to the Customer Service and Heat Area), taking over of employees from the companies AUTOZET and EL-AUTO by TAURON Dystrybucja Serwis, resignation of employees outside TAURON Capital Group (including resignation of employees from Heat Area and Generation Area and moving to TAMEH POLSKA) as well as covering the company TAURON Dystrybucja Pomiary by the consolidated reporting in 2014.

At the same time, as at 31 December 2014, 25,953 persons were employed in the companies of TAURON Capital Group. It should be stressed that the decrease in employment by 530 persons was recorded, as compared to the employment status as at 31 December 2013, which reached 25,953 people.

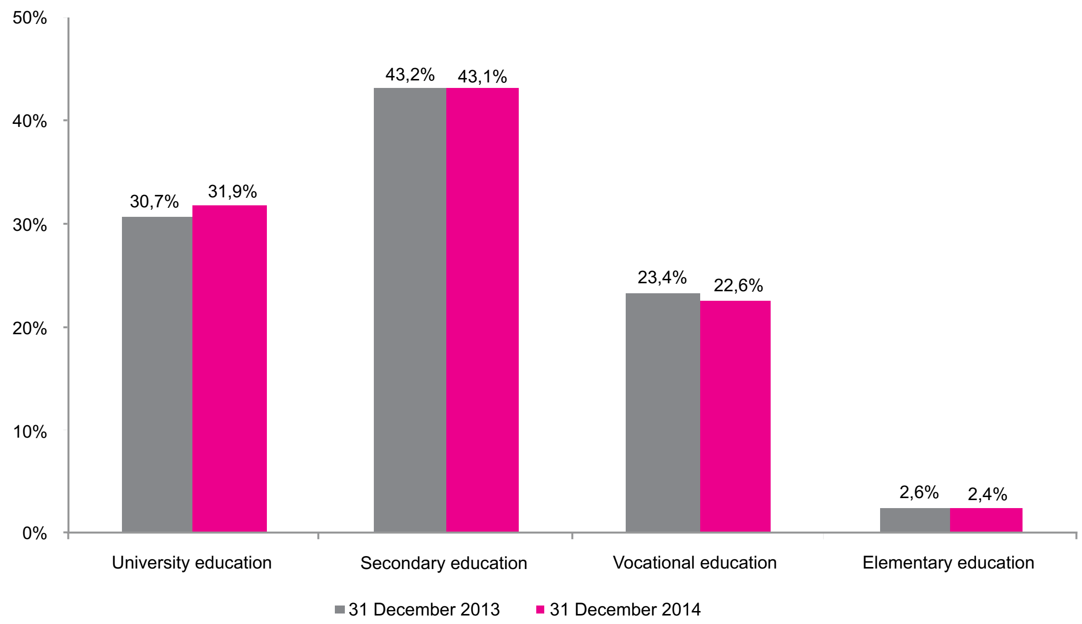
The figure below presents the employment in TAURON Capital Group in persons according to the status as at 31 December 2013 and 31 December 2014

**Figure no. 42. Employment in TAURON Capital Group in persons according to the status as at 31 December 2013 and 31 December 2014 (persons)**



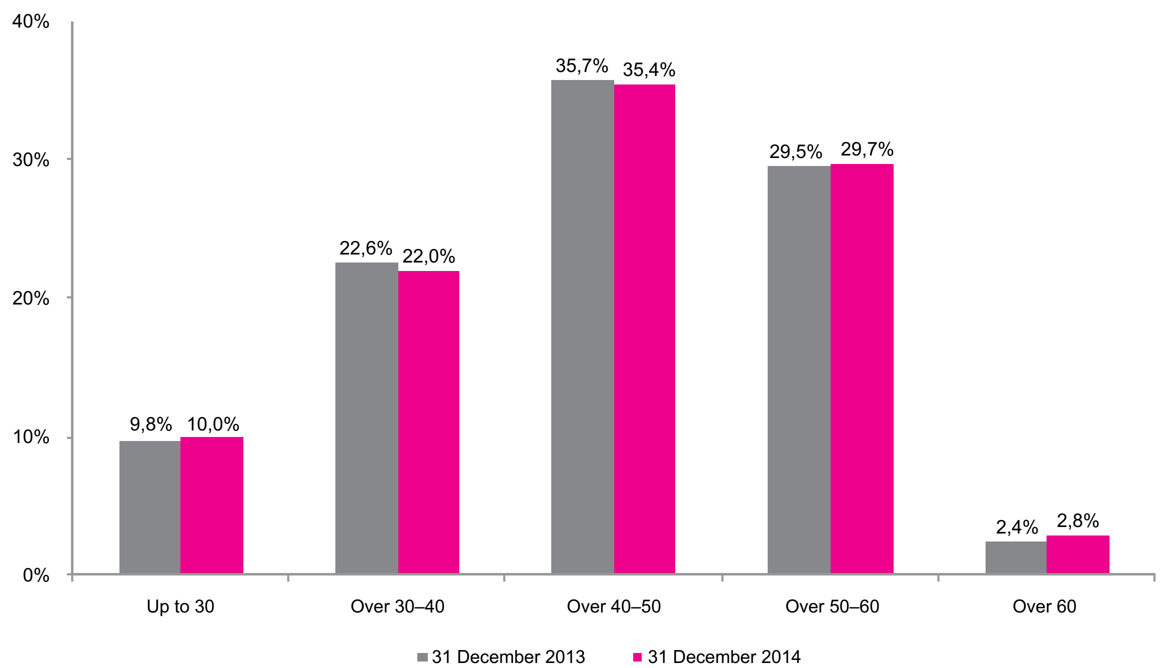
The figure below presents the structure of employment in TAURON Capital Group according to the education as at 31 December 2013 and 31 December 2014.

**Figure no. 43. Employment structure in TAURON Capital Group as at 31 December 2013 and 31 December 2014 (education)**



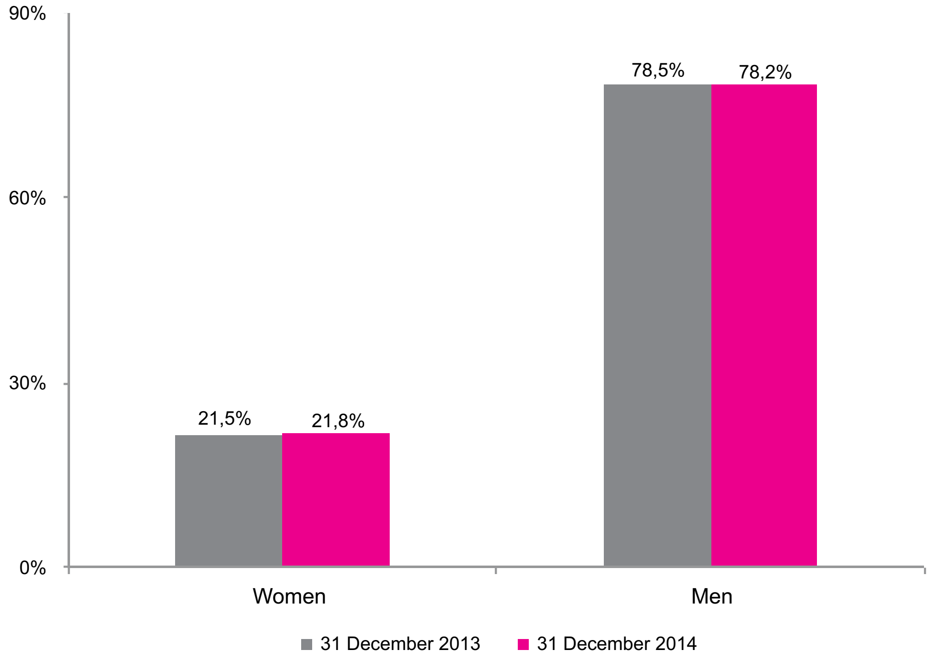

The figure below presents the age structure of employment in TAURON Capital Group according to the age as at 31 December 2013 and 31 December 2014.

**Figure no. 44. Structure of employment in TAURON Capital Group as at 31 December 2013 and 31 December 2014 (age)**



The figure below presents the structure of employment in TAURON Capital Group, according to gender, as at 31 December 2013 and 31 December 2014.

**Figure no. 45. Structure of employment in TAURON Capital Group as at 31 December 2013 and 31 December 2014 (gender)**



# 3. RISK MANAGEMENT IN TAURON CAPITAL GROUP

**Risk and threat factors**

Taking care for implementation of the Corporate Strategy, the Company implements the risk management process in relation to operations of TAURON Capital Group. This process, particularly important for the implementation of the strategic goals, identifies potential deviations against the planned result of TAURON Capital Group and increases the predictability of its accomplishment, enabling risk level control to provide for its possibly neutral impact on the implementation of strategic goals of TAURON Capital Group.

In 2014, the risk management process was updated in regulatory scope as well as in terms of the approach to risk identification and measurement as well as methods of its reporting. The Risk Management System covers all elements of the value chain implemented of TAURON Capital Group and all the employees of TAURON Capital Group take part in the risk management process.

The process of risk assuming in TAURON Capital Group has been centralised. Within the risk management process the Risk Committee fulfils a special role, as the team of experts that permanently and continuously initiates, analyses, monitors, controls, supports and supervises the performance of corporate risk management system in TAURON Capital Group. The Risk Committee comprises persons with relevant knowledge on the Company and its environment. The role of the Risk Committee is to define risk management norms and standards in TAURON Capital Group and to supervise the effectiveness of the risk management process. Within the Risk Committee two separate teams were established for the commercial risk area and for the financial and credit risk area. The Risk Committee directly supervises the implementation of the corporate risk management process.

Risk management should ensure value creation in TAURON Capital Group owing to the effective control of risk assuming, enhancing the transparency of risk assuming, independent risk assessment and increasing business concentration on optimisation of relations between profits and the risk assumed.

In TAURON Capital Group, Risk Department is responsible for the operational implementation of tasks associated with the risk management process.

Risk management in TAURON Capital Group is based on three pillars:

1) enterprise risk management,
2) commercial risk management,
3) financial and credit risk management.

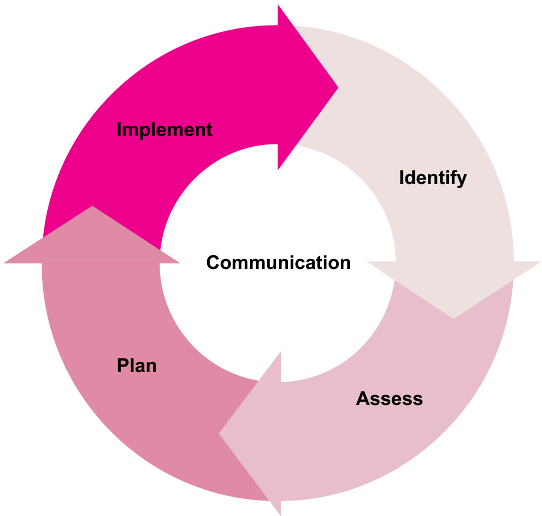
**Enterprise risk management**

The comprehensive enterprise risk management system (ERM) in TAURON Capital Group supports the implementation of the strategic goals of TAURON Capital Group through:

1) ability of the TAURON Capital Group to predict deviations against the planned levels (material and financial plan) and, at the same time, the possibility to prepare effective instruments of response to such a risk,
2) assessment and identification of risks globally in TAURON Capital Group and the consistent approach to their measurement, as a result of which TAURON Capital Group manages risks posing the most significant impact on financial results and implementation of the adopted strategic goals in case of risk materialisation,
3) development of effective and adequate measures to be undertaken by TAURON Capital Group in view of the specific risk,
4) harmonisation of the risk management process in the whole TAURON Capital Group.

The figure below shows stages in the process of enterprise risk management in TAURON Capital Group.

**Figure no. 46. Stages in enterprise risk management in TAURON Capital Group**




The risk management process comprises continuous measures presented below:

1. **Risk identification** – based on determining potential events that may affect the implementation of goals defined by TAURON Capital Group.
2. **Risk assessment** – based on determining the impact of the event classified as risk in the identification process on the implementation of the specific goals.
3. **Planning** – based on preparation of the dedicated response to the risk identified in order to achieve the desirable goals.
4. **Implementation** – based on practical introduction of the risk response prepared in the planning process.
5. **Communication** – based on the continuous information flow among ERM process participants. The periodical risk reporting is the element of this process.

The table below presents participants in the enterprise risk management process as well as the roles and responsibilities attributed to them.

**Table no. 26. Participants of the risk management process**

| No. | Participant | Roles and responsibilities of the risk management process participants |
|---|---|---|
| 1. | Supervisory Board of the Company | Authorised to controlling of activities undertaken by the Company in the scope of enterprise risk management, in terms of compliance with the expectations of shareholders, governing and regulatory bodies. |
| 2. | Audit Committee | Authorised to monitoring of the effectiveness of the risk management system existing in TAURON Capital Group. |
| 3. | Management Board of the Company | 1) takes formal decisions related to the key elements of corporate management in TAURON Capital Group,<br>2) performs the assessment of effectiveness and efficiency of the risk management process. |
| 4. | Risk Committee | 1) supervises the risk management process in TAURON Capital Group,<br>2) recommends and provides opinions for the Management Board concerning the form of individual elements of risk management infrastructure,<br>3) defines maximum risk tolerance on TAURON Capital Group and global limit for risks, applies to the Management Board for their approval and change,<br>4) approves strategies, methods and plans for securing the position on the market of energy and associated products, comprising individual areas of activities,<br>5) supervises the preparation of the quarterly information for the Management Board in the scope of all significant issues related to risk in TAURON Capital Group. |
| 5. | Internal Audit Department in TAURON | Conducts audit of the enterprise risk management process in TAURON Capital Group, comprising the assessment whether the enterprise risk management system is compliant with the requirements of the documentation and whether it is effectively implemented and maintained. |
| 6. | Enterprise Risk Office in the Risk Department in TAURON | 1) implements the risk management process in compliance with the rules defined in the relevant regulations,<br>2) acquires information concerning the current status of enterprise risk, the value of parameters measuring risk and the conducted and planned risk response, |

| No. | Participant | Roles and responsibilities of the risk management process participants |
|---|---|---|
| | | 3) prepares risk reports and submits them to the authorised participants of the enterprise risk management process,<br>4) cooperates with Risk Owners in the scope of tasks implemented by them, arising from their function. |
| 7. | Risk Owner | 1) manages risks occurring in the scope of a business unit reporting to it and bears responsibility for their impact on the current activities as well as on the implementation of the goals assigned to it,<br>2) coordinates risk management within the scope of its responsibility,<br>3) co-participates in the reporting process, is responsible for the effectiveness of risk communication in the area it is responsible for,<br>4) submits information concerning the current risk status. |
| 8. | Risk Manager | 1) supports and supervises business units within the implementation of the risk management process, its implementation, compliance and development,<br>2) verifies information on risk for the business unit he supports and assesses the effectiveness of the performed risk response. |
| 9. | Risk Management Coordinator | 1) supports the Risk Owner, as well as individual management levels within the implementation of the risk management process,<br>2) supports the harmonisation of procedures in the scope of risk identification, measurement and reporting,<br>3) supervises the presentation of the real risk picture in his unit and the application of the adequate instruments of risk response |
| 10. | Risk Expert | 1) performs risk analyses in accordance with the methodology adopted in the Company,<br>2) reports risk in accordance with the defined reporting rules,<br>3) recommends performing the specific risk responses and monitors the current status of their implementation. |
| 11. | Other employees of organisational structures of TAURON and its subsidiaries | All employees of TAURON Capital Group should have the basic knowledge concerning the risk management system, be aware of the main risks in their areas of responsibility and should be responsible for decisions that may affect the associated risks and the result of the risk assumed. |

During 2014 the revaluation of risks identified earlier was performed in accordance with the adopted new methodology of risk apportionment and measurement, and new risks were also identified and measured (in particular, strategic risks), which many significantly affect the implementation of the strategic goals adopted by the Company.

Within the framework of the aforementioned update, among others:

1) three risk categories were introduced, i.e. strategic, operational and disaster risks, depending on the perspective and level of their impact on the strategic goals of the Company,
2) the method for risk measurement description, relevant for the specific category, was agreed,
3) priority setting was defined within the adopted risk measurement methodology.

**Commercial risk management**

The Company manages the commercial risk based on the developed and adopted *Policy of risk management in the commercial activities in TAURON Group*, which specifies the set of rules and principles of commercial risk management at the level of TAURON Capital Group. The above document constitutes the implementation of market practices and solutions used in the scope of commercial risk management in electric energy trading and related products trading ($CO_2$ emission allowances, property rights, fuels), including their adjustment to the structures of TAURON Capital Group, considering the specific nature of the energy sector.

The commercial risk management in TAURON Capital Group is understood as limiting of unplanned volatility of the operating result of TAURON Capital Group, with simultaneous use of the diversification effect, arising from the portfolio of assets held. The price risk is limited through defining of the maximum permissible level of deviation of the real result of TAURON Capital Group against the planned result, arising from the volatility of market prices of electric energy and the associated products. The system of limits also comprises non-market risk factors which may potentially have an impact on the result of the commercial area. The control covers both the global limit constituting the acceptable commercial risk level comprising the full structure of TAURON Capital Group (risk appetite), as well as operating limits demonstrating the decomposition of the global limit into individual portfolios associated with the areas and types of commercial activities of TAURON Capital Group.

In accordance with the adopted model, risk management in TAURON Capital Group is decentralised, however, commercial risk controlling in TAURON Capital Group is also conducted centrally from the Company level, which ensures the appropriate supervision of one of the main Business Areas within TAURON Capital Group. The basic element of commercial risk management is the division of the commercial activities of TAURON Capital Group into Front, Middle and Back Office. The distribution of tasks is aimed at ensuring the independence of the operating functions executed by the Front Office in relation to the risk control functions fulfilled by the Risk Department. Such an organisation ensures security of the commercial activity and the transparency of the supervision over risk assuming in TAURON Capital Group companies.

**Financial and credit risk management**

Credit risk refers to potential losses resulting from the failure of partners to fulfil the contractual obligations. Market risks and credit risks are closely associated with each other. High volatility of prices, in particular, their unforeseen growth, may significantly change a customer's credit risk. While measuring the transaction risk, information flowing from the market should be taken into consideration, which may be the first warning signal of the deterioration in the financial situation of a customer.

In accordance with the adopted model, risk management in TAURON Capital Group is decentralised, however, credit risk controlling in TAURON Capital Group is conducted centrally from the Company level, which ensures the appropriate supervision over risks assumed and the required transparency of exposure to credit risk. Risk exposure is understood as the amount that may be lost if a customer fails to fulfil its obligations within the specific period of time (considering the value of collaterals contributed by the customer). Credit exposure is calculated for the current day and divided into exposure due to payment and exposure of replacement, taking into consideration the exposure arising from the provisions of the Polish Energy Law.

TAURON Capital Group has a decentralised credit risk management system, however, the control, limiting and reporting of credit risk is provided centrally, from the Company level, in accordance with the *Policy of credit risk management in TAURON Grupa.* This policy defines the set of principles and rules for credit risk management at a level of TAURON Capital Group, to lead to the effective mitigation of credit risk impact on the implementation of the strategic goals of TAURON Capital Group.

The commercial activity of TAURON Capital Group is exposed to credit risk occurring on the market, which means that customers are evaluated from the perspective of their creditworthiness and that credit exposure must be confined within the defined and acceptable credit limits. The general rule is that each customer, prior to concluding a contract, should receive a credit limit, providing basis for controlling the process of assuming such a risk. Moreover, in order to ensure its effectiveness, the rules have been defined, with the following goals:

1) defining the exposure to credit risk in TAURON Capital Group and
2) assigning competences and reporting obligations in the scope of credit risk to individual elements of the organisational structure.

Credit risk management results from controlling of the level of credit risk exposure generated upon concluding of a contract with customers by companies of TAURON Capital Group.

The Company manages financial risk (currency, interest rates, liquidity) based on the developed *Policy of managing risk specific in the financial area in TAURON Group*, adopted for application. This process is described in detail in item 4.9.2. hereof.

**Specification of the most significant risks associated with the performance of TAURON Capital Group**

The description of risks presented below represents, according to the opinion of the Company, the specification of the most essential current threats associated with the performance of TAURON Capital Group. The sequence of presentation of individual risks does not reflect the scale of their impact on the implementation of strategic goals of TAURON Capital Group.

**Table no. 27. Description of risk factors**

| No. | Types of risks | Risk description |
|---|---|---|
| **I.** | **Strategic risks** | |
| 1. | Risk of growth in prices of $CO_2$ emission allowances | The risk associated with the establishment of MSR in the market of emission trading, introducing the instrument for maintaining of the high level of prices by reduction of allowances pool. The growth in costs of $CO_2$ emission allowances may have an adverse effect on the operations of TAURON Capital Group, through the increase in costs and margin reduction. |
| 2. | Risk of inflow of energy competitive in terms of prices for the Polish generators to KSE | The risk associated with the inflow of cheap energy do PSE, both from conventional sources and from wind farms. Risk materialisation shall result in the loss of revenues by companies of TAURON Capital Group, in connection with coal mining, generation of electric energy and heat. |
| 3. | Risk of fund raising and financial services | Risk associated with the lack of possibilities to raise funding for operational and investment needs or high costs of acquisition of such financing, arising from tightening of the crediting policy of banks, unfavourable market conditions, unstable macroeconomic situation, which may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities due to the lack of resources for projects included in the Corporate Strategy and in investment plans, and for operations. |

| No. | Types of risks | Risk description |
|---|---|---|
| 4. | Concession risk | The risk associated with the withdrawal, failure to extend the validity term, or limiting the scope of any of the concessions held, causing the lack of possibility to conduct the activities in the planned scope, resulting in the loss of revenues and, consequently, the deterioration of the financial result of TAURON Capital Group. |
| 5. | Risk of changes in the operating rules of RB | The risk associated with the possibility of changes in the RB functioning, resulting in the development of negative prices on the RB and finally, on the SPOT market, which may consequently have an adverse impact on the financial result of TAURON Capital Group. |
| 6. | Risk of limited budget for the operational provision | The risk associated with the lack or reduced revenues due to maintenance of power units in production preparedness, which may have unfavourable impact on the financial result of TAURON Capital Group. |
| 7. | Risk of unstable legal system and the European Union regulations connected with the functioning of the energy sector, including the environmental protection | Risk related to unfavourable legal changes, modifications in the Polish and the European Union regulations as well as to the legislative environment uncertainty. The risk factors may have significant adverse impact on operations of TAURON Capital Group and its financial situation through increase of operating costs of the enterprise, necessary to change the strategy of the Company or TAURON Capital Group companies, permanent exclusion of specific technologies arising from the requirement to implement the EU regulations, limiting the generation capacity of the Company and undermining its negotiation position against the institutions. |
| 8. | Risk of tariff approval by the ERO President | Risk connected with the refusal of the President of ERO to approve the requested tariffs concerning the products offered and services provided, limited possibility to introduce amendments to the tariffs approved before and the refusal to recognise investment expenditure in the development plan, or in their part which shall not cover the actual costs of their generation. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through higher cost of operations, loss of income, reduced profitability of the operations and limitation of funds for development. |
| 9. | Risk of loss of the PGK status | Risk associated with a possibility to lose the status by the PGK due to the failure to comply with the statutory requirements (e.g. too low profitability of the Group, ownership changes infringing the required levels in the capital structure of PGK companies), challenging of the settlements between PGK and other affiliated entities, unsettled tax liabilities of the PGK companies. The materialisation of the risk may result in the loss of tax optimisation, increased costs of fiscal year closing, the requirement to prepare additional documentation of transfer prices. |
| 10. | Risk of non-compliance with the requirements of ERO/OCCP/ and the Instruction of Distribution Grid Operation and Maintenance | Risk associated with the possibility of the aforementioned authorities challenging the accuracy of the activity conducted by TAURON Capital Group in the scope of independence and equal treatment of entities on the market, infringement of antimonopoly regulations or abuse of the dominating position. The risk factors may have material adverse effect on TAURON Capital Group operations, its financial situation or results of its activities through withdrawal or change in the scope of the effective concessions, the requirement to change agreements for the supply of electric energy, incurring additional costs and a possibility of imposing financial penalties. |
| **II.** | **Operational risks** | |
| 1. | Risk connected with the obligation to redeem the certificates of origin or pay the substitution fee | Risk connected with the failure to fulfil the obligation to redeem the certificates of origin or pay the substitution fee, due to the limited availability of certificates of origin on the market, change of support policy for energy generated in RES and in co-generation, or redemption of incorrect number of certificates of origin / payment of the incorrect value of the substitution fee, resulting in potential increase in costs of fulfilment of the statutory obligation, penalties imposed by ERO President and higher production costs of electric energy sold. |
| 2. | Weather risk in the Heat Area | Risk related to fluctuations of air temperatures which have significant impact on the demand for electricity and heat at a longer term, causing the significant increase or decrease of this demand, respectively, which may result in the failure to achieve the production plan in the assumed period or limitation of the possibility to satisfy the demand due to hydraulic constraints of the connection network, fixtures and the increased failure rate of sales. |
| 3. | Market risk | The risk is associated with the volatility of prices of electric energy, property rights, $CO_2$ emission allowances and the significant and/or unexpected changes in prices of coal and other fuels, as well as volatility of sales and generation volumes. The volatility referred to above, including the adverse change in a medium-term perspective, may significantly affect the financial result of TAURON Capital Group through the growth of costs, reduction of the margin and limitation of the revenues gained, as well as the fulfilment of the legal requirements related to maintaining of the relevant fuel reserves or imposing a fine in case of failure to fulfil those requirements. The Company manages the commercial risk based on the developed and adopted *Policy of risk management in the commercial activities in TAURON Group*, which specifies the set of rules and principles of commercial risk management at the level of TAURON Capital Group. The above document constitutes the implementation of market practices and solutions used in the scope of commercial risk management in electric energy trading and related products trading ($CO_2$ emission allowances, property rights, fuels), including their adjustment to the structures of TAURON Capital Group, considering the specific nature of the energy sector. |

| No. | Types of risks | Risk description |
|---|---|---|
| 4. | Risk connected with the obligation to redeem $CO_2$ emission allowances | Risk connected with emitting $CO_2$ to the atmosphere as well as the need to redeem the relevant quantity of $CO_2$ emission allowances. The risk factors may have adverse impact on operations of TAURON Capital Group, its financial standing or results of its activities, through the fines imposed for each unit of unredeemed allowance, or decreasing the planned electricity sales profitability and the increase in costs associated with the failure to issue free allowances and their incorrect redemption. |
| 5. | Risk of variable generation cost | Risk associated with potential errors in selection of units and distribution of loads of unit scheduling. The selection of units is performed on the basis of TSO data and decision, maintenance information from power plants, plans of units, variable costs and data published by TSO. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, through the necessity to select a more expensive generation unit or change in the optimum production schedule, which results in the increased variable cost of electric energy production. |
| 6. | Assets failure risk | Risk connected with of occurrence of serious and/or permanent failures and damages of equipment used by the TAURON Capital Group companies. Risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through loss of income arising from the interruptions and shutdowns, the necessity to incur additional costs of repairs of the grid infrastructure and non-grid infrastructure, the requirement to pay fines. |
| 7. | Risk of fixed assets management | Risk associated with the lack of possibility to use fixed assets due to their ineffective management causing their poor technical condition, inadequate costs of fixed assets insurance resulting from their underestimation or overestimation, as well as the costs of holding redundant assets. Risk factors many have material adverse effect on TAURON Capital Group operations, its financial situation or results of its activities due to the lack of optimum use of the assets, its faster wear arising from inadequate exploitation, the need of incurring costs of remedying failures arising from wrong asset management. |
| 8. | Environmental risk, including the risk associated with the atmospheric conditions | The risk consisting in a possibility to incur losses resulting from non-compliance with the legal regulations (including those arising from the way of implementation of the European law in the national law, administrative decisions), and including the possibility of occurrence of environmental damage or serious industrial accident or failure. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through the necessity to incur significant costs of compliance, pay indemnities, or a potential of threat to implementation of production tasks. |
| 9. | Risk of unregulated legal status of the real property utilised | Risk connected with a possibility of occurrence of massive financial claims of land owners due to unregulated legal status of the foundation of a building or structure on the foreign land, undermining the legal status and claims of third parties in relation to certain components of assets. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through higher cost of operations or interruption of operating activities. |
| 10. | Risk of occurrence of natural hazards or unfavourable geological and mining conditions | Risk connected with threats to implementation of production tasks, hazards to safety of maintenance of the mining plant or safety of the staff due to natural risk factors within the development of the mining works, difficulties connected with the roof and floor conditions hampering the mining process, as well as natural hazards occurring in the mining plants (water and fire conditions, rock bumps). |
| **III.** | **Disaster Risks** | |
| 1. | Risk of destruction of key machinery and equipment | The risk associated with a possibility of permanent destruction of machinery or equipment resulting in long-term decommissioning of a power unit, which may cause a significant loss of financial revenues and additional costs associated with the purchase of new elements or entire machines. |
| 2. | Risk of cyber attack | The risk refers to the attack on the IT network controlling the performance of power units or the transmission grid, causing shutdown of power units and, in extreme cases, destruction of key elements of electric power infrastructure, which may result in the lack of possibility of their performance over a longer period of time, leading to the deterioration of financial results through the decline in revenues and the necessity to incur additional costs to recover their efficiency. |

The Company actively manages all risks aiming at maximum reduction or elimination of their potential adverse effects, in particular on the financial result of TAURON Capital Group.

# 4. ANALYSIS OF FINANCIAL AND ECONOMIC SITUATION OF TAURON CAPITAL GROUP

## 4.1. Principles of preparation of the annual consolidated financial statements

The financial statement has been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU.

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

Companies of TAURON Capital Group and the parent entity keep their books and prepare their financial statements in accordance with the IFRS, excluding TAURON Czech Energy and TAURON Sweden Energy, keeping their books and preparing their financial statement in accordance with the accounting principles applicable, respectively, in the Czech Republic and in Sweden.

The consolidated financial statement contains adjustments which are not included in the ledgers of TAURON Capital Group entities, introduced in order to bring the consolidated statement into compliance with IFRS.

The consolidated financial statement has been prepared with the assumption of continuation of business operations by the TAURON Capital Group companies in the foreseeable future. As at the date of approval of the consolidated financial statement for publication, no circumstances have been recognised, indicating any risk for business continuity by the TAURON Capital Group companies.

The accounting principles (policy) adopted for compiling of the consolidated financial statement are provided in note 9 of the Consolidated financial statement for the year ended on 31 December 2014.

## 4.2. Overview of economic and financial values disclosed in the consolidated annual financial statement

### Consolidated statement of financial standing

The table below presents the annual consolidated statement of financial situation – assets.

**Table no. 28. Annual consolidated statement of financial standing – assets***

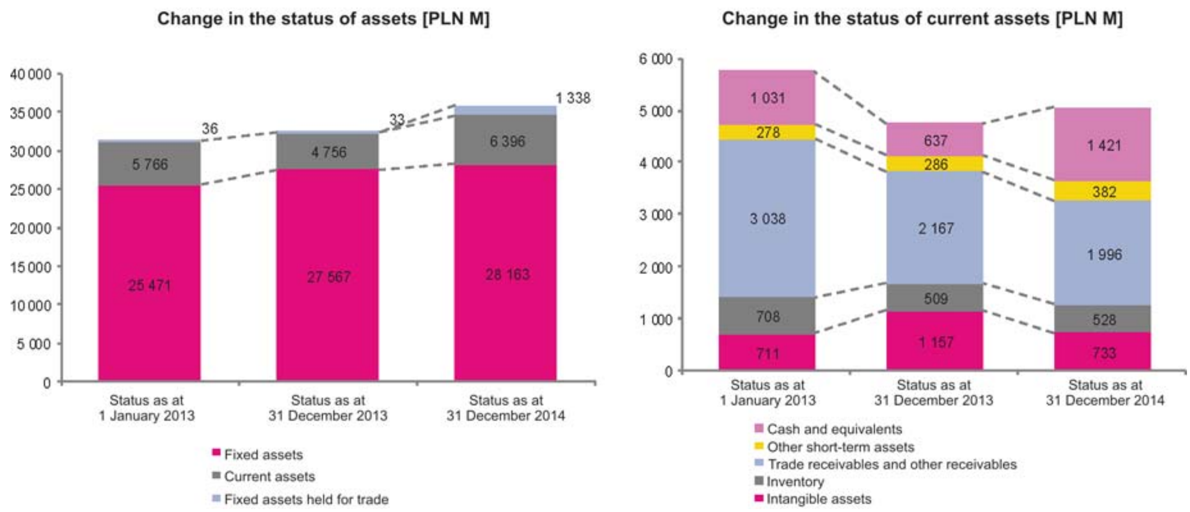
| Statement of financial standing (PLN thous.) | Status as at 31 December 2014 | Status as at 31 December 2013 *(data converted)* | Status as at 01 January 2013 *(data not converted)* | Dynamics (2014/2013) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Fixed Assets** | **28,162,749** | **27,567,008** | **25,471,230** | **102.2%** |
| Tangible fixed assets | 24,850,942 | 25,127,639 | 23,300,643 | 98.9% |
| Intangible assets and goodwill | 1,799,789 | 1,407,062 | 1,429,313 | 127.9% |
| Shares and stocks in joint ventures | 414,584 | 44,398 | 51,986 | 933.8% |
| Other long-term financial assets | 377,383 | 587,166 | 305,444 | 64.3% |
| Other long-term non-financial assets | 657,943 | 354,704 | 359,709 | 185.5% |
| Assets due to deferred tax | 62,108 | 46,039 | 24,135 | 134.9% |
| **Current assets** | **6,396,444** | **4,788,562** | **5,802,447** | **133.6%** |
| Intangible assets | 733,048 | 1,156,550 | 711,099 | 63.4% |
| Inventory | 527,596 | 509,224 | 708,282 | 103.6% |
| Receivables due to income tax | 26,489 | 31,890 | 1,434 | 83.1% |
| Trade receivables and other receivables | 1,969,169 | 2,134,641 | 3,036,695 | 92.2% |
| Other short-term financial assets | 27,539 | 15,878 | 5,422 | 173.4% |
| Other short-term non-financial assets | 353,989 | 270,429 | 272,371 | 130.9% |
| Cash and equivalents | 1,420,909 | 636,909 | 1,030,929 | 223.1% |
| Fixed assets and assets of TAURON Capital Group for disposal, classified as held for trade | 1,337,705 | 33,041 | 36,215 | 4,048.6% |
| **TOTAL ASSETS** | **34,559,193** | **32,355,570** | **31,273,677** | **106.8%** |

** Due to the limited comparability of earlier periods, data are presented in a three-year horizon. Data comprising earlier periods are presented in Table no. 34 of this report.*

As of 31 December 2014 the statement on financial situation of TAURON Capital Group indicates balance sheet total assets higher by o 6.8%.

The figure below shows the change in the status of assets and current assets.

**Figure no. 47. Change in the status of assets and current assets**




The following factor had an impact on the growth in the value of fixed assets by 2.2%:

1) capital expenditure on tangible fixed assets and intangible assets, mainly on assets of the Distribution, Generation and Heat Segments.
2) in-kind contribution in the form of an organised part of enterprises of TAURON Wytwarzanie S.A. (Elektrownia Blachownia) and TAURON Ciepło (ZW Nowa) to the Company TAMEH POLSKA and acquisition of 50% of shares under the implementation of the joint project of TAURON Capital Group and ArcelorMittal Group,
3) reclassification of fixed assets of the RES Segment, in connection with the separation of a part of TAURON EKOENERGIA company assets, as an organised part of the enterprise in the form of wind farms, and their assignment to the acquiring company, Marselwind, which is described in item 1.3.2.
4) advances contributed for tangible fixed assets under construction – increase by PLN 298 million.

The following factor had an impact on the growth in the value of current assets by 33.6%:

1) growth in cash by PLN 784.0 million – the reasons of the change are described in the item related to cash flows,
2) reduction of the level of intangible assets by PLN 423.5 million in connection with including of free $CO_2$ emission allowances related to 2013 and received in 2014 in the calculation of the $CO_2$ provision. As a consequence, in 2014 TAURON Capital Group had a surplus of free allowances in relation to emission in the reporting year. At the same time, those allowances were not included in the settlement for 2013, which resulted in high costs of provision for the surplus of $CO_2$ emission allowances in the previous year.
3) the increase in the value of fixed assets for disposal, classified as held for trade, is associated with the separation of wind farms from the structures of TAURON EKOENERGIA, and the consequent change of their presentation in the statement of financial standing.

The table below presents the annual consolidated statement on financial situation – liabilities.

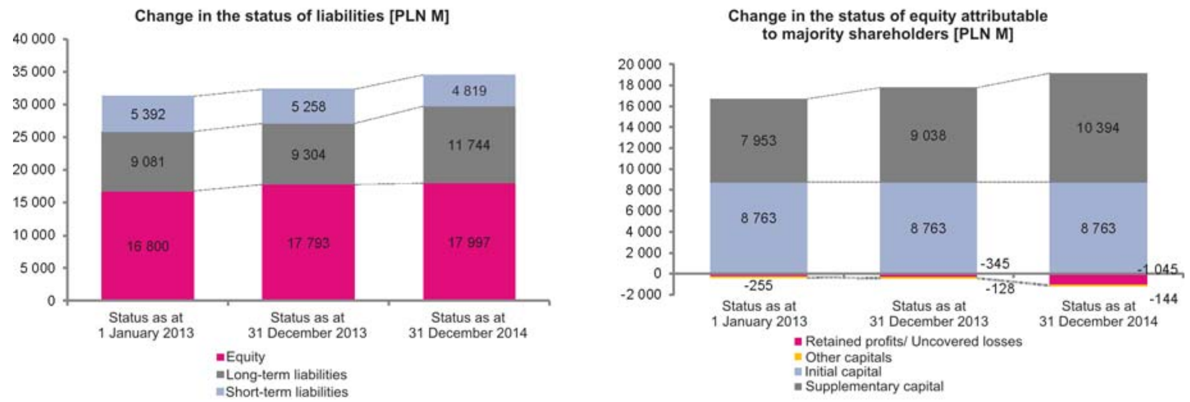
**Table no. 29. Annual consolidated statement of financial standing – liabilities***

| Statement of financial standing (PLN thous.) | Status as at 31 December 2014 | Status as at 31 December 2013 *(data converted)* | Status as at 1 January 2013 *(data not converted)* | Dynamics (2014/2013) |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| **Equity** | **17,996,564** | **17,793,499** | **16,800,020** | **101.1%** |
| Equity attributable to shareholders of the parent entity | **17,966,448** | **17,327,165** | **16,306,681** | **103.7%** |
| Share capital | 8,762,747 | 8,762,747 | 8,762,747 | 100.0% |
| Supplementary capital | 10,393,686 | 9,037,699 | 7,953,021 | 115.0% |
| Hedging instruments revaluation reserve | (143,019) | (126,651) | (153,703) | 112.9% |
| Currency Exchange differences due to translation of foreign units | (1,386) | (1,631) | (370) | 85.0% |
| Retained profits/Uncovered losses | (1,045,580) | (344,999) | (255,014) | 303.1% |
| **Non-controlling shares** | **30,116** | **466,334** | **493,339** | **6.5%** |
| **Long-term liabilities** | **11,744,092** | **9,304,341** | **9,081,234** | **126.2%** |
| Loans, credits and debt securities | 7,422,332 | 5,500,532 | 5,222,882 | 134.9% |
| Liabilities due to financial leasing | 46,443 | 61,643 | 41,793 | 75.3% |
| Trade liabilities and other long-term financial liabilities | 48,986 | 7,827 | 7,890 | 625.9% |
| Derivatives | 93,501 | 87,573 | 150,594 | 106.8% |
| Provisions for employee benefits and other provisions | 2,113,601 | 1,639,222 | 1,650,742 | 128.9% |
| Long-term prepayments and governmental subsidies | 662,072 | 668,487 | 639,643 | 99.0% |
| Liabilities due to deferred income tax | 1,357,157 | 1,339,057 | 1,367,687 | 101.4% |
| **Short-term liabilities** | **4,818,537** | **5,257,730** | **5,392,423** | **91.6%** |
| Current portion of interest-bearing credits, loans and debt securities | 631,530 | 284,633 | 286,990 | 221.9% |
| Current part of liabilities due to financial leasing | 13,461 | 17,327 | 14,482 | 77.7% |
| Trade liabilities and other liabilities | 1,866,865 | 2,023,537 | 2,628,449 | 92.3% |
| Derivatives | 102,615 | 73,358 | 40,624 | 139.9% |
| Provisions for employee benefits and other provisions | 1,240,369 | 1,725,387 | 1,270,740 | 71.9% |
| Accruals and governmental subsidies | 245,520 | 239,639 | 268,870 | 102.5% |
| Liabilities due to income tax | 13,518 | 79,035 | 113,034 | 17.1% |
| Other non-financial liabilities | 619,689 | 814,814 | 769,234 | 76.1% |
| Liabilities of TAURON Capital Group for disposal, classified as held for trade | 84,970 | – | – | – |
| **TOTAL LIABILITIES** | **34,559,193** | **32,355,570** | **31,273,677** | **106.8%** |

** Due to the limited comparability of earlier periods, data are presented in a three-year horizon. Data comprising earlier periods are presented in Table no. 34 of this report.*

The figure below shows the change in the status of liabilities and equity.

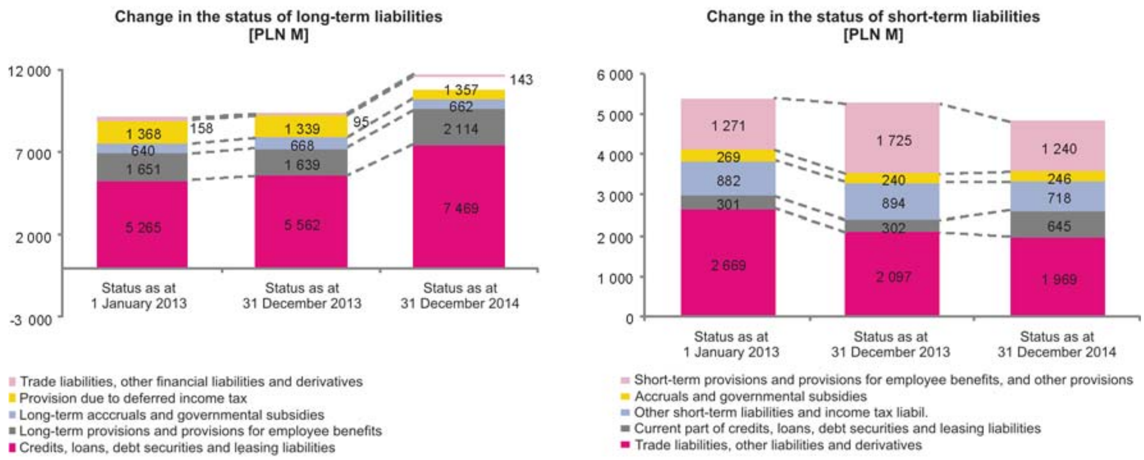
**Figure no. 48. Change in liabilities and equity**




Similar to the previous years, in 2014 the dominating source of assets financing was equity whose share in the total liabilities amounted to 52.1%.

The figure below shows the change in the status of liabilities.

**Figure no. 49. Change in the status of liabilities**




The value of long-term liabilities of TAURON Capital Group increased by 26.2%, due to the following factors:

1) increase in the value of financial liabilities incurred by PLN 1,906.6 million, for the needs of funding the investments in fixed assets implemented in TAURON Capital Group,
2) increase in the value of provisions for future employee benefits by PLN 450.5 million, in connection with the reduction of the discount rate by the Group, as a result of the decline in market interest rates.

The value of short-term liabilities of TAURON Capital Group decreased by 8.4%, due to the following factors:

1) lower value of trade liabilities by PLN 156.7 million,
2) lower value of the provision created for redemption of $CO_2$ emission allowances by PLN 453.0 million, which is associated with obtaining of free emission allowances due for 2013 by companies of TAURON Capital Group in 2014,
3) higher value of financial liabilities by approximately PLN 343.0 million, in connection with the acquisition of external financing for the needs of funding the investments in fixed assets implemented in TAURON Capital Group,
4) lower value of the actuarial provision by PLN 12.5 million,
5) presentation of liabilities attributed to assets held for disposal in the balance sheet of the Group, in connection with the operation of separating wind farms from the structures of TAURON EKOENERGIA at a level of PLN 85.0 million.

### Consolidated statement of comprehensive income

The table below presents the annual consolidated statement of comprehensive income. Due to the changes in Business Areas and in order to maintain the comparability, the results are presented for three years.

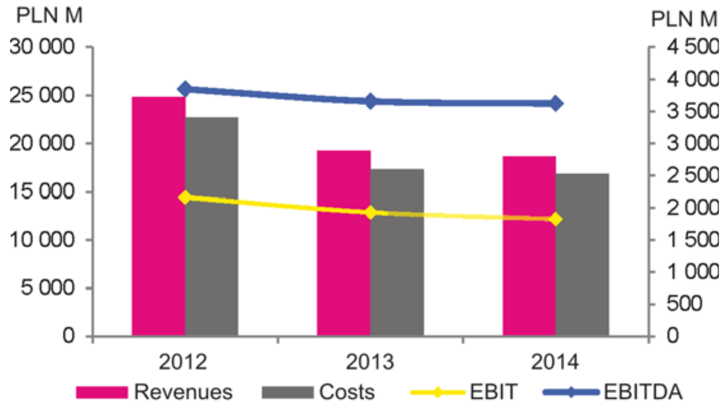
**Table no. 30. Annual statement of comprehensive income for the years 2012–2014***

| Statement of comprehensive income (PLN thous.) | 2014 | 2013 | 2012 *(data not converted)* | Dynamics (2014/2013) |
|---|---|---|---|---|
| **Revenue on sales** | **18,440,763** | **19,131,122** | **24,752,985** | 96.4% |
| Own cost of sales | (15,512,063) | (15,990,461) | (21,282,054) | 97.0% |
| **Gross profit (loss) on sales** | **2,928,700** | **3,140,661** | **3,470,931** | 93.3% |
| Other operating revenues | 233,306 | 127,436 | 118,901 | 183.1% |
| Costs of sales | (549,164) | (553,502) | (552,291) | 99.2% |
| Overheads | (664,187) | (645,406) | (734,754) | 102.9% |
| Other operating expenses | (118,542) | (135,123) | (137,658) | 87.7% |
| **Operating profit (loss)** | **1,830,113** | **1,934,066** | **2,165,129** | 94.6% |
| *Operating profit margin (%)* | *9.9%* | *10.1%* | *8.7%* | *98.2%* |
| Financial revenues | 86,198 | 99,257 | 131,306 | 86.8% |
| Financial expenses | (417,160) | (346,993) | (347,124) | 120.2% |
| Share in the profit (loss) of joint venture | (936) | (2,709) | (1,734) | 34.6% |
| **Gross profit (loss)** | **1,498,215** | **1,683,621** | **1,947,577** | 89.0% |
| *Gross profit margin (%)* | *8.1%* | *8.8%* | *7.9%* | *92.3%* |
| Income Tax | (312,655) | (337,136) | (396,778) | 92.7% |
| **Net profit (loss) for the financial year** | **1,185,560** | **1,346,485** | **1,550,799** | 88.0% |
| *Net profit margin (%)* | *6.4%* | *7.0%* | *6.3%* | *91.3%* |
| Other comprehensive income for the financial year including tax | (290,384) | 43,488 | (333,594) | – |
| **Total income for the financial year** | **895,176** | **1,389,973** | **1,217,205** | 64.4% |
| **Profit attributable to:** | | | | |
| **Shareholders of the parent company** | **1,180,893** | **1,308,318** | **1,476,392** | 90.3% |
| Non-controlling interests | 4,667 | 38,167 | 74,407 | 12.2% |
| **Total income attributable to:** | | | | |
| Shareholders of the parent company | 890,879 | 1,349,123 | 1,157,617 | 66.0% |
| Non-controlling interests | 4,297 | 40,850 | 59,588 | 10.5% |
| **EBIT and EBITDA** | | | | |
| **EBIT** | **1,830,113** | 1,934,066 | 2,165,129 | 94.6% |
| **EBITDA** | **3,627,100** | 3,661,484 | 3,851,625 | 99.1% |

** The three-year period is presented due to significant changes in organisation of operating Segments as compared to the period before 2012. The approximate picture of results in the 5-year period is presented in Table no. 34 of this report.*

The figure below presents the financial results of TAURON Capital Group for 2012–2014.

**Figure no. 50. Financial results of TAURON Capital Group for the years 2012–2014**




In the reporting period ended on 31 December 2014, TAURON Capital Group gained revenues on sales lower by 3.6% as compared to the values achieved in 2013. It should be mentioned that in Q4 2014 a lower decline of revenues was noted as compared to the entire 2014, reaching 1.6%.

The lower level of revenues was affected by the lower value of the accomplished sales of electric energy, coal and heat, resulting mainly from the situation in the domestic market. In case of other products and services offered by the companies of TAURON Capital Group slight growths were recorded.

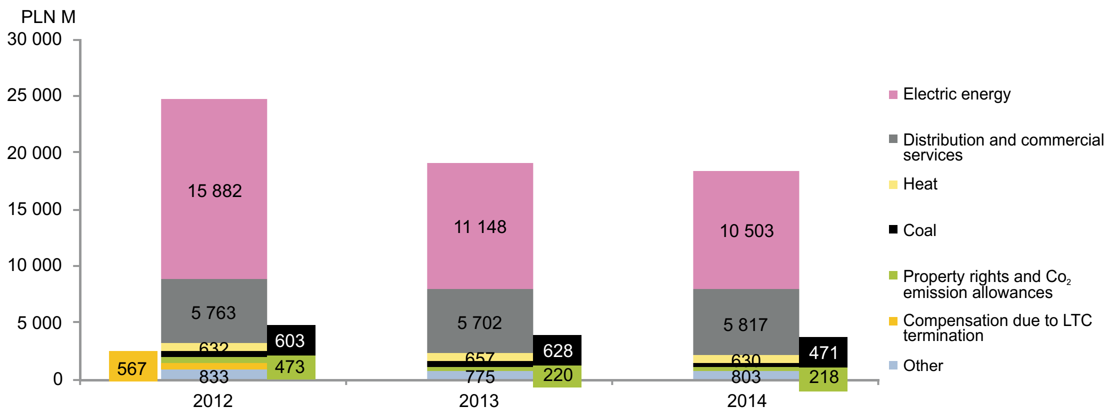
The decline in the revenues from electric energy sales arising from the decline in the average prices(for retail sales by 12.0%) and volume (for retail sales by 6.5%) is the result of lower consumer demand, activity of competitive companies and client acquisitions they perform. Additionally, the decline in prices results from marketing actions conducted by Sales Area, aimed at maintaining the existing clients by means of loyalty measures as well as acquisition of new clients (from competitive companies).

The decline in the revenues on coal sales is the consequence of the lower sales of the delivered supplies (by 25.2%) and lower average prices of commercial coal (by 2.8%), mainly due to the inflow of imported coal, decline in exports, lower production of electric energy from hard coal by domestic producers (decline in total production of professional power plants by 4.9%, including coal-fired power plants – by 5.1%), increased generation and level of using capacity installed in wind farms (increase in production of wind farms reached 23.4% YoY). The decline in the revenues on sales of heat is the result of higher YoY temperatures, which affected the decline in the volume of the heat supplied by approximately 14.2%.

The aforementioned factors were partly compensated by gaining revenues from operational capacity in 2014 (which did not take place in 2013), higher sales of electric energy on the balancing market, accomplished by the Generation Segment, and the higher sales price of the distribution service.

The figure below presents the structure of revenues of TAURON Capital Group in the years 2012–2014.

**Figure no. 51. Structure of revenues of TAURON Capital Group in the years 2012–2014***




** The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in Table 34 of this report.*

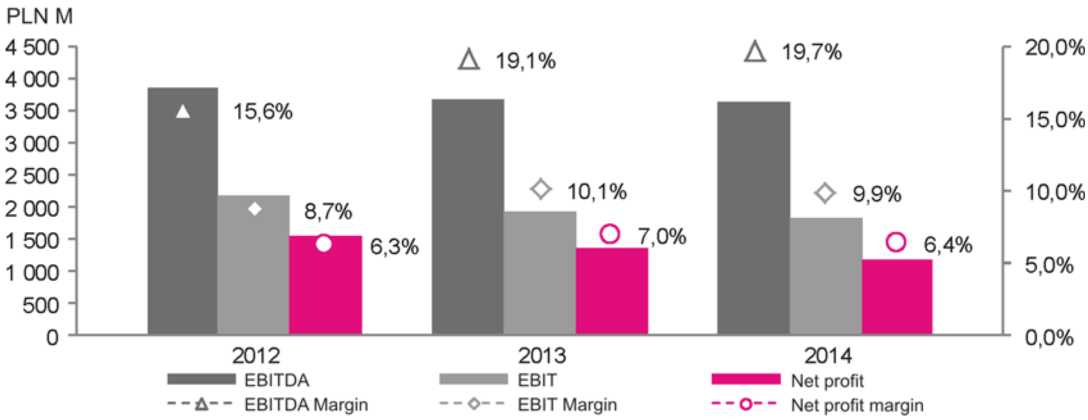
As compared to the corresponding period of 2013 TAURON Capital Group reached higher total revenue on sales in the following Segments: RES (by 37.4% as a result of the full year of functioning of Wicko and Marszewo wind farms – sales of a higher volume of electric energy and property rights) and Customer Service (by 23.8% – higher revenues as a result of takeover of service for companies of TAURON Capital Group in the scope of Back Office functions throughout 2013). The highest decline in the total revenues was recorded in the following Segments: Generation (by 29.6%), Mining (by 14.6%) and Sales (by 15.2%) as a result of the lower sales volume and sales price of electric energy and commercial coal.

In relation to the revenues on sales gained due to sales of products outside the Group, the highest growth dynamics was recorded in the Generation (182.9%), RES (126.0%) and Distribution (117.1%) Segments.

In 2014, costs of TAURON Capital Group operations reached approximately PLN 16,725 million and they were lower by about 2.7% than costs incurred in 2013. It should be noted that this decline in costs is correlated with the decline in the achieved revenues on sales and results from lower operating costs of the Sales, Generation and Mining Segments. Declines recorded in the aforementioned Segments result, on the one hand, from the lower volume of sales and production of electric energy and, and the associated hard coal production and sales and, on the other hand, from activities carried out by TAURON Capital Group companies in the scope of fixed costs optimisation, which partly enabled to neutralise the impact of decreased revenues on the financial results of TAURON Capital Group.

The figure below shows the financial results of TAURON Capital Group and the level of accomplished margins.

**Figure no. 52. Financial results of TAURON Capital Group and the level of accomplished margins***




** The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate picture of results in the five-year period is presented in Table 34 of this report.*

In 2014, TAURON Capital Group recorded slightly lower results of EBITDA and EBIT than in 2013. The EBITDA margin reached a slightly higher level (by 2.8%), whereas the EBIT margin was slightly lower (by 1.8%) than in 2013.

In 2014 the net profit attributable to shareholders of the parent company was lower by 9.7% than in 2013, which resulted from the financial costs of servicing a higher debt, incurred by TAURON Capital Group, in relation to 2013.

### Statement of Cash Flows

The table below presents the statement of cash flows

**Table no. 31. Statement of Cash Flows***

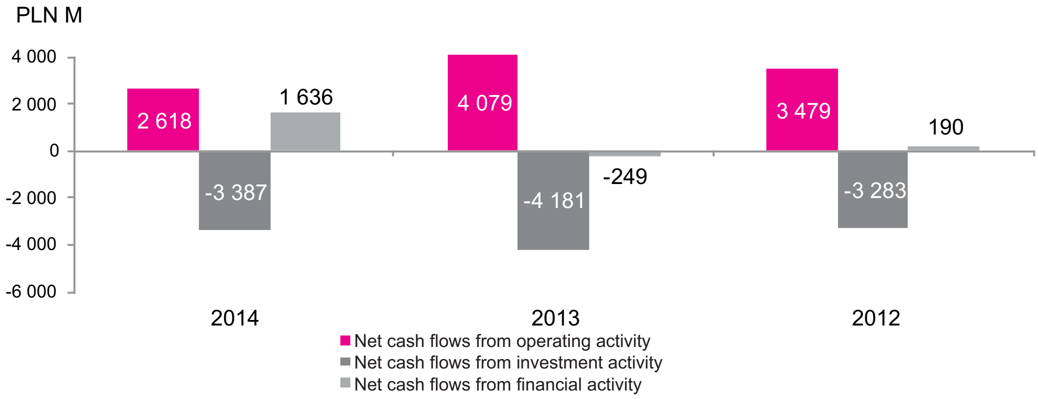
| Statement of Cash Flows (data in PLN thousand) | Year ended 31 December 2014 | Year ended 31 December 2013 *(data converted)* | Year ended 31 December 2012 *(data not converted)* | Dynamics (2014/2013) |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| **Gross profit/(loss)** | **1,498,215** | 1,683,621 | 1,947,577 | **89.0%** |
| **Adjustments** | **1,119,692** | 2,395,461 | 1,531,474 | **46.7%** |
| **Net cash from operating activities** | **2,617,907** | 4,079,082 | 3,479,051 | **64.2%** |

| Statement of Cash Flows (data in PLN thousand) | Year ended 31 December 2014 | Year ended 31 December 2013 *(data converted)* | Year ended 31 December 2012 *(data not converted)* | Dynamics (2014/2013) |
|---|---|---|---|---|
| **Cash flows from investment activities** | | | | |
| Sales of tangible fixed assets and intangible assets | 47,800 | 29,785 | 50,192 | 160.5% |
| Purchase of tangible fixed assets and intangible assets | (3,464,578) | (3,933,673) | (3,302,471) | 88.1% |
| Sales of bonds and other debt securities | – | – | 102,506 | – |
| Sales of other financial assets | 38,264 | 4,237 | 22,011 | 903.1% |
| Purchase of other financial assets | (6,684) | (4,920) | (10,463) | 135.9% |
| Acquisition of shares and stocks in joint projects | – | – | (32,576) | – |
| Advance payment for purchase of shares in the subsidiary | – | (232,500) | – | – |
| Acquisition of subsidiary following deduction of cash taken over | – | – | (5,613) | – |
| Dividend received | 3,931 | 18,323 | 8,349 | 21.5% |
| Interest received | 1,068 | 40 | 136 | 2,670.0% |
| Repayment of loans granted | 11,700 | 46,800 | 24,500 | 25.0% |
| Loans granted | (18,050) | (108,800) | (139,500) | 16.6% |
| Other | (184) | 220 | – | – |
| **Net cash from investment activities** | **(3,386,733)** | **(4,180,488)** | **(3,282,929)** | **81.0%** |
| **Cash flows from financial activities** | | | | |
| Repayment of liabilities due to financial leasing | (20,622) | (14,911) | (14,834) | 138.3% |
| Cash inflows due to loans/credits | – | 452,325 | 1,005,000 | – |
| Repayment of loans/credits | (169,971) | (141,226) | (257,210) | 120.4% |
| Issue of debt securities | 3,653,234 | – | 150,000 | – |
| Redemption of debt securities | (1,148,200) | – | – | – |
| Dividends paid to shareholders of the parent company | (332,984) | (350,510) | (543,290) | 95.0% |
| Dividends paid to non-controlling shareholders | (1,233) | (8,047) | (16,434) | 15.3% |
| Interest paid | (273,392) | (229,431) | (222,089) | 119.2% |
| Purchase of non-controlling shares | (125,402) | (37,021) | (6,535) | 338.7% |
| Subsidies received | 63,139 | 89,024 | 106,083 | 70.9% |
| Other | (8,820) | (9,303) | (10,975) | 94.8% |
| **Net cash from financial activities** | **1,635,749** | **(249,100)** | **189,716** | **–** |
| **Increase/(decrease) in net cash and equivalents** | **866,923** | **(350,506)** | **385,838** | **–** |
| Net exchange differences | (177) | (1,858) | (1,375) | 9.5% |
| **Cash opening balance** | **541,148** | **891,654** | **505,816** | **60.7%** |
| **Cash closing balance** | **1,408,071** | **541,148** | **891,654** | **260.2%** |

** The three-year period is presented due to significant changes in organisation of operating Segments as compared to the period before 2012. The approximate picture of results in the 5-year period is presented in Table no. 34 of this report.*

The figure below presents the cash flows in the years 2012–2014.

**Figure no. 53. Cash flows in the years 2012–2014**




The accomplished positive value of cash flows on operating activities in 2014 was lower than the stream of cash accomplished in the previous year. The following factors had the most noticeable impact on the change in this position of cash flows account:

1) EBITDA result lower by PLN 34 million,
2) creating impairment losses on ineffective generation assets in TAURON Wytwarzanie in 2013 and 2014 – net effect of PLN 238.1 million,
3) negative change in the status of receivables (decline by approximately PLN 813 million), mainly as a result of repayment of claims generated during the activities conducted in 2012 by customers of TAURON Capital Group, and the termination of the programme on covering stranded costs and its final settlement in 2013,
4) negative change in the status of inventory (decline by approximately PLN 231 million) as a result of the situation in the coal and energy market, resulting in the lower sales of commercial coal from own sources and lower own consumption,
5) contribution of the substitution fee due to white certificates in 2014, in the amount of approximately PLN 70 million,
6) acquisition of property rights to cover the obligation for 2014 – increase in the stream of operating expenses by PLN 195 million.

The accomplished negative value of cash flows from investment activities in 2014 was lower by 19% than the cash flow stream reached in 2013. The change in this cash flow position was mainly affected by the following factors:

1) incurring capital expenditures lower by 12% for the purchase of tangible fixed assets and intangible assets,
2) contributing the advance payment in 2013 on account of acquisition of the remaining part of shares of the company TAURON Wydobycie from Kompania Węglowa.

In 2014 TAURON Capital Group recorded a positive value of cash flows from financial activities, mainly as a result of acquisition of external financing for the implementation of future investments in TAURON Capital Group assets. In 2014, within the conducted bond issue actions, TAURON Capital Group acquired additional funds in the amount of PLN 2,505.0 million and repaid loans taken out in the previous years for the amount of PLN 170.0 million. The total value of interest paid in 2014 was higher than in 2013, amounting to PLN 273.4 million. In addition, in the reporting year, TAURON paid the dividend to its shareholders at a level slightly lower than in 2013, i.e. in the total amount of PLN 334.2 million.

The nature of individual cash streams recognised in each item of cash flow statement indicates strengthening of the company position on the market through its further development. The structure of cash flows explicitly shows that the investment expenditure incurred is financed from operating funds and the external funding sources raised.

TAURON Capital Group effectively manages cash flows, using the centrally implemented model of financing and the central policy of financial risk management. In order to minimise the potential disturbances in cash flows and the risk of loss of liquidity, the cash pooling mechanism was used. TAURON Capital Group uses various sources of funding, such as, for example, overdraft, bank facilities, loans from environmental funds, issue of bonds, financial leasing contracts and lease contracts with purchase option.

## 4.3. Characteristics of assets and liabilities of the consolidated balance sheet

**Structure of the annual consolidated statement of financial standing**

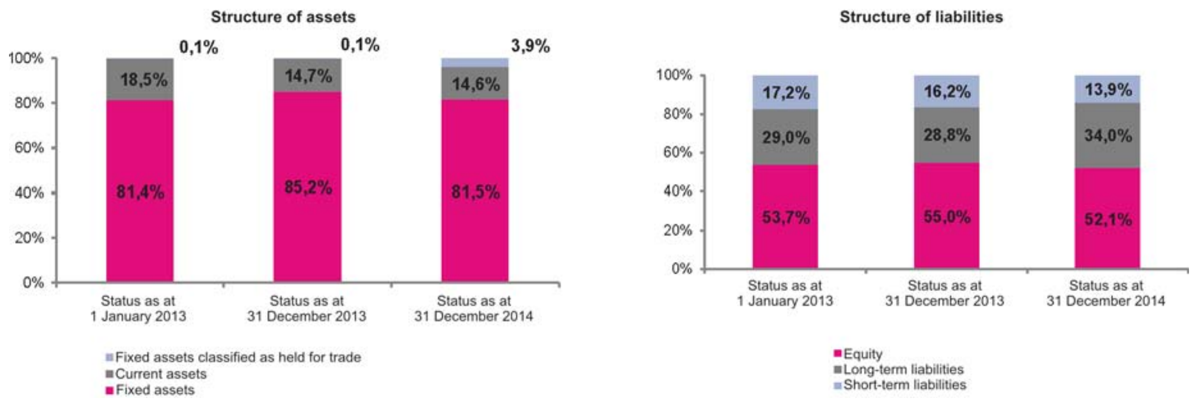
The table below shows the structure of the annual consolidated statement of financial standing.

**Table no. 32. Structure of the annual consolidated statement of financial standing**

| Consolidated statement of financial standing | Status as at 31 December 2014 | Status as at 31 December 2013 *(data converted)* | Status as at 01 January 2013 *(data converted)* |
|---|---|---|---|
| **ASSETS** | | | |
| **Fixed Assets** | **81.5%** | **85.2%** | **81.4%** |
| **Current assets** | **14.6%** | **14.7%** | **18.5%** |
| Fixed assets classified as held for trade | 3.9% | 0.1% | 0.1% |
| **TOTAL ASSETS** | **100.0%** | **100.0%** | **100.0%** |
| **LIABILITIES** | | | |
| Equity attributable to shareholders of the parent company | 52.0% | 53.6% | 52.1% |
| Non-controlling shares | 0.1% | 1.4% | 1.6% |
| **Total equity** | **52.1%** | 55.0% | 53.7% |
| Long-term liabilities | 34.0% | 28.8% | 29.0% |
| Short-term liabilities | 13.9% | 16.2% | 17.2% |
| **Total liabilities** | **47.9%** | 45.0% | 46.3% |
| **TOTAL LIABILITIES** | **100.0%** | 100.0% | 100.0% |
| **Financial liabilities** | 8,113,766 | 5,864,135 | 5,566,150 |
| **Net financial liabilities** | 6,692,857 | 5,227,226 | 4,535,221 |

The figure below presents the structure of assets and liabilities.

**Figure no. 54. Structure of assets and liabilities**




According to the status as at 31 December 2014, similar to 2013, the value of fixed assets has the highest share in the structure of assets. In the structure of fixed assets, tangible fixed assets of the Distribution (51.9%), Generation (24.2%), Heat (8.0%) and Mining (4.6%) Segments have the highest share.

As at 31 December 2014, equity and financial liabilities represent the highest share in the structure of liabilities.

The level of indebtedness of TAURON Capital Group is maintained at a safe level, which is indicated by the value of the debt ratio as compared to the European benchmarks for the sector, and the positive stream of cash flows from operating activities shall continue to foster the implementation of the investment programme.

### 4.4. Significant off-balance sheet items

As at 31 December 2014, significant contingent liabilities of TAURON Capital Group were related to:

1) the lack of created provision for unreported potential claims by owners of land of unregulated status due to the lack of detailed record of unregulated land and the resulting inability to reliably estimate the amount of potential claims,
2) the administrative proceedings instituted by the ERO President concerning imposing of the financial penalty against Vattenfall Sales Poland sp. z o.o. (currently: TAURON Sprzedaż GZE), pursuant to Article 56 item 1 point 5 of the *Energy Law* due to application of prices and tariffs by the aforementioned company in the years 2008–2011, infringing the obligation to submit them for approval,
3) the proceedings instituted on 12 December 2012 by the President of OCCP against TAURON Sprzedaż, accusing it of using the practices violating the collective interests of consumers, by unjustified accrual of interest on overdue payments concerning the forecast of electricity consumption, which are indicated through the system of automated payment service procedures, as a result of allocation of the amounts paid by consumers to the receivables to be due in the future, while leaving the most outdated liabilities of consumers as unsettled,
4) the proceedings instituted on 17 September 2013 by the President of OCCP against TAURON Sprzedaż in connection with the suspected use of practices violating the collective interests of consumers, by providing electric energy prices in price lists and information materials without including the value added tax, which constitutes the infringement of the *Act of 23 August 2007 on prevention of unfair market practices (Journal of Laws no. 171, item 1206)*,
5) the explanatory proceedings conducted by the President of OCCP against TAURON Sprzedaż and TAURON Sprzedaż GZE,
6) the court dispute between TAURON as a legal successor of Górnośląski Zakład Elektroenergetyczny S.A (GZE) and Huta Łaziska S.A. as a result of the failure of the Steelworks to fulfil the obligation to pay receivables due to energy supplies, which consequently caused the suspension of electric energy supplies to the Steelworks by GZE in 2001,
7) the excess payment of excise tax for the years 2006–2008 and for the months of January and February 2009, made by companies of TAURON Capital Group that submitted the adjusted tax returns, including the motions for acknowledgement of the excess payment,
8) the level of real estate tax imposed on energy installations used for generation and transmission of electric energy.

Detailed information on off-balance items is included in notes 43 and 44 of the Consolidated financial statement for the year ended on 31 December 2014.

### 4.5. Differences between the financial results recognised in the annual report and the forecasts of results for the year as published earlier

The Management Board of the Company did not publish any forecasts of financial results TAURON Capital Group for 2014. This decision resulted from the considerable volatility of the market and substantial number of variables affecting its predictability.

### 4.6. Basic financial and non-financial ratios

#### Financial ratios

The table below presents the basic financial ratios of TAURON Capital Group.

**Table no. 33. The basic financial ratios of TAURON Capital Group***

| Ratio | Definition | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| **PROFITABILITY** | | | | |
| EBIT Margin | Operating result / Revenue on sales | **9.92%** | 10.11% | 8.75% |
| EBITDA Margin | EBITDA / Revenue on sales | **19.67%** | 19.14% | 15.56% |
| Net Profitability | Net result / Revenue on sales | **6.43%** | 7.04% | 6.27% |
| Return on Equity (ROE) | Net result / Closing balance of equity | **6.59%** | 7.57% | 9.23% |
| **LIQUIDITY** | | | | |
| Current liquidity ratio | Current assets (excluding assets held for trade) / Short-term liabilities | **1.05** | 0.90 | 1.07 |

| Ratio | Definition | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| **DEBT** | | | | |
| General debt ratio | Total obligations / Total liabilities | **0.48** | 0.45 | 0.46 |
| Net debt/ EBITDA | (Financial liabilities - Cash) / EBITDA | **1.85** | 1.43 | 1.18 |
| **OTHER RATIOS** | | | | |
| Earnings per share (EPS) | Net result attributable to shareholders of the parent entity / Number of ordinary shares | **0.67** | 0.75 | 0.84 |

** The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in item 34. of this report.*

In 2014 the net profitability ratio of TAURON Capital Group reached a lower level than achieved in 2013, as a result of the decline in revenues on sales.

The current liquidity ratio reached the value higher than in 2013. Its growth is mainly the result of the high status of cash maintained by TAURON Capital Group, partly compensated by the lower level of trade receivables and intangible assets, and the decline in the level of short-term liabilities, mainly in the scope of trade liabilities and provisions.

The total debt ratio as well as Net debt/EBITDA ratio reflect the share of liabilities in TAURON Capital Group financing. The current level of this ratio enables TAURON Capital Group to acquire external financing required to implement the investments planned. The change in the level of ratios in 2014 results from the growth of financial liabilities with simultaneous decline of results of TAURON Capital Group. The growth of financial liabilities results from acquisition of external financing by TAURON Capital Group in order to implement investments in the assets of TAURON Capital Group companies. It should be mentioned that due to the favourable macroeconomic situation, the relatively low interest rates facilitate the acquisition of less expensive external financing, and this opportunity was used by TAURON Capital Group in 2014.

The EPS ratio (calculated against the net profit attributable to parent company shareholders) reached in 2014, at the level of 0.67, decreased in relation to 2013. The level of this ratio is significantly affected by the level of net profit attributable to shareholders of the parent entity, which was lower by PLN 127.4 million in 2014.

**Non-financial ratios**

The non-financial ratios in TAURON Capital Group are closely associated with the specific nature of its activities, the resources held and the adopted Corporate Strategy, including:

1) methods of human resources management,
2) marketing actions and service provided to key clients,
3) assessment of investment opportunities,
4) centralisation of governance functions in TAURON Capital Group, restricting the non-core activities,
5) development of organisational structures and management procedures.

## 4.7. Most significant financial and operating data concerning TAURON Capital Group for the years 2010–2014

The table below presents the most significant financial data and operational data of TAURON Capital Group for the years 2010–2014.

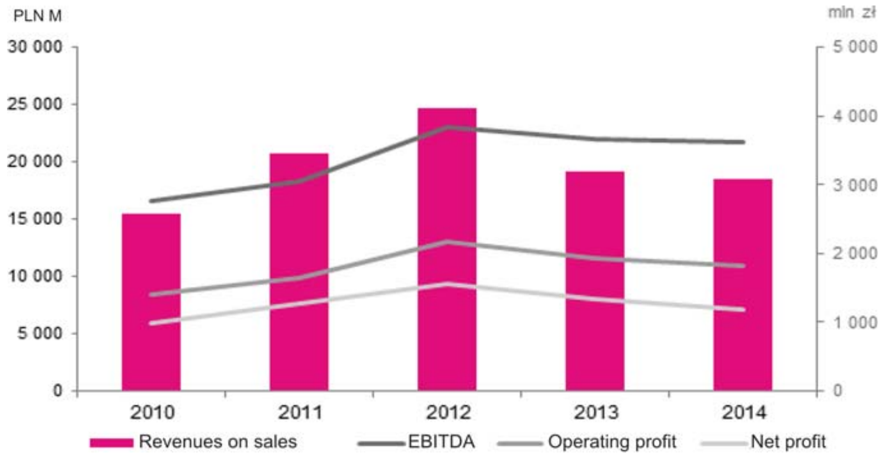
**Table no. 34. Financial data and operational data for the period 2010–2014***

| Basic information | unit | 2014 | 2013 | 2012 | 2011 | 2010 | Change % (2014/2013) |
|---|---|---|---|---|---|---|---|
| **Statement of comprehensive income** | | | | | | | |
| Revenues on sales | PLN million | 18,441 | 19,131 | 24,753 | 20,755 | 15,429 | 96% |
| Operating profit | PLN million | 1,830 | 1,934 | 2,165 | 1,646 | 1,399 | 95% |
| Financial revenues | PLN million | 86 | 99 | 131 | 116 | 92 | 87% |
| Financial expenses | PLN million | (417) | (347) | (347) | (160) | (234) | 120% |
| Gross profit | PLN million | 1,498 | 1,684 | 1,948 | 1,600 | 1,257 | 89% |
| Income Tax | PLN million | (313) | (337) | (397) | (333) | (266) | 93% |
| Net profit | PLN million | 1,186 | 1,346 | 1,551 | 1,267 | 991 | 88% |
| attributable to shareholders of the parent entity | PLN million | 1,181 | 1,308 | 1,476 | 1,245 | 859 | 90% |
| attributable to non-controlling shares | PLN million | 5 | 38 | 74 | 22 | 133 | 12% |
| EBITDA | PLN million | 3,627 | 3,661 | 3,852 | 3,057 | 2,758 | 99% |
| **Statement of financial standing** | | | | | | | |
| Fixed assets | PLN million | 28,163 | 27,567 | 25,471 | 23,417 | 18,394 | 102% |
| Current assets | PLN million | 6,396 | 4,789 | 5,766 | 5,101 | 5,028 | 134% |
| Equity | PLN million | 17,997 | 17,793 | 16,800 | 16,087 | 15,102 | 101% |
| Total liabilities | PLN million | 16,563 | 14,562 | 14,474 | 12,440 | 8,325 | 114% |
| Long-term liabilities | PLN million | 11,744 | 9,304 | 9,081 | 7,597 | 4,176 | 126% |
| Short-term liabilities | PLN million | 4,819 | 5,258 | 5,392 | 4,843 | 4,148 | 92% |
| Net financial debt | PLN million | 6,693 | 5,227 | 4,535 | 4,031 | 18 | 128% |
| Investment expenditure | PLN million | 3,090 | 3,780 | 3,472 | 2,504 | 1,603 | 82% |
| **Cash flow account** | | | | | | | |
| Net cash from operating activities | PLN million | 2,618 | 4,079 | 3,479 | 2,209 | 2,520 | 64% |
| Net cash from investment activities | PLN million | (3,387) | (4,180) | (3,283) | (5,690) | (1,508) | 81% |
| Net cash from financial activities | PLN million | 1,636 | (249) | 190 | 2,515 | (513) | – |
| Cash closing balance | PLN million | 1,408 | 541 | 892 | 506 | 1,472 | 260% |
| **Ratios** | | | | | | | |
| EBIT Margin | % | 9.9% | 10.1% | 8.7% | 7.9% | 9.1% | 98% |
| EBITDA Margin | % | 19.7% | 19.1% | 15.6% | 14.7% | 17.9% | 103% |
| Net financial debt/ EBITDA | Number | 1.85 | 1.43 | 1.18 | 1.32 | 0.01 | 129% |
| Net earnings per share | PLN/share | 0.67 | 0.75 | 0.84 | 0.71 | 0.54 | 90% |
| Dividend per share | PLN/share | 0.19 | 0.20 | 0.31 | 0.15 | – | 95% |
| **Operating expenses** | | | | | | | |
| Commercial coal production | M Mg | 5.40 | 5.45 | 5.57 | 4.58 | 4.50 | 99% |
| Net production of electric energy | TWh | 15.37 | 19.39 | 19.11 | 21.38 | 21.32 | 79% |
| Net production of electric energy from RES | TWh | 1.79 | 1.38 | 1.21 | 0.99 | 1.10 | 130% |
| Heat production | PJ | 13.41 | 15.62 | 16.36 | 15.96 | 18.29 | 86% |
| Retail sales of electric energy | TWh | 38.60 | 41.30 | 44.74 | 35.52 | 34.34 | 93% |
| Distribution of electric energy | TWh | 47.90 | 47.90 | 47.85 | 38.24 | 37.52 | 100% |
| Number of clients (Distribution) | million | 5.38 | 5.33 | 5.30 | 4.14 | 4.12 | 101% |

** The values presented do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in organisation of Business Segments after 2010.*

The figure below presents the financial results of TAURON Capital Group for the years 2010–2014.

**Figure no. 55. Financial data of TAURON Capital Group for the years 2010–2014**




The table below presents EBITDA results of TAURON Capital Group, divided into Business Areas.

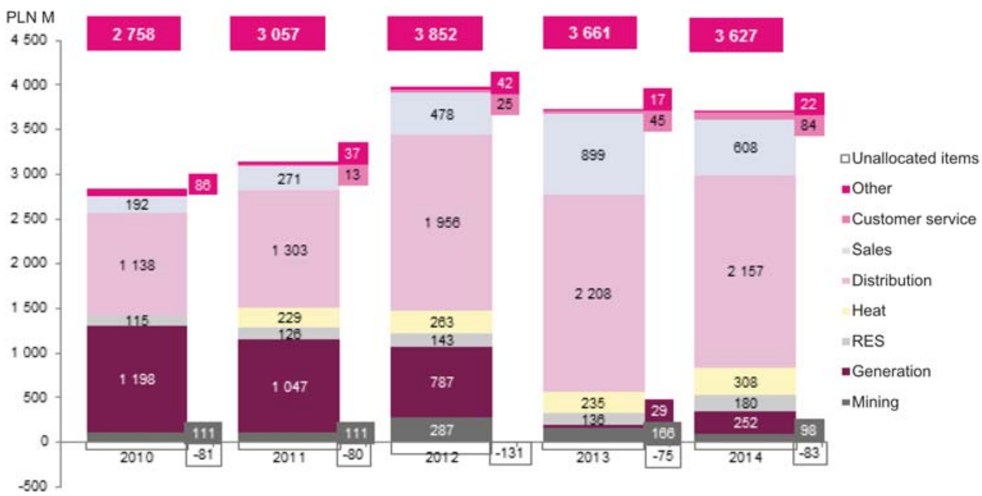
**Table no. 35. EBITDA results of TAURON Capital Group, divided into Business Areas***

| No. | EBITDA (PLN thous.) | 2014 | 2013 | 2012 | 2011 | 2010* | Dynamics (2014/2013) | Change (2014–2013) |
|---|---|---|---|---|---|---|---|---|
| 1. | Mining | **98,412** | 165,783 | 287,431 | 111,040 | 110,614 | 59% | (67,371) |
| 2. | Generation | **251,838** | 28,852 | 787,322 | 1,047,145 | 1,197,947 | 873% | 222,986 |
| 3. | RES | **180,166** | 135,563 | 143,450 | 126,036 | 114,945 | 133% | 44,603 |
| 4. | Heat | **308,407** | 235,453 | 263,052 | 229,030 | – | 131% | 72,954 |
| 5. | Distribution | **2,157,136** | 2,208,381 | 1,955,896 | 1,302,691 | 1,137,804 | 98% | (51,245) |
| 6. | Sales | **608,213** | 899,208 | 478,342 | 270,927 | 192,029 | 68% | (290,995) |
| 7. | Customer Service | **84,165** | 45,283 | 25,131 | 12,704 | – | 186% | 38,882 |
| 8. | Other | **22,158** | 17,485 | 42,347 | 37,165 | 86,032 | 127% | 4,673 |
| *9.* | *Unallocated items* | *(83,395)* | *(74,524)* | *(131,346)* | *(79,687)* | *(80,885)* | *112%* | *(8,871)* |
| | **Total EBITDA** | **3,627,100** | **3,661,484** | **3,851,625** | **3,057,051** | **2,758,486** | **99%** | **(34,384)** |

** Lack of comparable data in 2010. In that year, companies included in the Heat Area operated in the Other Area (i.e. Przedsiębiorstwo Energetyki Cieplnej Katowice S.A. and Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A.) and in the Generation Area (Elektrociepłownia Nowa sp. z o.o. and Elektrociepłownia Tychy S.A.). The Customer Service Area was separated as a segment of activities in 2011.*

The figure below presents the financial data of TAURON Capital Group for the years 2010–2014.

**Figure no. 56. EBITDA Structure of TAURON Capital Group in the years 2010–2014**



**Basic information for the years 2010–2014 according to Business Areas**

The figures below present the financial data for the years 2010–2014 according to Business Areas:

**Figure no. 57. Data of the Mining Area for the years 2010–2014**

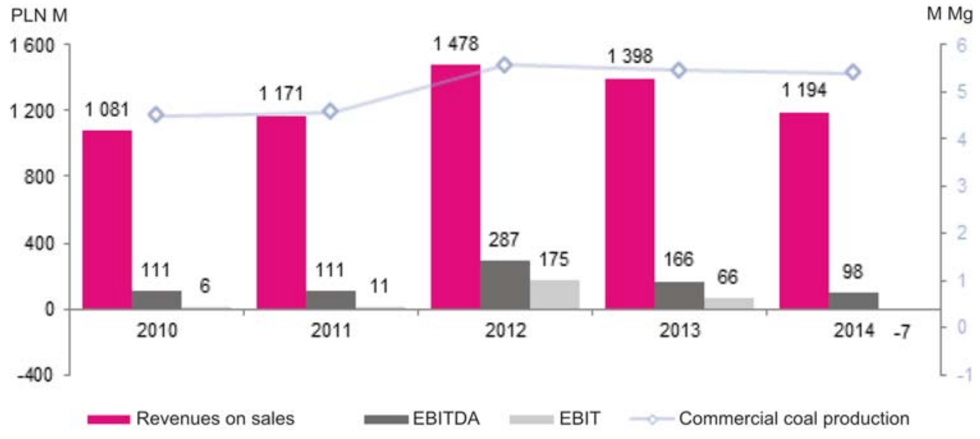



**Figure no. 58. Data of the Generation Area for the years 2010–2014**

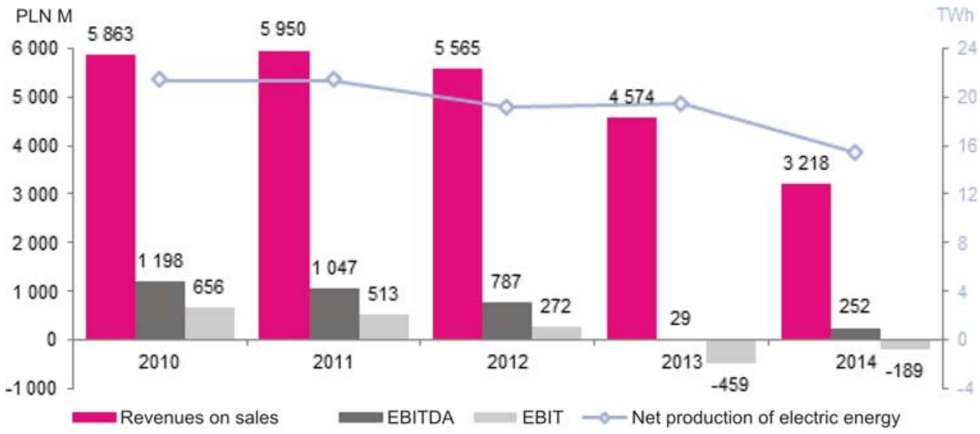



**Figure no. 59. Data of the RES Area for the years 2010–2014**

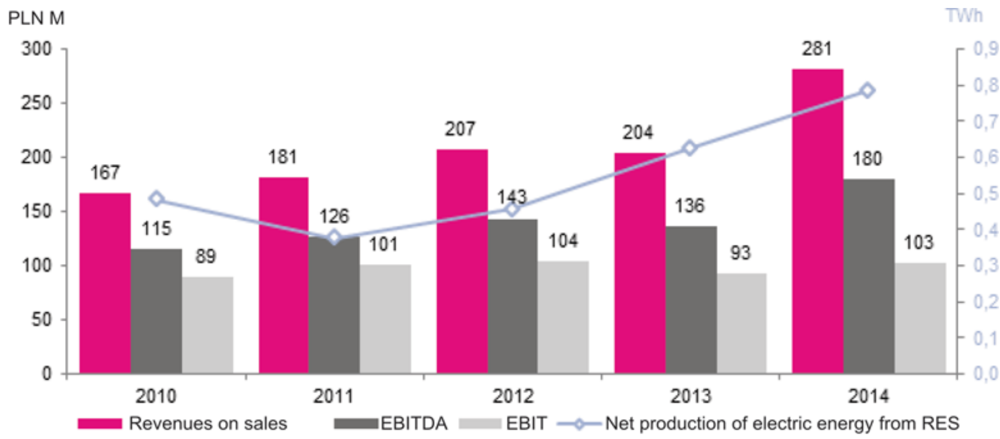
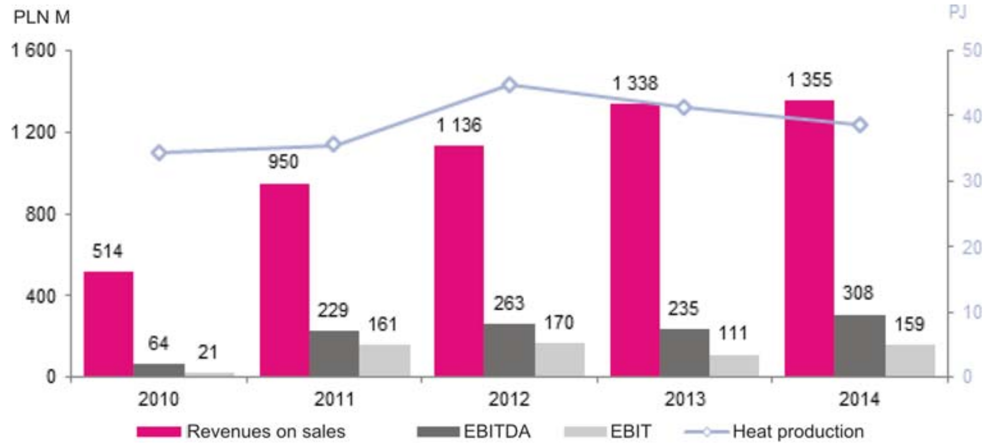


**Figure no. 60. Data of the Heat Area for the years 2010–2014***




** In 2010 no comparable data are available, the data presented refer to companies recognised in the Other Area (Przedsiębiorstwo Energetyki Cieplnej Katowice S.A. and Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A.). Results of other companies recognised in the Heat Area since 2011 (Elektrociepłownia Nowa sp. z o.o. and Elektrociepłownia Tychy S.A.), are recognised in the results of the Generation Area in 2010.*

**Figure no. 61. Data of the Distribution Area for the years 2010–2014**

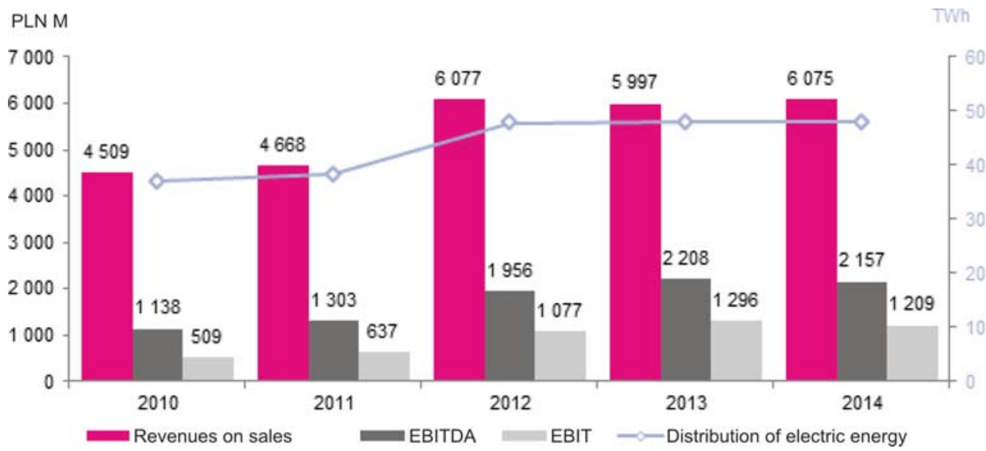



**Figure no. 62. Data of the Sales Area for the years 2010–2014**

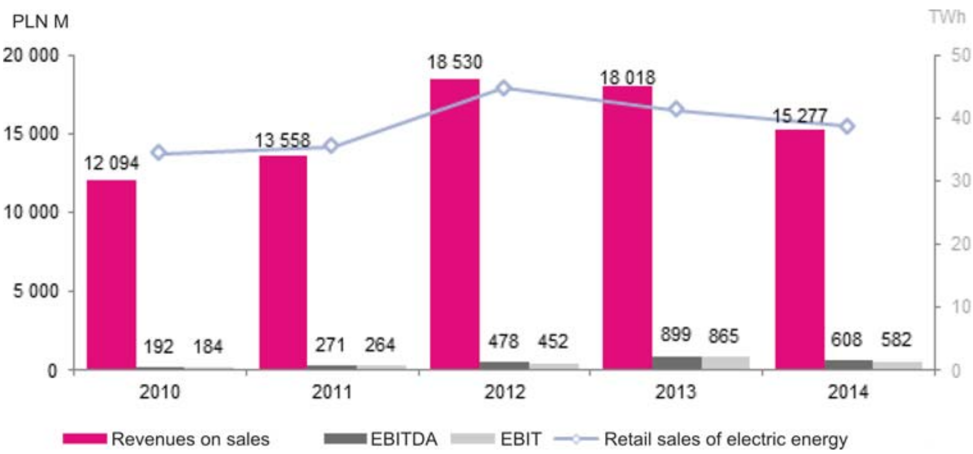
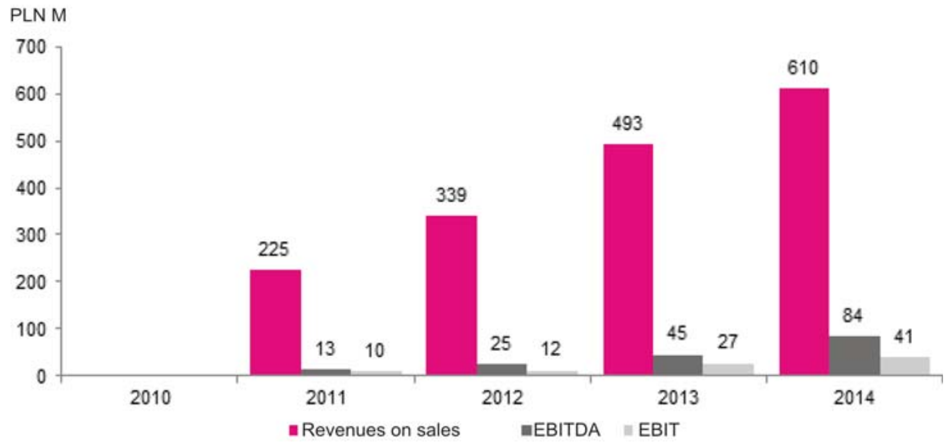
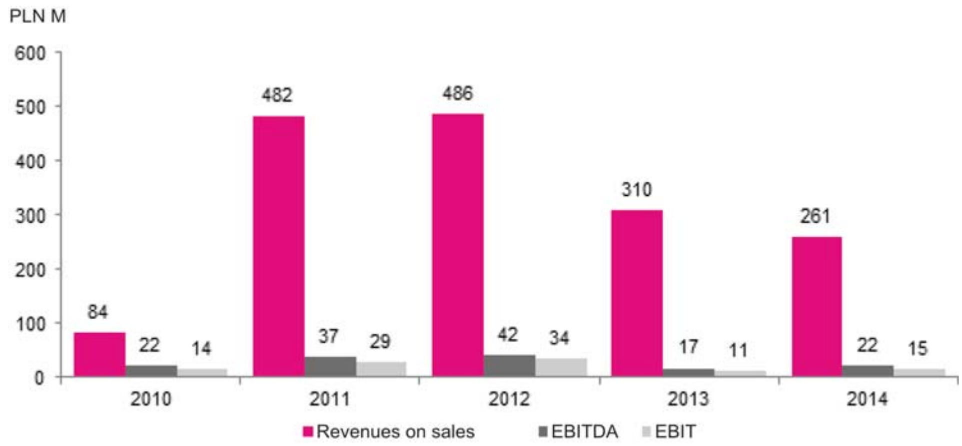


**Figure no. 63. Data of the Customer Service Area for the years 2010–2014***




** The Customer Service Area was separated as a segment of activities in 2011.*

**Figure no. 64. Data of the Other Area for the years 2010–2014***




** In 2010 no comparable data are available, the data presented refer only to the company KW Czatkowice (results of the remaining companies included in the Other Area in 2010, were presented in the Heat Area (Przedsiębiorstwo Energetyki Cieplnej Katowice S.A. and Przedsiębiorstwo Energetyki Cieplnej w Dąbrowie Górniczej S.A.) and in the Sales Area (PEPKH)).*

## 4.8. Income from the securities issue programme

On 3 December 2014, TAURON Capital Group issued fifteen-year, unsecured registered bonds on the German market, with the value of EUR 168,000 thousand. The issue of registered bonds, the so-called NSV (Namensschuldverschreibung), was conducted by TAURON Sweden Energy, the 100% subsidiary of TAURON and was hedged by the TAURON guarantee. The NSV issue was mainly acquired by German investors, including insurance funds, pension funds and German banks.

The funds generated by the issue, with the value of EUR 166,572 thousand EUR were allocated by TAURON Sweden Energy for granting a loan to TAURON, in accordance with the agreement concluded on 1 December 2014. TAURON Capital Group may use the funds acquired from the issue for general economic goals. The redemption of bonds shall be performed as a one-off operation in December 2029.

In accordance with the adopted financing model, in 2014 TAURON conducted the following external issues of bonds:

1) within the programme of bond issue concluded on 16 December 2010 between the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Pekao Bank, PKO BP Bank, mBank S.A. (formerly: (BRE Bank S.A.), Nordea Bank Polska S.A. (currently: PKO BP bank), Nordea Bank AB, BNP Paribas Bank Polska S.A., Bank Zachodni WBK S.A., it issued two series of bonds with the following denomination:

    a) PLN 200,000 thousand – date of issue: 24 January 2014, date of redemption: 24 February 2014, Tranche E,

    b) PLN 100,000 thousand – date of issue: 28 March 2014, date of redemption: 28 April 2014, Tranche E.

    The funds acquired from the aforementioned issues have been allocated for financing of the current needs of TAURON Capital Group.

2) within the programme of bond issue concluded on 31 July 2013 between the Company and ING Bank, Pekao Bank and BRE Bank S.A. (currently: mBank S.A.), in November it conducted the issue of five year unsecured bonds on the domestic market for the nominal amount of PLN 1,750,000 thousand.

   The funds acquired under the aforementioned programme have been acquired for financing of the current and future expenses associated with the implemented investment programme of TAURON Capital Group.

3) within the bond issue programme concluded on 31 July 2013 between the Company and BGK, it issued bonds for the total amount of PLN 900,000 thousand.

   The funds acquired under the aforementioned programme have been acquired for financing of the current and future expenses associated with the implemented investment programme of TAURON Capital Group.

Within TAURON Capital Group the internal programme on issue of bonds operates, under which in 2014 the companies acquire funds from TAURON for the implementation for investment projects.

Acting on the basis of the implemented model of central financing as well as in accordance with the terms and conditions of the effective programme on issue of internal bonds, in 2014 the Company was purchasing bonds issued by companies of TAURON Capital Group, with the maturity term of one to six years. The major objective of bond issue was the acquisition of funds by companies of TAURON Capital Group for the implementation of the investment programme and refinancing of the existing debt.

The table below shows the value of issues taken over and not redeemed, divided into individual companies of TAURON Capital Group (issuers) according to the status as at 31 December 2014.

**Table no. 36. The value of issues taken over and not redeemed, divided into individual companies of TAURON Capital Group (issuers) as at 31 December 2014**

| No. | Company name | Value of issues taken over (in PLN thousand) |
|---|---|---|
| 1. | TAURON Dystrybucja | 2,050,000 |
| 2. | TAURON Wytwarzanie | 1,940,000 |
| 3. | TAURON EKOENERGIA | 1,180,000 |
| 4. | TAURON Ciepło | 1,055,520 |
| 5. | TAURON Wydobycie | 370,000 |
| 6. | TAURON Obsługa Klienta | 85,000 |
| | **Total** | **6,680,520** |

Besides acquisition of bonds of TAURON Capital Group companies, the Company did not purchase any other debt securities.

In December 2014 the Company performed earlier redemption of bonds issued under Tranche A for the nominal amount of PLN 848,200 thousand from the Bond Issue Programme, with the base maturity term in December 2015.

## 4.9. Financial instruments

### 4.9.1. Implementing financial instruments in the elimination of credit risk, significant disruptions of cash flows and losing financial liquidity

Within the financial risk management, in 2014 TAURON Capital Group hedged the risk of volatility in cash flows resulting from the indebtedness held, based on WIBOR reference rate by its partial mitigation through concluding of transactions of replacing the floating interest rate by the fixed interest rate (IRS). Moreover, in 2014, TAURON Capital Group, within the policy of financial risk management, secured the currency exposure occurring within the commercial activities (mainly due to the $CO_2$ emission allowances trading), by concluding the forward contracts. The aim of these transactions was to secure TAURON Capital Group against the risk of cash flow volatility resulting from currency rates fluctuations. In addition, in December 2014, TAURON Capital Group concluded the currency interest rate swap transaction (CIRS). The said transaction effectively eliminates the currency risk of EUR/PLN exchange rate changes in relation to interest coupons against the bonds issued in EUR throughout its entire effective period.

The table below presents active derivative forward transactions which occurred as at 31 December 2014 (due to the adopted centralised model of financial risk management – the data refer only to TAURON).

**Table no. 37. Information on forward and derivative transactions as at 31 December 2014 (data in thousand)**

| No. | Type of transaction concluded | Total denomination of the specific type of transaction | Currency | | | Maturity date of the specific type of transaction | | Valuation of transaction of the specific type as at 31 December 2014 |
|---|---|---|---|---|---|---|---|---|
| | | | PLN | EUR | other | up to one year | above one year | |
| 1. | IRS | 440,000 | X | | | X | | - 13.380 |
| | | 3,000,000 | X | | | | X | - 180.933 |
| 2. | CIRS | 704,928 | X | | | | X | 257 |

### 4.9.2. Goals and methods of financial risk management

TAURON Capital Group manages financial risk, understood as currency risk and interest rate risk in accordance with the prepared and adopted regulations *Policy of risk management specific for the financial area in TAURON Group*, which is the collection of principles and standards compliant with the best practices in this area.

Due to correlation between the risk incurred and the level of achievable income, these regulations are used to maintain the risks at the previously established, acceptable level. The main goal of financial risk management is to minimise TAURON Capital Group cash flows sensitivity to financial risk factors and to reduce financial costs and collateral costs through the use of derivative instruments mentioned above as well as considering the correlations between the level of tariff revenue of TAURON Dystrybucja and financing costs of TAURON Capital Group, based on the floating interest rate.

Simultaneously, the policy implements hedge accounting principles which determine the rules and types of hedge accounting policy as well as the booking approach to recognising of hedging instruments and items hedged under the hedge accounting, in compliance with IFRS. Based on the said policy, TAURON Capital Group uses the derivatives for which it mostly applies hedge accounting.

## 4.10. Current and forecast financial situation

The financial situation of TAURON Capital Group is stable and no negative events occurred which would cause any threat to its business continuity or significant deterioration of its financial standing. The detailed description of the financial standing understood as the provision of financial resources for both the operational and the investment activity is included in items 4.8 and 4.9 of this report.

Considering the current market situation, it is expected that the results of TAURON Capital Group in the forthcoming years will be affected both by internal factors and by external factors.

The results of the **Mining Area** should remain at a stable level in the perspective of the nearest years. In order to improve/optimise the results, the Mining Area will implement the investment tasks and the technical and organisational tasks aimed at raising own production capacity based on the deposits held, in the cost-effective way.

The results of the **Generation Area,** in a long-term perspective, may be affected by the expectations that staring from 2016 difficulties may exist in covering the demand for power by the national generation units, which may result in the increase in electric energy prices in wholesale market. The new generation units commissioned in the segment and the restructuring processes will also positively affect the results. The potential increase in prices of $CO_2$ emission allowances, caused by administrative procedures of the European Commission (aiming at stimulation of growth in these prices) may have impact on the results of the Area.

Due to the fact that production of electric energy from RES is subject to the statutory regulations, the results of **RES Area** in the following years shall mainly depend on the provisions of the new RES Act, updating, among others, the mechanisms and instruments supporting energy generation in this type of sources. This will mostly affect the profitability of projects in the scope of electric energy production of the RES Area. The activities conducted in the scope of cost effectiveness improvement will have impact on the improvement of the results.

In the **Heat Area** the distribution activity is entirely regulated, which influences the stabilisation of the revenues in this area in a long-term perspective. The resumption of the support to the production of electric energy and heat in co-generation has a beneficial impact on the results of the Area. In the scope of the generation activities, the increase in electric energy wholesale prices starting from 2016 will also affect the revenues of the Heat Area. The conducted modernisation activities and the new generation units commissioned will also positively influence the results.

In the **Distribution Area**, the estimated stable level of compensation from invested capital and the measures implemented in the scope of cost effectiveness improvement will play a key role in the developments of the operating result. Accordingly, it is foreseen that the financial situation in this area will improve.

In **Sales Area** lower operating profit is expected in the following years as compared to 2014, mainly due to the decreased sales margin. The factors of significant impact on the reduction on sales margin include higher variable costs of energy sales to end consumers, associated with the obligation to redeem certificates, under growing competition in the energy market, limiting the possibility to introduce sales margin at a level allowing for setting-off the growing variable costs.

**The Customer Service Area** shall continue the centralisation of common services in a single entity as well as implement and finalise projects serving mainly for the provision of services to the Distribution and Sales Area in the scope of contacts and settlements with clients at the top level. These activities shall enable to achieve synergy effects across TAURON Capital Group and improve cost effectiveness.

### 4.11. What can be expected in 2015

In 2015, the continued economic growth is expected, with the GDP exceeding 3%. The main growth factors should include, first of all, the internal demand to be reflected not only as increased consumption (higher private consumption is expected due to the employment growth, increased budgetary expenses due to the election year, higher absorption of EU funds), but also higher investments which increased by approximately 10% as of Q3 2014. Export may also be of some importance, mainly due to the Russian-Ukrainian crisis and the stagnation in the euro area. In 2015 effects are expected in the form of savings in all sectors, due to the significant decline of fuel prices in the last months of 2014. Higher economic growth rate should not translate into the growth of prices, in the context of low inflation, as well as reduced fuel prices. Although the inflation will grow as compared to its very low levels in 2014, it should not exceed the target of the Monetary Policy Council (RPP). In 2015 economists expect interest rate cutting by the RPP by 0.25 percentage points.

### 4.12. Assessment of financial resources management

Due to the measures implemented in the previous years and continued in 2014, resulting in centralising the financial management area in TAURON Capital Group, the Company effectively managed its financial resources. The main tools enabling effective management of financial resources include the implemented central financing model as well as the *Policy of liquidity management of TAURON Group*, including the cash pooling operating in TAURON Capital Group. Moreover, the financial management system is supported by the central *Policy of managing risks specific in the financial area of TAURON Group* and the central *Insurance policy of TAURON Group,* in which the Company plays the role of manager and decision maker in the scope of directions of the actions undertaken, which allows for determining the relevant limits of risk exposure.

In accordance with the adopted central model of financing, the Company is responsible for acquisition of financial resources for the companies of TAURON Capital Group. Resources acquired both internally (from companies of TAURON Capital Group, generating financial surpluses), as well as externally (from the financial market) are subsequently transferred to companies of TAURON Capital Group, reporting the need for financing (for this purpose the programme of issue of intra group bonds was implemented in TAURON Capital Group).

Such model of acquisition of funding sources allows, among other things, for decreasing of the costs of capital, increasing of the possibility to obtain financing, it reduces the number and form of hedges established on assets of TAURON Capital Group and covenants required by financial institutions, as well as reduces administrative costs. The central model of financing also enables to acquire financial sources unavailable for individual companies, such as, for example, Euro bonds. Implementation of the central financing model effectively influenced the change of approach to investment funding in TAURON Capital Group. The financing is acquired based on the consolidated balance sheet of the whole TAURON Capital Group, while the funding sources are not assigned to any specific investment projects, but they are incurred to cover the financial gap at the level of TAURON Capital Group. The structure of financing of investment projects in the specific period corresponds to the whole activity of TAURON Capital Group. The model adopted enables to implement investment plans in accordance with the adopted Corporate Strategy.

Another key element influencing the effectiveness of financial management is the policy of liquidity management. Through implementation of relevant forecasting standards it becomes possible to establish the precise liquidity position allowing for optimising of selection of the moment of fund raising as well as the maturity term and types of deposit instruments as well as the appropriate level of liquidity provision. The above factors influence both the cost reduction and safety enhancement. The current liquidity management is supported by the implemented cash pooling mechanism. Its overriding goal is to provide for current financial liquidity in TAURON Capital Group, with simultaneous limitation of costs of short-term external financing and maximising of financial revenue due to cash surpluses held. Owing to the cash pooling structure, companies of TAURON Capital Group facing short-term deficits of funds, may use funds of companies recognising financial surpluses, without the need to acquire external financing.

Moreover, TAURON Capital Group implemented the coherent programme of bank guarantees. Under one agreement concluded between TAURON and PKO BP bank, and then between TAURON and companies of TAURON Capital Group, it is possible to issue guarantees in favour of any company of in TAURON Capital Group, within the centralised limit. The above mentioned activity reduced the cost of bank guarantees acquired, made their acquisition independent of the standing of an individual company and limited the total number of activities required to obtain the guarantee. In addition, TAURON concluded the master agreement with BZ WBK bank for bank guarantees issued for IRGIT, which significantly reduces the cost of collaterals required in connection with the electric energy trading at the stock exchange.

In 2014, TAURON Capital Group demonstrated full capacity to settle its liabilities on the payment date.

## 4.13. Information concerning the entity authorised to examine financial statements

The authorised entity, auditing the consolidated financial statement of TAURON Capital Group is Deloitte Polska Sp. z o.o. Spółka Komandytowa with its seat in Warsaw, Al. Jana Pawła II 19, 00-854 (Deloitte Polska). The agreement concluded on 7 May 2013 between TAURON and Deloitte Polska refers to the auditing of Company financial statements and consolidated financial statements for the years 2013–2015.

The level of remuneration of the chartered accountant for the services provided to the companies of TAURON Capital Group is shown in the table below.

**Table no. 38. The level of remuneration of the chartered accountant for the services provided to the companies of TAURON Capital Group**

| No. | | Year ended on 31 December 2014 (in PLN thousand) | Year ended on 31 December 2013 (in PLN thousand) |
|---|---|---|---|
| 1. | Obligatory audit, including: | 577 | 606 |
| | *consolidated financial statements* | 25 | 25 |
| | *standalone financial statement of the parent entity* | 80 | 80 |
| | *standalone financial statement of the subsidiaries* | 472 | 501 |
| 2. | Other certifying services provided to TAURON Capital Group, including reviews of financial statements | 613 | 455 |
| 3. | Tax-related advisory services | 0 | 0 |
| 4. | Other services provided (including training) provided to TAURON Capital Group | 0 | 0 |
| | **Total** | **1,190** | **1,061** |

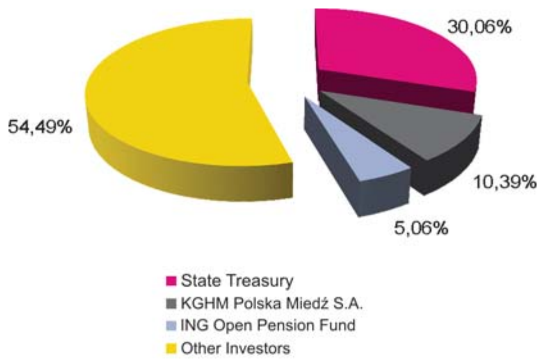
# 5. SHARES AND SHAREHOLDERS

## 5.1. Structure of shareholding and the level of the dividend paid

As at 31 December 2014 and as at the day of this report, the share capital of the Company, in accordance with the entry to the National Court Register, amounted to PLN 8,762,746,970.00 and it was divided into 1,752,549,394 shares with the nominal value of PLN 5 each, including 1,589,438,762 ordinary bearer shares of AA series and 163,110,632 ordinary registered shares of BB series.

The table below presents the structure of the shareholding as at 31 December 2014 and as at the day of this report.

**Figure no. 65. Structure of the shareholding as at 31 December 2014 and as at the day of this report**




The table below presents the level of the dividend paid in the years 2010–2013.

**Table no. 39. The level of the dividend paid in the years 2010–2013**

| No. | Dividend paid for 2010–2013 | | | | | |
|---|---|---|---|---|---|---|
| | Financial year for which the dividend was paid | Amount of the dividend paid (PLN) | % of profit net | Value of dividend per share paid (PLN) | Day of dividend | Date of dividend payment |
| 1. | 2010 | 262,882,409.10 | 31% | 0.15 | 30 June 2011 | 20 July 2011 |
| 2. | 2011 | 543,290,312.14 | 44% | 0.31 | 2 July 2012 | 20 July 2012 |
| 3. | 2012 | 350,509,878.80 | 24% | 0.20 | 3 June 2013 | 18 June 2013 |
| 4. | 2013 | 332,984,384.86 | 25% | 0.19 | 14 August 2014 | 4 September 2014 |

## 5.2. Number and nominal value of the Company shares as well as shares and stocks in affiliated entities of the Company held by the members of the management and supervisory bodies

The table below presents the status of the Company shares, held by management staff as at 31 December 2014 and as at the day of this report.

**Table no. 40. Proprietary status of the Company shares – managing persons**

| No. | Name and surname | TAURON shares | |
|---|---|---|---|
| | | Number | Nominal value (in PLN) |
| 1. | Dariusz Lubera | 6,576 | 32,880 |
| 2. | Aleksander Grad | 0 | 0 |
| 3. | Katarzyna Rozenfeld | 0 | 0 |
| 4. | Stanisław Tokarski | 30,000 | 150,000 |
| 5. | Krzysztof Zawadzki | 27,337 | 136,685 |

Members of the Management Board did not hold stocks or shares in affiliated entities of the Company.

As at 31 December 2014 and as at the day of this report, Members of the Supervisory Board did not hold stocks or shares of the Company and stocks or shares in affiliated entities of the Company.

### 5.3. Agreements concerning potential changes in the shareholding structure

The Management Board does not have any information on existence of any agreements (including agreements concluded after the balance sheet day), as a result of which changes in the ratio of the shares held by shareholders and bondholders may occur in the future.

### 5.4. Purchase of treasury shares

In 2014 and as at the day of this report, the Company did not hold treasury shares.

### 5.5. Programmes of employees shares

In 2014, employee shares programmes operated in the Company.

### 5.6. Listing of shares on the Warsaw Stock Exchange (GPW)

Shares of TAURON have been listed at the Primary Market of GPW since 30 June 2010. In 2014 the price of TAURON shares ranged from PLN 4.04 to PLN 5.69 (according to closing prices). The price of shares during the last session in 2013 reached the level of PLN 4.37. A year later, the price was PLN 5.05. The return rate* on investments in the Company shares in 2014 amounted to 20.07%, whereas the WIG20 index in this period decreased by 3.54%, and the WIG30 index – by 1.97%. One of the main reasons of the poor condition of Polish exchange indices was the reform of the capital part of the pension system and the insecure geopolitical situation associated with the conflict in Ukraine.

Share prices of companies representing the energy sector demonstrated much better trends than the market, consequently, the WIG-Energia index in 2014 increased by 23.6%. As analysts indicate, the main factor influencing the improvement in valuation of energy companies in 2014 was the growth in electric energy market prices resulting, among others, from the introduction of the support mechanism for energy producers in the form of OPR.

As at 31 December 2014, TAURON shares were included in the following exchange indices:

1. **WIG** – covering all companies listed at the Primary Market of GPW which meet the base criteria of participation in the indices, Share of TAURON in WIG index: 1.835%,
2. **WIG-Poland** – the national index which includes only the shares of national companies listed at the Primary Market of GPW, which meet the base criteria of participation in the indices. Share of TAURON in WIG-Poland index: 1,907%.
3. **WIG20** – index calculated based on the value of share portfolio of 20 biggest and most liquid companies of the Primary Market of GPW. Share of TAURON in WIG20 index: 2,770%.
4. **WIG30** – index comprising 30 biggest and most liquid companies listed at the Primary Market of GPW. Share of TAURON in WIG30 index: 2,550%.
5. **WIG-Energia** – the sectoral index comprising companies participating in WIG index and simultaneously classified to the energy sector. Share of TAURON in WIG-Energia index: 16,514%.
6. **Respect Index** – index grouping companies acting in accordance with the highest standards of social responsibility. Share of TAURON in Respect Index: 5,347%.
7. **MSCI Emerging Markets Index** – index comprising key companies listed at exchanges of emerging markets. Share of TAURON in MSCI Emerging Markets Index: 0,0406%.
8. **MSCI Poland Standard Index** – index comprising over 20 key companies listed at GPW. Share of TAURON in MSCI Poland Standard Index: 2.3984%
9. **CECE Index** – index of the Vienna Exchange, comprising the biggest companies of Central and Eastern Europe. Share of TAURON in CECE index: 2,27%.

The table below presents the key data related to the Company shares in the years 2011–2014.

**Table no. 41. Key data related to TAURON shares in the years 2011–2014**

| No. | | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| 1. | Maximum price (PLN) | 6.81 | 5.61 | 5.39 | 5.69 |
| 2. | Minimum price (PLN) | 4.65 | 4.08 | 3.85 | 4.04 |
| 3. | Last price (PLN) | 5.35 | 4.75 | 4.37 | 5.05 |
| 4. | Capitalisation at the end of the period (PLN million) | 9,376 | 8,325 | 7,659 | 8,850 |

| No. | | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| 5. | Capitalisation at the end of the period (%) | 2.10 | 1.59 | 1.29 | 1.50 |
| 6. | Book value (PLN million) | 15,922.47 | 16,839.41 | 17,675.34 | 18,106.79 |
| 7. | C/Z | 8.10 | 5.50 | 5.50 | 7.80 |
| 8. | C/WK | 0.59 | 0.49 | 0.43 | 0.49 |
| 9. | Rate of return at the end of the period (%)* | -16.73 | -5.03 | -3.64 | +20.07 |
| 10. | Dividend rate (%)** | 2.8 | 6.5 | 4.6 | 3.8 |
| 11. | Trade value (PLN million) | 5,574.82 | 3,198.94 | 3,103.56 | 3,134.81 |
| 12. | Share in trade (%) | 2.21 | 1.70 | 1.41 | 1.53 |
| 13. | Trade ratio (%) | 58.80 | 41.80 | 43.90 | 39.20 |
| 14. | Average volume per session | 3,721,539 | 2,667,725 | 2,793,020 | 2,489,329 |
| 15. | Average number of transactions per session | 1,373 | 960 | 1,022 | 1,106 |

** The return rate calculated, including the income of the investor due to dividends, and assuming that the additional income gained will be reinvested. Methodology compliant with the GPW Statistical Bulletin.*
*** Includes the dividend paid in n year for the n-1 year.*
*Source: GPW Statistical Bulletin*

The figures below present the historic developments of TAURON share price and the value of trade, including, in comparison with WIG20 and WIG-Energia indices.

**Figure no. 66. Graph of TAURON share price and value of trade in 2014**

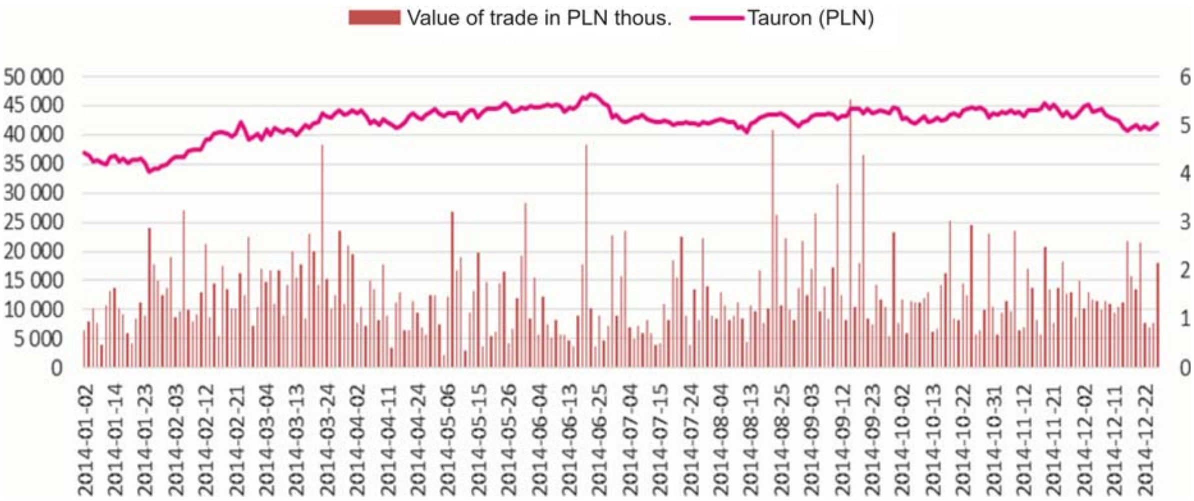



**Figure no. 67. Graph of TAURON share price and value of trade from the exchange debut until 31 December 2014**

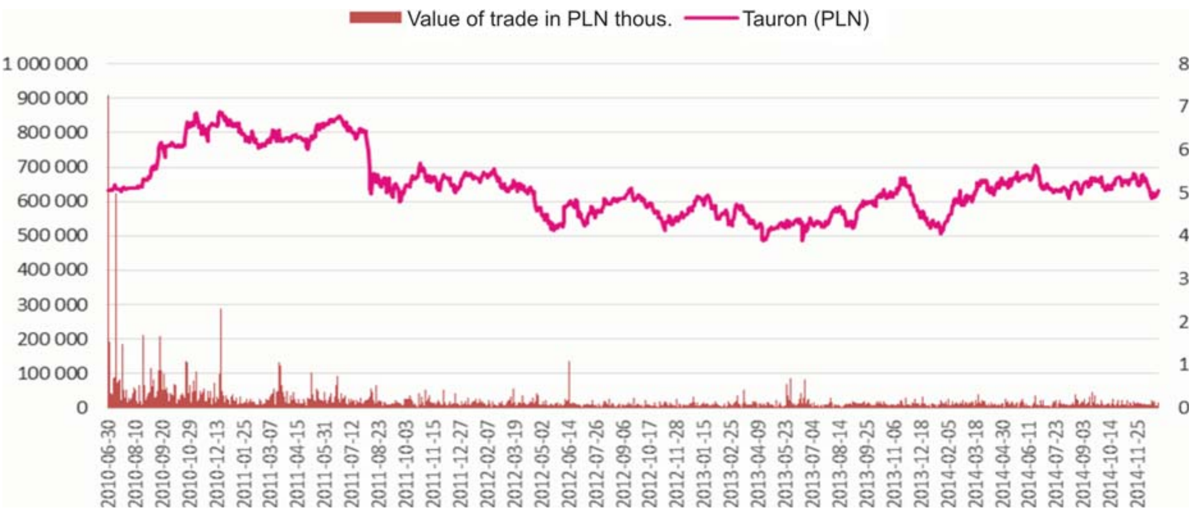


**Figure no. 68. Graph of TAURON share price compared to WIG20 and WIG-Energia indices in 2014**

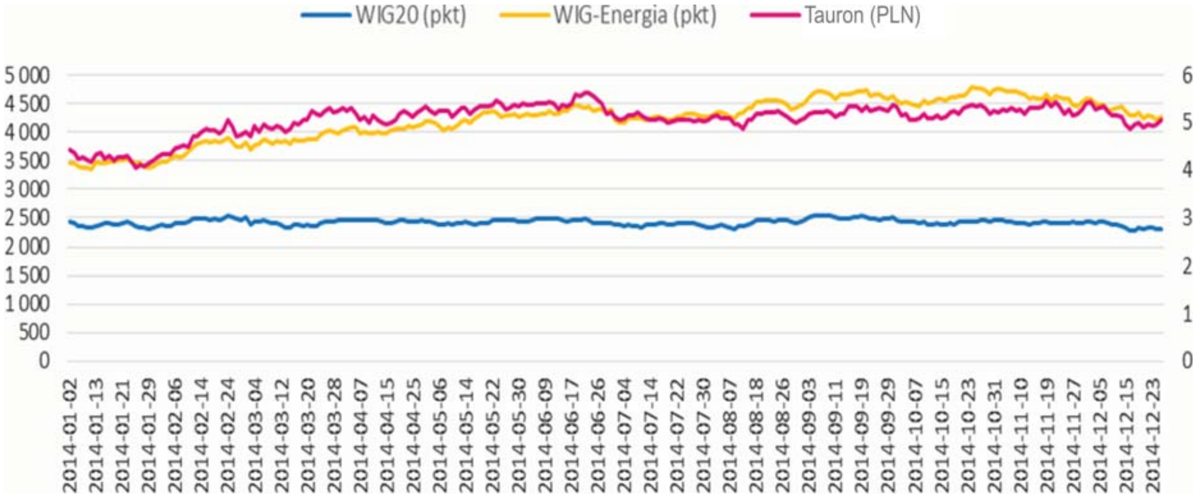
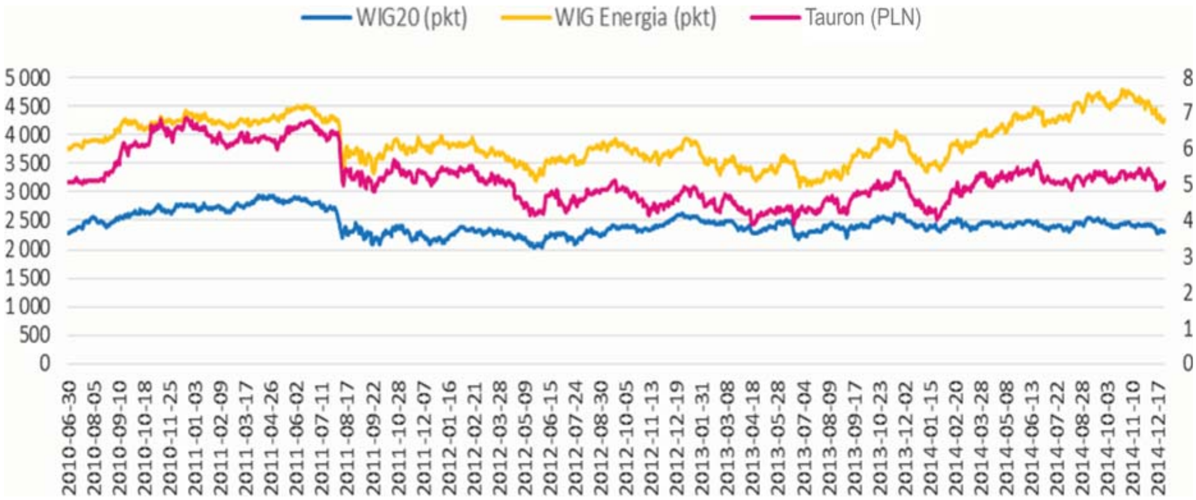



**Figure no. 69. Price of TAURON shares as compared to WIG20 and WIG-Energia indices from the exchange debut until 31 December 2014**




### Recommendations for TAURON Polska Energia S.A. shares

In 2014, analysts of brokerage houses and investment banks issued 33 recommendations in total (excluding the updates of target prices) for TAURON shares, including:

1) twelve “buy” recommendations,
2) fourteen “keep” recommendations,
3) seven “sell” recommendations.

***Recommendations issued in 2014***

The table below presents the list of recommendations issued in 2014

**Table no. 42. Recommendations issued in 2014**

| No. | Date of recommendation | Recommendation/target price | Recommending institution |
|---|---|---|---|
| 1. | 30 January 2014 | Buy / PLN 5.65 | Goldman Sachs |
| 2. | 30 January 2014 | Keep / PLN 4.70 | DM BZ WBK |
| 3. | 07 February 2014 | Keep / PLN 4.60 | Citi |
| 4. | 07 February 2014 | Buy / PLN 5.00 | Societe Generale |

| No. | Date of recommendation | Recommendation/target price | Recommending institution |
|---|---|---|---|
| 5. | 07 February 2014 | Keep / PLN 4.20 | ING Securities |
| 6. | 13 February 2014 | Buy / PLN 5.80 | J.P. Morgan |
| 7. | 28 February 2014 | Keep / PLN 4.90 | DM PKO BP |
| 8. | 05 March 2014 | Keep / PLN 5.00 | DM IDM |
| 9. | 13 March 2014 | Keep / PLN 5.30 | Raiffeisen |
| 10. | 20 March 2014 | Buy / PLN 5.90 | Goldman Sachs |
| 11. | 28 March 2014 | Keep / PLN 4.60 | Credit Suisse |
| 12. | 11 April 2014 | Buy / PLN 5.94 | mBank |
| 13. | 22 May 2014 | Buy / PLN 6.60 | Goldman Sachs |
| 14. | 13 June 2014 | Buy / PLN 6.60 | Goldman Sachs |
| 15. | 16 June 2014 | Sell / PLN 6.00 | Wood & Company |
| 16. | 23 June 2014 | Keep / PLN 5.40 | J.P. Morgan |
| 17. | 26 June 2014 | Sell / PLN 4.50 | Trigon |
| 18. | 16 July 2014 | Sell / PLN 4.80 | Citi |
| 19. | 16 July 2014 | Buy / PLN 6.20 | Deutsche Bank |
| 20. | 21 July 2014 | Keep / PLN 5.00 | DM BOŚ |
| 21. | 12 August 2014 | Buy / PLN 6.20 | J.P. Morgan |
| 22. | 08 September 2014 | Keep / PLN 5.30 | Bank of America Merrill Lynch |
| 23. | 10 September 2014 | Sell / PLN 4.62 | UniCredit |
| 24. | 18 September 2014 | Buy / PLN 6.45 | DM BZ WBK |
| 25. | 12 October 2014 | Sell / PLN 4.80 | DM BOŚ |
| 26. | 29 October 2014 | Sell / PLN 4.60 | ING Securities |
| 27. | 30 October 2014 | Keep / PLN 5.30 | DM PKO BP |
| 28. | 05 November 2014 | Keep / PLN 5.00 | Espirito Santo |
| 29. | 05 November 2014 | Buy / PLN 6.20 | Raiffeisen |
| 30. | 17 November 2014 | Buy / PLN 6.90 | Goldman Sachs |
| 31. | 19 November 2014 | Keep / PLN 5.60 | Deutsche Bank |
| 32. | 24 November 2014 | Keep / PLN 5.60 | Societe Generale |
| 33. | 05 December 2014 | Sell / PLN 4.89 | Erste |

# 6. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

Acting pursuant to § 91 item 5 p. 4) of the *Regulation of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state* (Journal of Laws no.33 item 259 as amended), the Company Management Board submits the Statement on Application of Corporate Governance in 2014.

## 6.1. Indicating the applied set of corporate governance rules

In 2014 the Company was subject to the corporate governance rules, described in the document *Good Practices of Companies Listed at GPW* (Good Practices), constituting the Appendix to the Resolution of the GPW Council no 12/1170/2007 of 4 July 2007, amended by the following resolutions of GPW Council: No 17/1249/2010 of 19 May 2010, No 15/1282/2011 of 31 August 2011, No 20/1287/2011 of 19 October 2011 and No 19/1307/2012 of 21 November 2012, which entered into force on 1 January 2013. The document also contains the rules of corporate governance which the Company adopted on voluntary basis.

The Good Practices were adopted for application by the Company Management Board. In 2014 the Company did not apply only the rule contained in Chapter IV item 10 of Good Practices. Other rules specified in the aforementioned document in Chapters II, III and IV were applied by the Company. The text of the aforementioned set of Good Practices the Company is subject to, and the application of which could have been decided by the Company on voluntary basis is published at the GPW website at (http://www.corp-gov.gpw.pl).

## 6.2. Indicating the abandoned rules of corporate governance

In 2014 the Company did not apply only the rule contained in Chapter IV item 10 of Good Practices (in its wording applicable as of 1 January 2013), concerning the provision of a possibility for shareholders to participate in the General Meeting by means of electronic communication means, consisting in:

1) transmission of the General Meeting session in real time,
2) bilateral communication in real time, where Shareholders may speak during the General Meeting while being at a different location than the venue of the General Meeting.

On 2 January 2013 the Company submitted current report no. 1/2013, by means of EIB system (Electronic Information Base), containing information on abandoning the application of the aforementioned corporate governance rule, due to the fact that the provisions of the Company Articles of Association did not include the provisions enabling the participation in the GM by means of electronic communication means, pursuant to the provisions of the Code of Commercial Companies (Ksh).

In order to enable the application of the aforementioned rule, the Management Board of the Company applied to the Ordinary GM of the Company for adopting of the resolution concerning the amendment to TAURON Articles of Association, suggesting the provisions enabling participation of shareholders in the GM by means of electronic communication means, including, in particular: transmission of the GM session in real time, bilateral communication in real time, where shareholders may speak during the GM while being at a different location than the venue of the GM, exercising the voting right personally or through a proxy, before or during the GM. The Ordinary General Meeting of the Company convened on 16 May 2013 did not adopt the aforementioned resolution.

Accordingly, also in 2014, the Company did not apply the rule contained in Chapter IV item 10 of Good Practices and the recommendation contained in Chapter I item 12 of Good Practices. Other rules specified in Chapters II, III and IV of Good Practices were applied by the Company. In the period since the day of commencement of public listing of the Company shares until 31 December 2014, there have been no occurrences of infringement of the corporate governance regulations adopted. The Company shall also endeavour to implement the recommendations contained in Part I of Good Practices. The issues described below are particularly important.

**Recommendation concerning the remuneration policy**

With the aim of implementing recommendation I.5 of Good Practices, the Company has adopted the *Remuneration Policy for Members of supervisory and management bodies, including the description of the rules of defining the policy in TAURON Polska Energia S.A.* (Remuneration Policy), considering the EC Recommendation of 14 December 2004 *fostering an appropriate regime for the remuneration of directors of companies listed at the stock exchange* (2004/913/EC), supplemented by the EC recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC). The above policy determines the objectives and rules of remuneration policy for members of Supervisory Board and the Management Board of the Company, with the application of general regulations as well as the relevant resolutions of the General Meeting and the Supervisory Board of the Company. The Remuneration Policy has, among others, the following objectives:

1) providing the motivating and consistent system of remuneration policy for members of Supervisory Board and the Management Board,
2) associating the remuneration rules with monitoring of implementation of the adopted strategic plans and implementation of the financial plans,
3) adjusting the level of remuneration of members of corporate bodies of the Company in connection with implementation of the tasks delegated.

Simultaneously, in fulfilment of the information obligations specified in the provisions of the Regulation of the Minister of Finance of 19 February 2009 on *current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state, the* Company publishes information regarding the remuneration of members of Supervisory Board and the Management Board in its annual reports.

**Recommendation concerning the balanced participation of women in performing the functions of management and supervision**

In accordance with recommendation I.9 of Good Practices, GPW recommends that the public companies and their shareholders should provide for the balanced participation of women and men in performing the management and supervisory functions in enterprises. In the Company, members of Supervisory Board are appointed in accordance with the provisions of the Articles of Association, by the GM and the State Treasury, under its personal powers, whereas the members of the Management Board are appointed by the Supervisory Board. The rules applicable in the Company in this scope do not restrict a possibility of participation in the Company governance bodies due to gender. Simultaneously, in fulfilment of the requirements specified in Section II p. 1 subsection 2a) of Good Practices, in the 4th quarter of 2014 the Company published information on participation of men and women in the Supervisory Board and the Management Board of TAURON in the period of the last two years, on its website.

## 6.3. Description of main characteristics of internal control and risk management systems in relation to the process of generating the financial statements and consolidated financial statements

The internal control and risk management system in relation to the process of generating financial statements and consolidated financial statements is implemented through:

***Supervision over application of coherent accounting principles by companies of TAURON Capital Group while compiling the consolidated financial statements of TAURON Capital Group***

In order to ensure coherent accounting principles based on IFRS, approved by the EU, in TAURON Capital Group *the Accounting Policy of TAURON Polska Energia S.A.* was developed and implemented (Accounting Policy). The document is subject to relevant amendments and updates in case of amendments to the regulations. The rules contained in the Accounting Policy are applicable to separate financial statements of TAURON and consolidated financial statement of TAURON Capital Group. Companies of TAURON Capital Group are obliged to apply the Accounting Policy while preparing the reporting packages which provide basis for compiling of the consolidated financial statement of TAURON Capital Group. The reporting packages are verified by the Office for Consolidation and Reporting in the parent company as well as by the independent auditor during examination or review of consolidated financial statements of TAURON Capital Group.

***Procedures of authorisation and reviewing of financial statements of the Company and consolidated financial statements of TAURON Capital Group***

In the Company, procedures of authorisation of financial statements have been implemented. Quarterly, semi-annual and annual financial statements of the Company as well as consolidated financial statements of TAURON Capital Group are approved by the Company Management Board before publication. The annual financial statements of the Company as well as consolidated financial statements of TAURON Capital Group are additionally presented for review by the Company Supervisory Board before publication. The Vice President of the Board, Chief Financial Officer supervises the preparation of financial statements, whereas management boards of companies covered by consolidation are responsible for compiling of the reporting packages for the TAURON Capital Group consolidated financial statement.

In the structures of the Company Supervisory Board, the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. operates, whose composition, competence and description of activities is included in item 6.11.3 of this report.

***IT systems and financial and accounting processes***

Companies of TAURON Capital Group keep ledgers providing basis for the preparation of financial statements in the computer financial and accounting systems of ERP class. The consolidated financial statements are prepared using the IT tool designed for consolidation of financial statements.

In the companies of TAURON Capital Group IT and organizational solutions operate which control the access to financial-accounting systems and provide adequate protection and archiving of the ledgers. Access to IT systems if restricted by relevant authorisations for the entitled employees.

In connection with the on-going integration of the accounting function and the transfer of the financial and accounting service of individual companies of TAURON Capital Group to CUW-R, gradual harmonisation of financial and accounting processes in TAURON Capital Group takes place. Companies adjust own procedures to the financial and accounting processes, taking into account the specific character of individual segments.

***Internal audit***

In the Company Internal Audit Department operates whose objective is to plan and implement the auditing tasks, among others, of advisory nature, as well as to perform the commissioned temporary inspections. The procedures and rules of implementation of the audit are specified in *Regulations of Internal audit in TAURON Group* as well as in rules of cooperation binding in individual companies of TAURON Capital Group. While implementing the function of internal audit, the Company acts in compliance with the Code of Ethics and International Standards of Internal Audit Professional Practice.

***Submission of financial statements of the Company and consolidated financial statements of TAURON Capital Group to examination or review by an independent chartered accountant***

Annual financial statements of the Company and consolidated statements of TAURON Capital Group are subject to examination by an independent auditor. Semi-annual financial statements of the Company and semi-annual consolidated statements of TAURON Capital Group are subject to review by a chartered accountant. In 2013 the Company selected one entity authorised to examine and review financial statements for significant companies of TAURON Capital Group as well as the consolidated financial statement. The agreement with the entity authorised to examine financial statements was concluded for the examination of financial statements for years 2013–2015.

***Rule concerning the change of the entity authorised to examine financial statements of the Company and TAURON Capital Group***

Pursuant to the resolution of the Supervisory Board of the Company No 343/II/2010 of 27 August 2010, the rule was adopted concerning changing of the entity authorised to audit the financial statements of the Company and TAURON Capital Group at least once during 5 financial years. The entity authorised to audit the financial statements of the Company and TAURON Capital Group may perform these activities again after two financial years.

## 6.4. Shareholders holding large blocks of shares

The table below presents shareholders holding, as at 31 December 2014 and as at the day of the present report, directly or indirectly large blocks of shares of the Company

**Table no. 43. Shareholders holding large blocks of shares, directly or indirectly**

| No. | Shareholders | Number of shares held | Percentage share in share capital | Number of votes held | Percentage share in general number of votes |
|---|---|---|---|---|---|
| 1. | State Treasury* | 526,848,384 | 30.06% | 526,848,384 | 30.06% |
| 2. | KGHM Polska Miedź S.A.** | 182,110,566 | 10.39% | 182,110,566 | 10.39% |
| 3. | ING Otwarty Fundusz Emerytalny*** | 88,742,929 | 5.06% | 88,742,929 | 5.06% |

* *In accordance with the shareholder's notification of 28.02.2013.*
** *In accordance with the shareholder's notification of 23.03.2011.*
*** *In accordance with the shareholder's notification of 28.12.2011.*

Since the day of submission of the previous periodical report, i.e. 13 November 2014, until the date of publication of this report, the Company has not received any notifications from shareholders concerning changes in proprietary structure of significant blocks of shares of TAURON.

### 6.5. Owners of securities providing special control rights

In the financial year 2014, the Company did not issue securities which would provide special control rights towards to the Company.

### 6.6. Limitations on performing of the voting right

Limitations on performing the voting right have been included in § 10 of the Company Articles of Association which is available at the Company website http://www.tauron-pe.pl/.

The aforementioned limitations on performing of the voting right have been formulated in the following way:

1. The voting right of shareholders holding over 10% of total votes in the Company shall be limited in the way that none of them can exercise more than 10% of the total votes in the Company at the GM.
2. Voting right limitation included in point 1 above does not apply to the State Treasury and entities subsidiary to the State Treasury in the period of time in which the State Treasury together with subsidiary entities subsidiary of the State Treasury has a number of the Company's shares entitling to performing at least 25% of total votes in the Company.
3. Shareholders' votes, between which there is a controlling or dependence relationship within the meaning of § 10 of the Articles of Association (Association of Shareholders) are cumulated; in case when the cumulated number of votes exceeds 10% of total votes in the Company, it is subject to reduction. Rules of votes accumulation and reduction have been defined in 6 and 7 below.
4. A shareholder, within the meaning of § 10 of the Articles of Association is every person, including its parent company and subsidiary company, which is entitled directly or indirectly to a voting right at the GM on the basis of any legal title; it also applies to a person who does not hold the Company's shares, and in particular to a user, pledgee, person entitled on the basis of a depositary receipt under regulations of the *Act of 29 July 2005 on financial instruments trading*, as well as a person entitled to take part in the GM despite the disposal of shares after the date of establishing the right to take part in the GM.
5. A parent company and subsidiary company, for the purposes of § 10 of the Articles of Association, is, respectively, understood as a person:
   1) holding a status of a dominating entrepreneur, subsidiary or has both the status of a dominating entrepreneur and a subsidiary, within the meaning of the provisions of the *Act of 16 February 2007* on *competition and consumers' protection* or,
   2) holding the status of a parent company, higher level parent company, subsidiary company, lower level subsidiary company or which has both the status of a parent company (including a parent company of higher status and subsidiary (including a subsidiary company of lower level status or co-subsidiary) within the meaning of *Accounting Act* of *29 September 1994*, or
   3) which has (parent company) or one which is under (subsidiary company) decisive influence within the meaning of the *Act of 22 September 2006 on the transparency of financial relationships between public bodies and public entrepreneurs and on financial transparency of some entrepreneurs*, or
   4) whose votes resulting from the Company's shares owned directly or indirectly are subject to accumulation with votes of another person or other persons on conditions defined in the *Act of 29 July 2005 on 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 large blocks of the Company shares.
6. Accumulation of votes is based on aggregating of the number of votes held by particular shareholders of Shareholders' Group.
7. Reduction of votes is based on decreasing the total number of votes in the Company that shareholders, who are a part of Association of Shareholders, are entitled to at the General Meeting to the level of 10% of total votes in the Company. Reduction of votes takes place in accordance with the following rules:
   1) number of votes of a shareholder who holds the highest amount of votes in the Company among all shareholders who are members of Association of Shareholders is subject to being decreased by a number of votes equal to surplus of over 10% total votes in the Company that all shareholders in total are entitled to and who are members of the Association of Shareholders,
   2) if, despite the aforementioned reduction, the total number of votes that shareholders who are members of the Association of Shareholders are entitled to exceeds 10% of the total votes in the Company, a further reduction of votes belonging to other shareholders who are members of the Association of Shareholders takes place. Further reduction of particular shareholders' votes takes place in order established on the basis of the amount of votes that particular shareholders who are members of the Association of Shareholders hold (from the highest to the lowest one). Further reduction takes place until the moment when the total number of votes held by shareholders who are members of the Association of Shareholders does not exceed 10% of the total votes in the Company,

3) in each case the shareholder whose voting right has been limited shall have to right to perform at least one vote,

4) limitation on performing the voting right applies also to a shareholder absent at the General Meeting.

8. Each shareholder who is going to take part in the General Meeting, in person or through a proxy is obliged to, without a separate notice stipulated in item 9 below, notify the Management Board or the Chairperson of the General Meeting that she/he holds, directly or indirectly, more than 10% of the total votes in the Company.

9. Notwithstanding the provisions of item 8 above, in order to establish the basis for accumulation and reduction of votes, the Company's shareholder, the Management Board, the Supervisory Board or particular members of these bodies have the right to demand that the Company shareholder provides information whether she/he is a person holding the status of an entity dominating or subordinate towards other shareholder within the meaning of § 10 of the Articles of Association. The aforementioned entitlement includes also the right to demand revealing the number of votes that the Company's shareholder has independently or jointly with other shareholders of the Company.

10. A person who has failed to fulfil or fulfilled the information obligation stipulated in items 8 and 9 above improperly, until the moment of improvement of the information obligation performed improperly shall have the voting right from one share only; performing voting rights from other shares by such a person shall be null and void.

## 6.7. Limitations on transfer of securities property rights

As at 31 December 2014 and as at the day of this report, there are no limitations in the Company on the transfer of proprietary rights of Company securities.

## 6.8. Rules on appointing and dismissing managing and supervising persons and their powers

### 6.8.1. Management Board

**Rules on appointing and dismissing members of the Management Board**

The Management Board of the Company consists of one to six persons, including the President and Vice-Presidents. Members of the Management Board are appointed for the period of a joint term of office which lasts three years, except for the first term of office which lasts two years.

Members of the Management Board or the whole Management Board are appointed and dismissed by the Supervisory Board. Each of the members of the Management Board can be dismissed or suspended in office by the Supervisory Board or the General Meeting.

**Competence of the Management Board**

The Management Board handles the Company's affairs and represents the Company in all court and out-of-court activities. All issues connected with managing of the Company not restricted by the regulations of law and provisions of the Company Articles of Associations for the General Meeting or Supervisory Board lie within the competences of the Company's Management Board.

The Extraordinary GM of TAURON held on 7 January 2014 adopted the resolution on amendments to the Articles of Association, aimed at updating the scope of activities and distribution of competence between the statutory corporate bodies of the Company, i.e. the Supervisory Board and the Management Board as well as the streamlining of the text of the Articles of Association and its adjustment to the current needs of the Company.

Pursuant to its decision of 15 January 2014, the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register entered the aforementioned amendments to the Company Articles of Association to the register of entrepreneurs of the National Court Register.

In accordance with the Company Articles of Association, all issues which exceed the regular scope of Company activities require the resolution of the Management Board, in particular the following issues listed in the table below:

**Table no. 44. Competence of the Management Board**

| Issues requiring the Resolution of the Management Board | |
|---|---|
| **as at 31 December 2014 and as at the day of this report** | |
| 1. | Management Board bylaws, |
| 2. | organizational regulations of the Company enterprise, |
| 3. | establishment and liquidation of branches, |
| 4. | appointment of a proxy, |
| 5. | raising credits and loans, |
| 6. | adopting the annual material and financial plans of the Company and the Capital Group, and the Corporate Strategy of the Capital Group, |

| Issues requiring the Resolution of the Management Board | |
|---|---|
| **as at 31 December 2014 and as at the day of this report** | |
| 7. | incurring contingent liabilities within the meaning of the *Accounting Act of 29 September 1994*, including granting guarantees and sureties by the Company as well as issuing bills of exchange, subject to § 20 item 2 p. 4 and 5 of the Company Articles of Association, |
| 8. | making donations, redemption of interest or discharge from debt, subject to § 43 item 3 p.1 and 2 of the Company Articles of Association, |
| 9. | purchase of real property, perpetual usufruct or shares in property or in perpetual usufruct, subject to § 20 item 2 p. 1 of the Company Articles of Association, |
| 10. | purchase of the components of fixed assets excluding real property, perpetual usufruct or share in real property or perpetual usufruct, with the value equal to or exceeding the equivalent of EUR 10 thousand in PLN, subject to the provisions of § 20 item 2 p. 2 of the Company Articles of Association, |
| 11. | disposal of the components of fixed assets including real property, perpetual usufruct or share in real property or perpetual usufruct, with the value equal to or exceeding the equivalent of EUR 10 thousand in PLN, subject to the provisions of § 20 item 2 p. 3 of the Company Articles of Association, |
| 12. | defining the right to exercise a vote at the GM or at Shareholders' Meetings of companies in which the Company holds stocks or shares, on issues covered by the competence of the General Meetings or Shareholders' Meetings of such companies, subject to § 20 item 3 p. 9 of the Company Articles of Association, |
| 13. | rules of conducting sponsoring activity, |
| 14. | adoption of the annual plan of sponsoring activity, |
| 15. | issues, whose examination the Management Board refers to the Supervisory Board or the General Meeting. |

### 6.8.2. Supervisory Board

**Rules on appointing and dismissing members of the Supervisory Board**

The Supervisory Board consists of five to nine persons, appointed for the joint term of office which lasts three years, except for the first term of office which lasts one year. In accordance with the Company Articles of Association, members of the Supervisory Board are appointed and dismissed by the GM, subject to the following provisions:

1) in the period, in which the State Treasury, together with entities dependent on the State Treasury 4 within the meaning of § 10 item 5 of the Articles of Association, has a number of shares of the Company entitling to perform at least 25% of the total votes in the Company, the State Treasury is represented by the minister competent for the issues of the State Treasury, is entitled to appoint and dismiss the members of the Supervisory Board in the amount equal to half of the maximum number of the composition of the Supervisory Board defined in the Articles of Association (in case when the number is not integral it is rounded down to an integral number, for example 4.5 is rounded down to 4 increased by 1, provided that the State Treasury:
    a) is obliged to vote at the General Meeting on establishing the number of members in the Supervisory Board representing the maximum number of members of the Supervisory Board defined in the Articles of Association or in case of submitting such a motion to the Management Board by a shareholder or shareholders who have a number of votes entitling to perform at least 5% of the total votes in the Company,
    b) is excluded from the voting right at the General Meeting on appointing and dismissing of other members of the Supervisory Board, including independent members of the Supervisory Board; it does not, however, apply to the case when the Supervisory Board cannot act due to a composition minor than required by the Articles of Association, and the shareholders present at the General Meeting other than the State Treasury do not supplement the composition of the Supervisory Board in accordance with the distribution of places in the Supervisory Board defined in this item;
2) in the period of time in which the State Treasury, together with entities dependent on the State Treasury within the meaning of § 10 item 5 of the Articles of Association, has a number of the Company's shares entitling to perform under 25% of total voting rights in the Company, the State Treasury, represented by a minister competent for the issues of the State Treasury shall be entitled to appoint and dismiss one member of the Supervisory Board.
3) appointing and dismissing of members of the Supervisory Board by the State Treasury pursuant to the aforementioned item 1) or item 2) takes place by means of a statement submitted to the Company.

At least two members of the Supervisory Board shall meet the criteria of independence in relation to the Company and subsidiaries significantly related to the Company (independent members of the Supervisory Board). The definition of an "independent member of the Supervisory Board" shall mean an independent member of the Supervisory Board within the meaning the EC Recommendation of 15 February 2005, on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC) taking into consideration Good Practices.

Independent members of the Supervisory Board provide the Company, before being appointed to the composition of the Supervisory Board, with a written statement of having fulfilled the prerequisites of independence. In case of a situation causing failure to fulfil the of independence, a member of the Supervisory Board is required to immediately notify the Company of this fact. The Company shall inform shareholders of the present number of independent members of the Supervisory Board.

**Competence of the Supervisory Board**

The Supervisory Board carries out continuous supervision over the Company's activities in all areas of its operations.

In accordance with the Company Articles of Association, the tasks and competences of the Supervisory Board include, in particular the following issues listed in the table below:

**Table no. 45. Competence of the Supervisory Board**

| Issues requiring the Resolution of the Supervisory Board | |
|---|---|
| **as at 31 December 2014 and as at the day of this report:** | |
| | **Opinion-making competence** |
| 1. | assessment of the Management Board report on the Company operations as well of the financial statement for the previous financial year in the scope of their compliance with the books, documents as well as with the actual status. It also applies to the consolidated financial statement of the Capital Group, provided that it is generated, |
| 2. | assessment of the Management Board conclusions on profit distribution or loss coverage, |
| 3. | submitting of a written report to the General Meeting on the results of operations covered by items 1 and 2, |
| 4. | preparing, together with the report on results of the annual financial statement of the Company, an opinion of the Supervisory Board on the issue of economic legitimacy of involving the Company capital committed in a given financial year in other entities of commercial law, |
| 5. | giving opinions on the Corporate Strategy of the Capital Group, |
| 6. | giving opinions and approval of the rules of conducting sponsoring activity, |
| 7. | giving opinions on the annual plan of conducting of the sponsoring activity as well as annual reports on its implementation, |
| | **Decision-making competence** |
| 1. | selecting of the chartered accountant to carry out the examination of the Company financial statement and consolidated financial statement of the Capital Group, |
| 2. | determining the scope and deadlines of submitting of annual material and financial plans as well as long-term strategic plans of the Company and the Capital Group, by the Management Board, |
| 3. | adopting of consolidated text of the Company Articles of Association, prepared by the Company Management Board, |
| 4. | approving of the bylaws of the Company Management Board, |
| 5. | approving of the organisational regulations of the Company enterprise. |
| 6. | purchase of real property, perpetual usufruct or shares in property or in perpetual usufruct with the value exceeding the equivalent of EUR 5,000 thousand in PLN, excluding the real property or perpetual usufruct, or share in real property or in perpetual usufruct purchased from Companies of the Capital Group, |
| 7. | purchase of the components of fixed assets excluding real property, perpetual usufruct or share |
| 8. | in real property or perpetual usufruct, bonds issued by the companies of the Capital Group and other components of fixed assets purchased from companies of the Capital Group, of the value equal to or exceeding the equivalent of EUR 5,000 thousand in PLN, |
| 9. | disposal of the components of fixed assets, including real property, perpetual usufruct or share in real property or perpetual usufruct, of the value equal to or exceeding the equivalent of 5,000 EUR in PLN, excluding the real property or perpetual usufruct, or share in real property or in perpetual usufruct, as well as other components of fixed assets which, as a result of the disposal, shall be sold or encumbered to the benefit of Companies of the Capital Group, |
| 10. | incur contingent liabilities, including granting guaranties and sureties by the Company with the value exceeding the equivalent of EUR 5,000 in PLN, |
| 11. | issuing bills of exchange with the value exceeding the equivalent of 5,000 EUR in PLN, |
| 12. | advance payment on account of the expected dividend, |
| 13. | taking over or purchase of shares or stocks in companies other than Companies of the Capital Group, with the value exceeding the equivalent of 5,000 EUR in PLN, excluding the situations when the takeover of stocks or shares of such companies occurs in exchange for Company liabilities under the composition or bankruptcy proceedings, |
| 14. | disposal of stocks or shares with the value exceeding the equivalent of 5,000 EUR in PLN, including the defining of the conditions and procedure for their disposal, excluding:<br>a) disposal of shares which are traded on the regulated market,<br>b) disposal of stocks or shares that the Company holds in the amount not exceeding 10% share in the initial capital of particular companies.<br>c) disposal of shares or stocks to the benefit of Companies of the Capital Group, |
| 15. | granting permission to establish Company branches abroad, |
| 16. | defining the way of performing the right of vote at the General Meeting or at the Shareholders' Meeting of companies in which the Company holds over 50% of stocks or shares, in matters concerning:<br>a) disposal and leasing of the company's enterprise or its organized part as well as establishing a limited proprietary right if their value exceeds the equivalent of the amount of 5,000 EUR in PLN,<br>b) winding up and liquidation of a company. |

| Issues requiring the Resolution of the Supervisory Board | |
|---|---|
| **as at 31 December 2014 and as at the day of this report:** | |
| **Competence of the Company Supervisory Board related to the Management Board** | |
| 1. | appointing and dismissing members of the Management Board, |
| 2. | establishing the rules of remuneration and the amount of remuneration for the Members of the Management Board, subject to § 43 item 2 p.1 of the Company Articles of Association, |
| 3. | suspending members of the Management Board in performance of their duties, due to material reasons, |
| 4. | delegating members of the Supervisory Board to temporarily perform actions of the members of the Management Board who cannot perform their duties and establishing their remuneration subject to the provision that the total remuneration of the person delegated as the Supervisory Board's member as well as on account of being delegated to temporary performing actions of a member of the Management Board shall not exceed the remuneration established for the member of the Management Board, for whom the member of the Supervisory Board was delegated, |
| 5. | conducting recruitment proceedings for the position of a member of the Management Board, |
| 6. | conducting of a competition in order to select a person with whom an agreement to perform management in the Company shall be concluded, |
| 7. | granting permission to the members of the Management Board to take positions in governing bodies of other companies, |
| **Other competences of the Company Supervisory Board** | |
| 1. | preparing of reports of the Supervisory Board on supervision of implementation of investments by the Management Board, including the purchase of fixed assets, and in particular, giving opinions on the correctness and effectiveness of spending of financial resources related to the above expenditures, |
| 2. | passing of by-laws describing in details the procedures of performance of the Supervisory Board, |

## 6.9. Description of the procedure of amendment of the Company Articles of Association

Amendments to the Company Articles of Association in accordance with the provisions of the Ksh, in particular: amendments to the Company Articles of Association take place by means of resolution of the GM, at the majority of two thirds of the votes, and then requires issuing a decision by a proper court on entering the change into the register of entrepreneurs. The consolidated text of the Company Articles of Association, including amendments passed by the General Meeting, shall be adopted by the Supervisory Board by means of a resolution.

In accordance with the Company Articles of Association, a material amendment to the subject of activities requires two thirds of votes under the presence of persons representing at least a half of the share capital.

## 6.10. Way of operating of the General Meeting, its fundamental authorities and description of shareholders' rights and mode of their performance

The way of operating of the Company General Meeting and its authorities are included in the Company Articles of Association and in the *Regulations of the General Meeting of TAURON Polska Energia S.A.* which are available at the Company website http://www.tauron-pe.pl/.

**Operation of the General Meeting**

The General Meeting is convened by announcement on the Company website and in the manner defined for providing current information by public companies. In case the GM is convened by an entity or body other than the Management Board on the basis of provisions of the Ksh, and the convening of the GM requires cooperation with the Management Board, the Management Board is obliged to perform all actions defined by law regulations in order to summon, organize and conduct the GM which shall take place in the Company registered office or in Warsaw.

The General Meeting is opened by the Chairperson of the Supervisory Board, and in case of his/her absence to open the General Meeting shall be authorized the following persons in the following order: Vice-Chairperson of the Supervisory Board, President of the Management Board, a person appointed by the Management Board or a shareholder who registered at the General Meeting shares entitling him/her to perform the biggest number of votes. Then, among the persons entitled to take part in the General Meeting the Chairperson of the Meeting is selected.

The GM shall adopt resolutions irrespective of the number of shares represented at the Meeting, unless the provisions of the Ksh as well as provisions of the Company's Articles of Association shall state otherwise. The General Meeting may order a break in the meeting by the majority of two thirds of votes. In total, the breaks shall not exceed thirteen days.

**Competence of the General Meeting**

In accordance with the Company Articles of Association, the following issues require Resolutions of the General Meeting:

**Table no. 46. Competence of the General Meeting**

| Issues which require the resolution of the General Meeting | |
|---|---|
| **as at 31 December 2014 and as at the day of this report:** | |
| 1. | examination and approval of financial statement for the previous financial year as well as the Management Board's report on the Company operations, |
| 2. | granting the acknowledgement of the fulfilment of duties to the members of the governing bodies of the Company, |
| 3. | profit distribution and coverage of loss, |
| 4. | appointing and dismissing of members of the Supervisory Board, |
| 5. | suspending members of the Management Board in performance of their duties, |
| 6. | establishing the rules of remuneration for the members of the Supervisory Board, subject to § 29 item e of the Company Articles of Association, |
| 7. | disposal and lease of the Company enterprise or its organized part as well as establishing a limited proprietary right on them, |
| 8. | concluding of a credit, loan, surety agreement or any other similar agreement by the Company with a member of the Management Board, Supervisory Board, proxy and liquidator or for any of these persons. Concluding of a loan, surety or any other similar agreement with a member of the Management Board, Supervisory Board, proxy, liquidator or for any by a subsidiary company, |
| 9. | increasing and lowering the share capital of the Company, |
| 10. | issuing convertible bonds or priority bonds as well as registered securities or bearer securities entitling its owner to subscribe or acquire the shares, |
| 11. | purchasing of treasury shares in cases required by the regulations of the Code of Commercial Companies, |
| 12. | compulsory redemption of shares in accordance with the stipulations of art. 418 of the Code of Commercial Companies, |
| 13. | creating, using and liquidation of reserve capitals, |
| 14. | using of supplementary capital, |
| 15. | provisions concerning claims to repair damage caused at establishing of the company or serving in the board or performing supervision, |
| 16. | merger, transformation and division of the Company, |
| 17. | redemption of shares, |
| 18. | amendment to the Articles of Association and change of the scope of the Company operations, |
| 19. | dissolving and liquidation of the Company. |

In accordance with the provisions of the Ksh the decision on issue and repurchase of shares in included in the competence of the General Meeting.

**Description of shareholders' rights and mode of their execution**

The table below presents the description of rights of the Company shareholders associated with the General Meeting, in accordance with the Company Articles of Association, Ksh and the *Regulations of the General Meeting of TAURON Polska Energia S.A.*

**Table no. 47. Description of rights of the Company shareholders associated with the General Meeting**

| No. | Shareholder rights | Description of Shareholder rights |
|---|---|---|
| 1. | Convening of the General Meeting | A shareholder or shareholders representing at least one twentieth of the share capital, may demand convening of the Extraordinary General Meeting. Such a demand shall include its concise justification. It can be submitted to the Management Board in writing or send in electronic form, to the Company e-mail address, indicated by the Company on at its website in "Investor Relations" tab. A shareholder or Shareholders representing at least a half of the share capital or at least a half of all votes in the Company may convene the Extraordinary General Meeting and appoint the Chairperson of this Meeting. |
| 2. | Including issues on the agenda of the General Meeting | Shareholders representing at least one twentieth of the share capital may demand including certain issues on the agenda of the nearest General Meeting. Such a demand, including a justification or a draft of resolution on the proposed point of agenda shall be submitted to the Management Board not later than 21 days before the given date of the General Meeting in electronic form to the Company e-mail address, or in writing to the Company address. |
| 3. | Becoming acquainted with the list of shareholders | Shareholders may become acquainted with the shareholders' list in the Company's Management Board registered office during three days directly preceding the GM. The shareholder may demand sending him/her the list of Shareholders free of charge by electronic mail providing address to which the list shall be sent. |
| 4. | Participation in the General Meeting | The right to take part in the GM shall be given only to persons who are Shareholders sixteen days before the date of the GM (registration date of participation in the GM). In order to participate in the GM such shareholders should report the investment company holding their securities account a request to issue a certificate with their name on the right to take part in the GM. Such a request shall be submitted not earlier than a day after the announcement on convening of the GM and not later than on the first working day after the day of registering participation in the GM. |

| No. | Shareholder rights | Description of Shareholder rights |
|---|---|---|
| 5. | Representing the shareholder by a proxy | The shareholder may take part in the GM as well as perform the voting right personally or through a proxy. Persons co-authorized by means of shares may take part in the General Meeting and perform the voting right only through a joint representative (proxy). The proxy may represent more than one Shareholder and vote differently based on shares of each Shareholder. |
| 6. | Election of the Chairman of the General Meeting | Shareholders select the Chairperson among persons entitled to take part in the GM. Each of the members of the GM shall have the right to submit one candidate to the post of the Chairperson. The election of the Chairperson takes place by secret voting, with an absolute majority of votes. In case there is just one candidate to the Chairperson, the election can take place by acclamation. |
| 7. | Appointment of the Returning Committee | Each Shareholder shall submit no more than three candidates to the member of Returning Committee, selected by the GM and vote for maximum three candidates. |
| 8. | Submission of draft resolution | Until closing the discussion on a certain point of the agenda of the GM shareholders shall be authorised to submit a proposal of changes to the content of a draft of resolution proposed for adoption by the GM within a given item of the agenda or to put forward his/her draft of such a resolution. The proposal of changes or a draft of the resolution may be submitted to the Chairperson or orally or in writing to the minutes of the meeting. |
| 9. | Raising objections | The shareholder who was voting against a resolution, and after its adoption by the GM wants to raise his/her objection shall immediately after the announcement of results of voting raise his/her objection and demand its including in the minutes before proceeding to the next item of the agenda. In case of a later raising of objection, which however shall not take place later than until closing the GM, the Shareholder shall indicate to which resolution passed at this GM she/he is raising his/her objection. The shareholder raising his/her objection to the GM resolution may submit to the minutes of the GM a concise justification of the objection. |

## 6.11. Composition of managing and supervising bodies and their committees, its changes, description of performance

### 6.11.1. Management Board

The current, 4th term of office of the Management Board began to run on 17 March 2014, i.e. on the day of dismissal of all members of the Management Board of the 3rd term by the Supervisory Board, and the appointment of the Management Board of the Company for the 4th common term of office. In accordance with the Company Articles of Association the common term of office lasts three years.

**Personal composition of the Management Board as at 31 December 2014 and as at the day of this report**

1. Dariusz Lubera – President of the Management Board, responsible for the Division of the President of the Management Board
2. Aleksander Grad – Vice President of the Board responsible for the Division of the Vice-President of the Board for Corporate Affairs,
3. Katarzyna Rozenfeld – Vice President of the Board responsible for the Division of the Vice-President of the Board, Chief Commercial Officer,
4. Stanisław Tokarski – Vice President of the Board responsible for the Division of the Vice-President of the Board for Strategy and Development,
5. Krzysztof Zawadzki – Vice President of the Board responsible for the Division of the Vice-President of the Board for Economics and Finance.

**Changes in the personal composition of the Management Board in 2014**

As at 1 January 2014 the Management Board consisted of the following members: Dariusz Lubera (President of the Management Board), Joanna Schmid (Vice President of the Management Board), Dariusz Stolarczyk (Vice President of the Management Board) and Krzysztof Zawadzki (Vice President of the Management Board).

On 10 February 2014 the Supervisory Board of the Company adopted the resolution on delegating the Member of the Supervisory Board, Aleksander Grad to the temporary performance of the duties of Vice President of TAURON Management Board in the period from 11 February 2014 until 11 May 2014.

On 17 March 2014, the Member of the Supervisory Board, delegated to the temporary performance of the duties of Vice President of the Management Board, Aleksander Grad, resigned from his function of the Member of the Supervisory Board, with the effect as of 17 March 2014.

On 17 March 2014, the Supervisory Board of the Company dismissed, upon adoption of the appropriate resolutions, all members of the Management Board of the Company, i.e.: Dariusz Lubera (President of the Management Board), Joanna Schmid (Vice President of the Management Board), Dariusz Stolarczyk (Vice President of the Management Board), Krzysztof Zawadzki (Vice President of the Management Board).

On 17 March 2014 the Company Supervisory Board, upon adoption of the appropriate resolutions, appointed the Management Board of the Company for the 4th common term, with the following composition: Dariusz Lubera (President of the Management Board), Aleksander Grad (Vice President of the Management Board), Katarzyna Rozenfeld (Vice President of the Management Board), Stanisław Tokarski (Vice President of the Management Board) and Krzysztof Zawadzki (Vice President of the Management Board).

Until the day of submission of this report, no other changes in the composition of the Management Board have taken place.

**Experience and competences of members of the Management Board**

***Dariusz Lubera – President of the Board***

Background: Electrician, MSc Eng Graduate of AGH Academy of Science and Technology in Kraków and University of Economics in Kraków.

Acting as the President of the Management Board of TAURON Polska Energia S.A. since 8 March 2008. Currently supervises performance of the following business units: corporate bodies, legal department, HR, management of information resources, internal audit, market communication and PR, risk management, Health & Safety Issues and Protection of Classified Information.

***Aleksander Grad – Vice President of the Management Board***

Graduate of Industrial Surveying Faculty at AGH Academy of Science and Technology in Kraków. Acted as the Undersecretary of State at the Ministry of Health and the Minister of Treasury. Member of Parliament of the 4th, 5th, 6th and 7th tenure. Among others, acted in the capacity of the Vice Chairman of the European Union Commission, Vice Chairman and Chairman of the Commission on State Treasury.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 17 March 2014. Currently supervises the performance of the following business units: procurement department, corporate governance and reorganisation.

***Katarzyna Rozenfeld – Vice President of the Management Board***

Graduate of economics at the Foreign Trade Department of Łódź University and the Catholic University of Nijmegen in the Netherlands. She also completed a training course for investment advisers.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 17 March 2014. Currently supervises the performance of the following business units: trade, market operator and trade service, portfolio management, fuels and analyses.

***Stanisław Tokarski – Vice President of the Management Board***

Graduate of the Faculty of Electrical Engineering, Automatics and Electronics of the AGH University of Science and Technology in Kraków. Completed also a number of post-graduate studies, including, among others, in nuclear power engineering in modern power engineering industry at the AGH University of Science and Technology in Kraków, in the European Union legislation at Jagiellonian University and in management in Warsaw School of Economics. In 2014 he obtained the title of doctor of technical sciences.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 17 March 2014. Currently supervises performance of the following business units: development strategies, strategic projects, regulations and external funds as well as investment effectiveness.

***Krzysztof Zawadzki – Vice President of the Board***

Background: economist. Graduate of University of Economics in Katowice and PhD Studies at the University of Economics in Kraków. Postgraduate studies, i.a. in international financial reporting standards, European standards in accountancy and finance and taxes. He is a certified auditor.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 21 August 2009. Currently supervises performance of the following business units: accounting and taxes, financial management and controlling.

The detailed description of experience and competences of the Board Members is published on the Company websitehttp://www.tauron-pe.pl/.

**Description of operation**

The Management Board of the Company operates on the basis of Ksh and other regulations of law, provisions of the Company Articles of Association and provisions of the *Bylaws of the Management Board of TAURON Polska Energia Spółka Akcyjna z siedzibą w Katowicach*, which is available on the website of the Company http://www.tauron-pe.pl/. While performing their obligations the members of the Management Board are governed by regulations included in the Good Practices.

Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for submitting of statements on behalf of the Company. Should the Management Board be single person, one member of the Management Board or a proxy shall be entitled to submit statements on behalf of the Company.

Meetings of the Management Board are convened by the President of the Management Board or a Vice-President of the Management Board appointed by him/her. Meetings of the Management Board are also convened upon the motion of the majority of Vice-Presidents of the Company as well as upon the motion of the Chairperson of the Supervisory Board. The meetings take place in the Company's seat, on the date set by the person convening the meeting. In justified cases, the Management Board's meetings may take place outside the seat of the Company. President of the Management Board or a Vice-President appointed by him/her shall chair the meeting.

The Management Board votes in an open voting. The result of voting is recorded in the minutes of the meeting. The President of the Management Board orders a secret ballot upon the request of any member of the Management Board.

Resolutions of the Management Board are passed by an absolute majority of votes in the presence of 3/5 of the composition of the members of the Management Board. In case of an equal number of votes the President of the Board has a casting vote. The Management Board may pass resolutions in a written mode or by using means of direct remote communication. Voting in the aforementioned modes is ordered by the President of the Management Board or the Vice-President appointed by him/her, defining the deadline to vote by the members of the Management Board. It is acceptable to submit a different opinion. It shall be recorded in the minutes together with justification. Decisions of the Management Board, regulating business as usual, not requiring a resolution, are recorded only in the minutes.

Under the circumstances when the number of Vice-Presidents of the Management Board if lower than the Divisions, the Vice-Presidents of the Management Board may join the capacity of directors of two divisions, or distribute the competence in any other way which would be in compliance with the distribution of responsibilities performed by the Supervisory Board.

Scope of activities of the President of the Management Board covers competence in the area of operations of business units reporting to the Division of the President of the Board, in accordance with the organisational structure of the Company.

Scope of activities of the Vice-Presidents of the Management Board covers competence in the area of operations of business units reporting to the Divisions of the Vice-Presidents of the Board, in accordance with the organisational structure of the Company.

The structure of the divisions reporting to individual members of the Management Board is specified in the organisational chart of the Company, presented in item 1.5.2 of this report.

### 6.11.2. Supervisory Board

The current, fourth term of office of the Supervisory Board, started on 15 May 2014, i.e. on the day of convening of the Ordinary General Meeting of the Company approving the financial statement for the last full financial year of the tenure of the members of the Supervisory Board of the third term, i.e for the financial year 2013. In accordance with the Company Articles of Association this is a joint term of office and it shall last for three years.

**Personal composition of the Supervisory Board as at 31 December 2014 and as at the date of this report**

1. Antoni Tajduś – Chairman of the Supervisory Board,
2. Agnieszka Woś – Vice Chairperson of the Supervisory Board,
3. Jacek Szyke – Secretary of the Supervisory Board,
4. Andrzej Gorgol – Member of the Supervisory Board,
5. Maciej Koński – Member of the Supervisory Board,
6. Leszek Koziorowski – Member of the Supervisory Board,
7. Michał Michalewski – Member of the Supervisory Board,
8. Marek Ściążko – Member of the Supervisory Board,
9. Maciej Tybura – Member of the Supervisory Board.

**Changes in the personal composition of the Supervisory Board in 2014**

As at 1 January 2014 the Supervisory Board consisted of the following members: Antoni Tajduś (Chairman of the Supervisory Board), Rafał Wardziński (Vice Chairman of the Supervisory Board), Leszek Koziorowski (Secretary of the Supervisory Board), Jacek Kuciński (Member of the Supervisory Board), Marcin Majeranowski (Member of the Supervisory Board), Jacek Szyke (Member of the Supervisory Board), Marek Ściążko (Member of the Supervisory Board) and Agnieszka Trzaskalska (Member of the Supervisory Board).

On 7 January 2014 the Extraordinary General Meeting of the Company appointed Aleksander Grad as a member of the Supervisory Board of the Company of the 3rd term as of 1 February 2014.

On 22 January 2014 the State Treasury, acting pursuant to its personal authority specified in § 23 item 1 p. 3 of the Company Articles of Association, dismissed Mr. Rafał Wardziński who acted as the Deputy Chairman of the Supervisory Board, from the Supervisory Board of TAURON.

On 22 January 2014 the State Treasury, acting pursuant to its personal authority specified in § 23 item 1 p. 3 of the Company Articles of Association, appointed Ms Agnieszka Woś as a member of the Supervisory Board of TAURON.

On 10 February 2014 the Supervisory Board of TAURON adopted the resolution on delegating the Member of the Supervisory Board, Aleksander Grad to the temporary performance of the duties of Vice President of TAURON Management Board in the period from 11 February 2014 until 11 May 2014.

On 17 March 2014, Member of the Supervisory Board, Aleksander Grad, resigned from his function of the Member of the Supervisory Board, with the effect as of 17 March 2014.

On 15 May 2014 the State Treasury, acting pursuant to its personal authority specified in § 23 item 1 p. 1) and 3) of the Company Articles of Association, appointed the following persons as members of the Supervisory Board of the 4th common term: Andrzej Gorgol, Agnieszka Woś, Antoni Tajduś, Michał Michalewski and Marek Ściążko.

The Ordinary GM of the Company convened on 15 May 2014 appointed Jacek Szyke as a member of the Supervisory Board of the 4th common term.

On 1 September 2014 the Extraordinary General Meeting of the Company, acting pursuant to § 22 item 1 of the Company Articles of Association, adopted the resolution on appointment of the following persons to the Company Supervisory Board for the fourth common term of office as of 1 September 2014: Maciej Koński, Leszek Koziorowski, Maciej Tybura.

Until the day of submission of this report, no other changes in the composition of the Supervisory Board have taken place.

**Experience and competences of members of the Supervisory Board**

***Antoni Tajduś – Chairman of the Supervisory Board***

Academic and scientific worker of the AGH Academy of Science and Technology in Kraków During his employment at the AGH, he obtained the following scientific degrees: PhD in technical sciences (1977), DSc in technical sciences (1990) and professor of technical sciences (1998). In the years 2005–2012 acted in the capacity of the Rector of the AGH Academy of Science and Technology in Kraków.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 31 January 2008. Currently acting in the capacity of the Chairman of the Supervisory Board and the Chairman of the Committee on Nominations and Remunerations of the Supervisory Board.

***Agnieszka Woś – Vice Chairman of the Supervisory Board***

Graduate of the College of Information Technology and Management in Rzeszów, specialisation: accounting and finance and the University of Economics in Kraków, specialisation: performance and development of enterprises. Obtained a title of doctor of economic sciences in 2010 in the scope of management sciences, at the University of Economics in Kraków.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 22 January 2014. Currently acting in the capacity of the Vice Chairperson of the Supervisory Board and the Chairperson of the Audit Committee of the Supervisory Board.

***Jacek Szyke – Secretary of the Supervisory Board***

Graduate of Faculty of Economics at Łódź University and Electric Faculty of Technical University in Poznań, where he also obtained PhD in technical sciences.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 14 September 2010. Currently acting in the capacity of the Secretary of the Supervisory Board and the Member of the Audit Committee of the Supervisory Board.

***Andrzej Gorgol – Member of the Supervisory Board***

Graduate of the Faculty of Law and Administration at the Maria Curie-Skłodowska University. Obtained the scientific title of Doctor of Sciences in law. He is also a certified solicitor.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 15 May 2014. Currently acting as a member of the Committee on Nominations and Remunerations of the Supervisory Board.

***Maciej Koński – Member of the Supervisory Board***

Graduate of the Warsaw School of Economics, faculty of Finance and Banking. In 2014 he obtained the title of doctor of technical sciences at Wrocław University of Technology.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 1 September 2014. Currently acting as a member of the Strategy Committee of the Supervisory Board.

***Leszek Koziorowski – Member of the Supervisory Board***

Graduate of Faculty of Law and Administration of Warsaw University, legal counsel in the Regional Chamber of Attorneys in Warsaw.

Appointed as the member of the Supervisory Board of TAURON Polska Energia S.A. as of 14 September 2010, he acted as the member of the Supervisory Board in the period until 15 May 2014, i.e. the day of termination of the 3rd common term of the Supervisory Board. In the aforementioned period he acted as the secretary of the Supervisory Board and member of the Audit Committee of the Supervisory Board. Re-elected to the Supervisory Board as of 1 September 2014. Currently acting as a member of the Committee on Nominations and Remunerations of the Supervisory Board.

***Michał Michalewski – Member of the Supervisory Board***

Graduate of the University of Economics in Katowice where he majored in finance and banking. The MBA degree at Nottingham Trend University in Great Britain. A graduate of numerous post-graduate courses in the field of management.

In the years 2008–2012 he acted as the Member of Supervisory Board of TAURON Polska Energia S.A.

Appointed as a member of the Supervisory Board of TAURON Polska Energia S.A. as of 15 May 2014. Currently acting as the member of the Strategy Committee of the Supervisory Board and Audit Committee of the Supervisory Board.

***Marek Ściążko – Member of the Supervisory Board***

Graduate of Faculty of Technology and Chemical Engineering, Technical University in Gliwice – speciality: chemical engineering, he obtained the PhD title at the same university.

Moreover, Marek Ściążko holds the title of Doctor of Sciences and a University Professor.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 31 January 2008. Currently acting as the member of the Strategy Committee of the Supervisory Board and Committee on Nominations of the Supervisory Board.

***Maciej Tybura – Member of the Supervisory Board***

A graduate of the University of Economic in Poznań, faculty of Entyerprise Finance and Accounting.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 1 September 2014. Currently acting as a member of the Audit Committee of the Supervisory Board.

The detailed description of experience and competences of the Supervisory Members is published on the Company websitehttp://www.tauron-pe.pl/.

**Description of operation**

A detailed description of the Supervisory Board operations is included in the Ksh, in the Company Articles of Association, which is available on the Company website http://www.tauron-pe.pl/ and in the *Bylaws of the Supervisory Board of TAURON Polska Energia S.A. z siedzibą w Katowicach*.

The main form of performing supervision by the Supervisory Board over the Company's operations are meetings of the Supervisory Board. The Supervisory Board performs its obligations jointly. Meetings of the Supervisory Board are convened by the Chairperson of the Supervisory Board or Vice-Chairperson of the Supervisory Board by presenting a detailed agenda.

1) in accordance with decisions adopted by the Supervisory Board,
2) on his/her own initiative,
3) upon a written proposal of each member of the Supervisory Board,
4) upon a written proposal of the Management Board.

Meetings of the Supervisory Board take place in the Company's seat. In justified cases the venue of the meeting may be changed.

In order to convene a meeting, written invitation of all members of the Supervisory Board at least 7 days before the date of the Supervisory Board's meeting is required Due to material reasons the Chairperson of the Supervisory Board may shorten this period to 2 days, defining the mode of giving the invitation. Notifications of the Supervisory Board meeting are sent by means of fax or electronic mail and are confirmed by phone. In the notification of the Supervisory Board meeting the Chairperson defines the date of the meeting, venue of the meeting as well as detailed draft of the agenda. The Supervisory Board shall meet when the need arises, however, not less frequently than once in every two months. The Supervisory Board may meet without convening a formal meeting if all members of the Supervisory Board are present and nobody appeals against the fact of holding the meeting or against the agenda.

A change of the proposed agenda may take place when all members of the Supervisory Board are present at the meeting and nobody appeals against the agenda. An issue not included on the agenda shall be included into the agenda of the next meeting.

Taking part in meetings of the Supervisory Board is the Supervisory Board Member's duty. A Member of the Supervisory Board shall give reasons of his/her absence in writing. Justification of the Supervisory Board Member's absence requires the Supervisory Board resolution. Members of the Management Board of the Company may take part in the Supervisory Board's meetings unless the Supervisory Board raises an objection. Participation of the Management Board members in the Supervisory Board meetings is compulsory if they were invited by the Chairperson of the Supervisory Board. Other persons may also take part in the meetings if they were invited in the above mentioned way.

The Supervisory Board may seek opinion of legal advisers who render regular legal advice for the Company, as well as, in justified cases, it may appoint and invite to meetings of the Supervisory Board appropriate experts in order to ask their advice and make an appropriate decision. In the aforementioned cases the Supervisory Board shall pass a resolution concerning commissioning the work to a chosen expert (audit or consulting company) obliging the Company's Management Board to conclude an appropriate agreement.

Meetings of the Supervisory Board shall be chaired by the Chairperson of the Supervisory Board, and in the case of his/her absence by the Vice-Chairperson. Due to material reasons, with the consent of the majority of the members of the Supervisory Board present at the meeting, the person chairing the meeting is obliged to submit to voting a motion to stop the meeting and establish a new date of resuming the Supervisory Board meeting. The Supervisory Board makes decisions in the form of resolutions. The Supervisory Board resolutions are passed mainly at the meetings. The Supervisory Board passes resolutions if at least half of its members are present at the meeting and all its members were invited in the way defined in the Regulations. Subject to absolutely binding regulations of law, including the Ksh as well as provisions of the Company's Articles of Association, the Supervisory Board passes resolutions by an absolute majority of votes of the persons present at the meeting, where the absolute majority of votes is understood as more votes submitted "for" than "against" and "abstain". Resolutions cannot be passed in issues not included in the agenda unless all members of the Supervisory Board are present and nobody voices an objection. It shall not apply to resolutions on justifying the Supervisory Board's member absence at the meeting Voting of the resolutions is open. A secret ballot is ordered:

1) upon the request of at least one of the members of the Supervisory Board,
2) in personnel-related issues

The Supervisory Board, in accordance with the Articles of Association, may pass resolutions in writing or by using means of direct remote communication. Passing a resolution in such a mode requires a justification and a prior submitting of the draft of the resolution to all members of the Supervisory Board. Passing resolutions in this mode does not apply to the appointing the Chairperson, the Deputy Chairperson and the Secretary of the Board, appointing or suspending in the activities of a member of the Supervisory Board and dismissing these persons as well as other issues the settlement of which requires a secret voting. Voting on a resolution passed in the aforementioned mode, a member of the Supervisory Board indicates the mode of his/her voting, “for”, “against” or “abstain”. In case of failure to express the vote by a Member of the Supervisory Board in the time period defined by the Chairperson the resolution shall not be passed. Resolution with a note that it was passed in a written mode or by mode of voting using means of direct distance communication shall be signed by the Chairperson of the Supervisory Board. Resolutions passed in this mode shall be submitted at the first coming meeting of the Supervisory Board with announcing the result of the voting.

A possibility is allowed for members of the Supervisory Board to participate in the meeting and vote on the resolutions adopted within such a meeting using means of direct remote communication, i.e. tele- or videoconferences, provided that at the venue of the session, indicated in the notice of the meeting, at least half of the members is present as well as the technical possibility to ensure secure connection is provided.

Members of the Supervisory Board shall take part in meetings and perform their duties in person, and while performing their duties they are obliged to exercise due diligence. Members of the Supervisory Board are obliged to keep information connected with the Company activity which they have acquired in connection with holding their seat or at other occasion secret. The Supervisory Board performs its obligations jointly.

The Supervisory Board may, due to material reasons, delegate particular members to perform certain actions independently for a defined period of time. The Supervisory Board may delegate its members, for a period no longer than three months, to temporarily perform duties of the members of the Management Board who have been dismissed, submitted their resignation or if due to other reasons they cannot perform their functions. The aforementioned delegation requires obtaining permission from the member of the Supervisory Board who is to be delegated.

The detailed description of activities of the Supervisory Board in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the General Meeting and then published on the Company website http://www.tauron-pe.pl/.

The Supervisory Board may appoint among its members permanent or temporary working groups or committees to perform particular actions. The permanent committees of the Supervisory Board include:

1) Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. (Audit Committee),
2) Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A. (Nominations and Remuneration Committee),
3) Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. (Strategy Committee).

Composition, tasks and rules of operation of the aforementioned committees are defined in their regulations adopted by the Supervisory Board.

### 6.11.3. Audit Committee

In connection with the commencement, as of 15 May 2014, of the 4th common term of the Supervisory Board of the Company and the appointment of its members by the State Treasury and the General Meeting, on 2 June 2014 the Supervisory Board established the Audit Committee among its members.

**Composition of the Audit Committee as at 31 December 2014 and as at the day of this report**

1. Agnieszka Woś – Chairperson of the Audit Committee,
2. Michał Michalewski – Member of the Audit Committee,
3. Jacek Szyke – Member of the Audit Committee,
4. Maciej Tybura – Member of the Audit Committee.

**Changes in the personal composition of the Audit Committee**

As at 1 January 2014 the Audit Committee consisted of the following members: Marcin Majeranowski (Chairman), Leszek Koziorowski, Jacek Kuciński and Jacek Szyke.

On 2 June 2014, the Supervisory Board appointed the following members of the Audit Committee: Michał Michalewski, Jacek Szyke and Agnieszka Woś. On the same day, the Audit Committee elected Agnieszka Woś as the Chairperson of the Audit Committee among its members.

In connection with the appointment of new members of the Supervisory Board by the GM on 1 September 2014, on 28 October 2014 the Supervisory Board appointed Maciej Tybura as a member of the Audit Committee.

Until the day of submission of this report, no other changes in the composition of the Audit Committee have taken place.

**Tasks and competences of the Audit Committee**

The table below presents the tasks and competences of the Audit Committee as at 31 December 2014 and as at the day of this report.

**Table no. 48. Competence of the Audit Committee**

| Issues requiring the resolution of the Audit Committee | |
|---|---|
| **as at 31 December 2014 and as at the day of this report:** | |
| 1. | monitoring of financial reporting process; |
| 2. | monitoring of the accuracy of financial information presented by the Company; |
| 3. | monitoring of the efficiency of internal control, internal audit and risk management systems existing in the Company; |
| 4. | monitoring of performing of financial revisions; |
| 5. | monitoring of independence and impartiality of the chartered accountant and the entity entitled to examine financial statements, including rendering by them services other than financial audit; |
| 6. | recommending of an entity entitled to examine financial statements to perform financial audit to the Supervisory Board. |

The detailed description of activities of the Audit Committee in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the GM and then published on the Company website http://www.tauron-pe.pl/.

### 6.11.4. Nominations and Remuneration Committee

In connection with the commencement, as of 15 May 2014, of the 4th common term of the Supervisory Board of the Company and the appointment of its members by the State Treasury and the General Meeting, on 2 June 2014 the Supervisory Board established the Nominations and Remuneration Committee among its members.

**Personal composition of the Nominations and Remuneration Committee as at 31 December 2014 and as at the day of this report**

1. Antoni Tajduś – Chairman of the Nominations and Remuneration Committee,
2. Andrzej Gorgol – Member of the Nominations and Remuneration Committee,
3. Leszek Koziorowski – Member of the Nominations and Remuneration Committee,
4. Marek Ściążko – Member of the Nominations and Remuneration Committee.

**Changes in the personal composition of the Nominations and Remuneration Committee**

As at 1 January 2014 the Nominations and Remuneration Committee consisted of the following members: Antoni Tajduś (Chairman), Jacek Kuciński, Marek Ściążko and Agnieszka Trzaskalska.

On 2 June 2014, the Supervisory Board appointed the following members of the Nominations and Remuneration Committee: Andrzej Gorgol, Michał Michalewski, Marek Ściążko and Antoni Tajduś. On the same day the Nominations and Remuneration Committee elected Antoni Tajduś as the Chairman of the Nominations and Remuneration Committee among its members.

In connection with the appointment of new members of the Supervisory Board by the GM on 1 September 2014, on 28 October 2014 the Supervisory Board appointed Leszek Koziorowski as a member of the Nominations and Remuneration Committee.

On 28 October 2014, Michał Michalewski resigned from his function of the member of the Nominations and Remuneration Committee.

Until the day of submission of this report, no other changes in the composition of the Nominations and Remuneration Committee have taken place.

**Tasks and competence of the Nominations and Remuneration Committee**

The table below presents the tasks and competences of the Nominations and Remunerations Committee as at 31 December 2014 and as at the day of this report.

**Table no. 49. Competence of the Nominations and Remuneration Committee**

| Issues requiring the resolution of the Nominations and Remunerations Committee |
|---|
| **as at 31 December 2014 and as at the day of this report:** |
| 1. recommendations to the Supervisory Board on a recruitment procedure for the positions of members of the Company Management Board, |
| 2. assessing candidates for members of the Management Board as well submitting an opinion in this scope to the Supervisory Board, |
| 3. recommendations to the Supervisory Board on the form and contents of agreements concluded with members of the Management Board, |
| 4. recommendations to the Supervisory Board on remuneration and bonus system of the members of the Management Board, |
| 5. recommendations to the Supervisory Board on the need to suspend a member of the Management Board due to material reasons |
| 6. recommendations to the Supervisory Board on the need to delegate a member of the Supervisory Board to temporarily perform the duties of members of the Management Board who cannot perform their duties together with a proposal of remuneration. |

The detailed description of activities of the Nominations and Remuneration Committee in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the GM and then published on the Company website http://www.tauron-pe.pl/.

### 6.11.5. Strategy Committee

In connection with the commencement, as of 15 May 2014, of the 4th common term of the Supervisory Board of the Company and the appointment of its members by the State Treasury and the General Meeting, on 2 June 2014 the Supervisory Board established the Strategy Committee among its members.

**Composition of the Strategy Committee as at 31 December 2014 and as at the day of this report**

1. Jacek Szyke – Chairman of the Strategy Committee,
2. Maciej Koński – Member of the Strategy Committee,
3. Michał Michalewski – Member of the Strategy Committee,
4. Marek Ściążko – Member of the Strategy Committee.

**Changes in the Strategy Committee personal composition**

As at 1 January 2014 the Strategy Committee consisted of the following members: Jacek Szyke (Chairman), Jacek Kuciński, Marek Ściążko, Agnieszka Trzaskalska, Rafał Wardziński.

Due to the dismissal of Rafał Wardziński from the Supervisory Board by the State Treasury on 22 January 2014, the composition of the Strategy Committee was reduced to four persons.

On 2 June 2014, the Supervisory Board appointed the following members of the Strategy Committee: Michał Michalewski, Jacek Szyke and Marek Ściążko. On the same day, the Strategy Committee elected Jacek Szyke as the Chairman of the Strategy Committee among its members.

In connection with the appointment of new members of the Supervisory Board by the GM on 1 September 2014, on 28 October 2014 the Supervisory Board appointed Maciej Koński as a member of the Strategy Committee.

Until the day of submission of this report, no other changes in the composition of the Strategy Committee have taken place.

**Tasks and competences of the Strategy Committee**

The table below presents the tasks and competences of the Strategy Committee as at 31 December 2014 and as at the day of this report.

**Table no. 50. Competence of the Audit Committee**

| Issues requiring the resolution of the Strategy Committee |
| --- |
| **as at 31 December 2014 and as at the day of this report:** |
| 1. assessment of the Corporate Strategy and presenting its results to the Supervisory Board; |
| 2. recommending the scope and terms of submitting the strategic multi-annual plans to the Supervisory Board; |
| 3. assessment of impact of the planned and undertaken strategic investments on assets of the Company; |
| 4. monitoring the implementation of the strategic investment tasks; |
| 5. assessment of activities concerning availability of significant Company assets; |
| 6. opinion on strategic documents submitted to the Supervisory Board by the Management Board. |

The detailed description of activities of the Strategy Committee in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the GM and then published on the Company website http://www.tauron-pe.pl/.

### 6.11.6. Description of activities of the Committees of the Supervisory Board

A detailed description of the activities of the Supervisory Board is included in the Regulations of individual Committees of the Supervisory Board of TAURON Polska Energia S.A.

The Committees of the Supervisory Board are advisory and opinion-making bodies acting collectively as a part of the Supervisory Board and perform support and advisory functions towards the Supervisory Board. The tasks of the Committees of the Supervisory Board are carried out by submitting motions, recommendations, opinions and statements on the scope of its tasks to the Supervisory Board, by means of resolutions. The Committees of the Supervisory Board are independent of the Management Board of the Company. The Management Board may not issue binding orders to the Committees of the Supervisory Board concerning performing their duties.

The Committees of the Supervisory Board consist of three to five members. The activities of the individual Committees are managed by their Chairpersons.

Meetings of the Committees are convened by the Chairperson 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 as needed. In case of the Audit Committee the meetings are convened at least on a quarterly basis. The Chairpersons of the Committees may invite members of the Supervisory Board, who are not members of the specific Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company to the meetings of the Committees. The Chairperson 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 pass resolutions if at least a half of their members were present at the meeting and all their 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 means of direct remote communication.

Members of the Committees of the Supervisory Board may also participate in meetings and vote of the adopted resolutions by using means of direct remote communication, i.e. tele- or videoconferences.

The Company Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the Committees of the Supervisory Board. Every year, the Committees of the Supervisory Board provide public record information, through the Company, on the composition of the Audit Committee, number of meetings held and participation in the meetings during the year as well as on main activities. In addition, the Audit Committee confirms its positive assessment of the independence of financial audit process and submits a short description of steps taken to formulate such a motion.

The Company Management Board provides the possibility to use the services of external advisers by the Committees in the scope required for performing the obligations of the specific Committee.

## 6.12. Remuneration of key management and supervisory personnel

**Remuneration of key management personnel**

The total amount of remuneration understood as the value of salaries, awards and benefits received in cash, in kind or in any other form, due or paid by the Company to the Management Board Members in 2014 amounted to PLN 7,440 thousand gross.

The model of remuneration of Board Members consists of two components for determining the remuneration, the fixed part (monthly basic salary) and the floating part, depending on fulfilment of specific target criteria (implementation of the task commissioned).

The members of the Management Board of the Company are not covered by the incentive or bonus programme based on the capital of the Company, neither do they receive any remuneration or awards due to performance in governing bodies of subsidiaries of TAURON Capital Group.

The table below presents the remuneration of members of the Company Management Board for 2014, divided into components.

**Table no. 51. Remuneration of members of the Company Management Board for 2014, divided into components (in PLN thousand)**

| No. | Surname and name | Period of holding the function in 2014 | Remuneration* | Bonus* | Other benefits* | Total |
|---|---|---|---|---|---|---|
| 1. | Dariusz Lubera | 01 January 2014 – 31 December 2014 | 1,044 | 657 | 211 | 1,912 |
| 2. | Aleksander Grad | 11 February 2014 – 16 March 2014**<br>17 March 2014 – 31 December 2014 | 801 | 175 | 87 | 1,063 |
| 3. | Katarzyna Rozenfeld | 17 March 2014 – 31 December 2014 | 714 | 132 | 72 | 918 |
| 4. | Stanisław Tokarski | 17 March 2014 – 31 December 2014 | 714 | 132 | 99 | 945 |
| 5. | Krzysztof Zawadzki | 01 January 2014 – 31 December 2014 | 924 | 507 | 140 | 1,571 |
| 6. | Joanna Schmid | 01 January 2014 – 17 March 2014 | 189 | 203 | 64 | 456 |
| 7. | Dariusz Stolarczyk | 01 January 2014 – 17 March 2014 | 227 | 270 | 78 | 575 |
| | **Total** | | **4,613** | **2,076** | **751** | **7,440** |

** Excluding overheads*
*** A period of delegating Aleksander Grad, Member of the Supervisory Board to the temporary performance of activities of the Vice-President of the Company Management Board.*

**Remuneration of key supervising personnel**

The model of remuneration of the Supervisory Board members consists in single component, fixed part.

The table below presents the remuneration of members of the Company Supervisory Board Members for 2014.

**Table no. 52. Remuneration of members of the Supervisory Board of the Company for 2014 (in PLN thousand)**

| No. | Surname and name | Period of holding the function in 2014 | Payroll and awards (in PLN thousand) |
|---|---|---|---|
| 1. | Antoni Tajduś | 01 January 2014 – 31 December 2014 | 143 |
| 2. | Agnieszka Woś | 22 January 2014 – 31 December 2014 | 122 |
| 3. | Jacek Szyke | 01 January 2014 – 31 December 2014 | 115 |
| 4. | Andrzej Gorgol | 15 May 2014 – 31 December 2014 | 68 |
| 5. | Maciej Koński | 01 September 2014 – 31 December 2014 | 36 |
| 6. | Leszek Koziorowski | 01 January 2014 – 15 May 2014<br>01 September 2014 – 31 December 2014 | 81 |
| 7. | Michał Michalewski | 15 May 2014 – 31 December 2014 | 68 |
| 8. | Marek Ściążko | 01 January 2014 – 31 December 2014 | 108 |
| 9. | Maciej Tybura* | 01 September 2014 – 31 December 2014 | 36 |
| 10. | Aleksander Grad* | 1 February 2014 – 16 March 2014 | 3 |
| 11. | Jacek Kuciński | 01 January 2014 – 15 May 2014 | 40 |
| 12. | Marcin Majeranowski | 01 January 2014 – 15 May 2014 | 40 |
| 13. | Agnieszka Trzaskalska | 01 January 2014 – 15 May 2014 | 40 |
| 14. | Rafał Wardziński | 01 January 2014 – 22 January 2014 | 8 |
| | **Total** | | **908** |

** Member of the Supervisory Board delegated to temporary performance of the activities of the Vice President of the Management Board of the Company in the period from 11 February 2014 to 16 March 2014.*

### 6.13. Agreements concluded with managing persons which envisage compensation in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation is caused by merger of the Company through takeover

Between the Company and managing persons no agreements were concluded which envisage compensation in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation is caused by merger of the Company through takeover.

# 7. OTHER SIGNIFICANT INFORMATION AND EVENTS

## 7.1. Proceedings pending before the court, competent arbitration authority or public administration authority

During the reporting period no proceedings were pending before any court, competent arbitration authority or public authority body, related to the Company or subsidiaries of TAURON Capital Group, whose single or aggregate value would exceed at least 10% of the equity of the Company.

## 7.2. Important achievements in research and development

In 2014 companies of TAURON Capital Group carried out many projects co-financed from external sources. The most significant projects are presented in the table below.

**Table no. 53. Projects carried out in 2014 by companies of TAURON Capital Group, co-financed from external sources**

| No. | Projects/programmes/tasks | Source of co-financing |
|---|---|---|
| 1. | 1) The Project comprising pilot scale research in the scope of monitoring and reduction of mercury emission.<br>2) The Project comprising chemical accumulation of energy through production of methane from the captured $CO_2$.<br>3) The Project comprising the construction of a system for individual assessment of disruptions in electric energy quality, including the power electronic interface to connect dispersed renewable energy sources. | KIC InnoEnergy |
| 2. | 1) Under the strategic programme on: *Advanced technologies of energy acquisition,* the following tasks were carried out:<br>• Task 1: Development of technologies for high-performing "zero-emission" coal units integrated with $CO_2$ capturing from flue gas,<br>• Task 2: Development of oxy-combustion technology for pulverised and fluidised bed boilers integrated with $CO_2$ capture,<br>• Task 3: Development of coal gasification technology for highly effective production of fuels and electric energy.<br>2) The GEKON Programme under which the implementation of the project in the scope of dynamic management of transmission capacity of power grids with the application of innovative measurement techniques has been launched.<br>3) The Applied Research Programme under which the implementation of the project in the scope of manufacturing of demineralised water to replenish the water-steam circuit by means of electromembranary treatment has been launched. | NCBiR |
| 3. | The MANAGER Project concerning the management of mine water for the purpose of mitigation of environmental hazards following the termination of mining exploitation. | Research Fund for Coal and Steel of the European Union |
| 4. | The ICP4Life project refers to the construction of the Integrated Collaborative Platform for Managing the Product-Service Engineering Lifecycle. | Horizon 2020: Framework Programme for Research and Innovation |

Moreover, in 2014 companies of TAURON Capital Group financed many other research and development activities from own funds, at various scale, enhancing the effectiveness of companies' performance and minimising the environmental impact of process they conduct.

In 2014 the Company, jointly with partners from the EU countries, started the implementation of the first project entitled *An Integrated Collaborative Platform for Managing the Product-Service Engineering Lifecycle – ICP4Life*, financed under the Horizon 2020 programme. Project deliverables may support companies of TAURON Capital Group in their works associated with renovations and maintaining the generation equipment and distribution grids.

On the other hand, in December 2014 the Feasibility Study of the Sectoral Programme for Power Industry was submitted to NCBiR, developed by the Company in cooperation, among others, with other enterprises from the energy sector, trade organisations and leading national universities. It is expected that the launch of the Programme shall provide support for the intensification of innovation in the energy sector, and competitions announced under the Programme shall also influence the directions of activities undertaken by TAURON Capital Group. At present, the evaluation of the application submitted is in progress.

The Company also conducted active measures in the scope of building the cooperation mechanisms between industry and science. In 2014, TAURON and 22 institutions, including: 18 universities, 2 institutes and 2 enterprises signed the consortium agreement establishing the Motorway of Technology and Innovation Institute, which provides a new platform for cooperation between industry and Polish universities.

In 2014, companies of TAURON Capital Group continued the activities carried out under the Knowledge, and Innovation Community KIC InnoEnergy, in particular, within the of the Polish node CC Poland Plus (one of six in the EU). TAURON has the status of Associated Partner in the structures of KIC InnoEnergy. The main area of interest of the Company covers the so-called clean coal technologies. At the same time, conducting research and coordination of activities in this area are the main activities of the company CC Poland Plus sp. z o.o. (CC Poland Plus) in which the Company is one of the shareholders. In 2014 representatives of the Company were involved in the activities of KIC InnoEnergy, associated with the evaluation of projects/initiatives proposed for implementation by other partners acting within KIC InnoEnergy structures.

Under the task comprising the development of technologies for high-performing "zero-emission" coal units integrated with $CO_2$ capturing from flue gas, research activities were continued with the use of the mobile pilot installation for $CO_2$ capturing, constructed in the previous year. In 2014 the installation was transported and installed at the unit with the fluidised bed boiler at Jaworzno III Power Plant (Power Plant II). The scientific partner of the project – Instytut Chemicznej Przeróbki Węgla (Institute of Chemical Coal Processing) conducted a series of tests at the installation, after which the installation was transported to Łaziska Power Plant. The follow-up projects are also planned, allowing for effective use of the research infrastructure held in the form of mobile pilot installation. A similar size installation, however, using a different technology for $CO_2$ separation – physical adsorption, under the second task, was used for the studies on $CO_2$ capturing in Łagisza Power Plant, where it cooperates with the biggest and most modern power unit of TAURON Capital Group – the 460 MW capacity unit.

In the reporting year, activities initiated in 2012 were also continued in the Company, resulting from the signed Consortium Agreement – HTRPL High Temperature Nuclear Reactor in Poland. The participation of the Company is associated with the implementation of the stage called, the *Analysis of the experience of the energy operator in application of cogeneration systems from the perspective of potential implementation of the technology of high temperature reactors*, under the research project on *Technologies supporting the development of safe nuclear power industry*, within the scope of Research Task no. 1 entitled: *Development of high temperature reactors for industrial application*. The leader of the Consortium is the AGH University of Science and Technology (Akademia Górniczo--Hutnicza) in Kraków.

On the other hand, in companies of the Sales Area, implementation of the pilot project in the scope of demand side management was completed in 2014. The project was related to the studies on the possible reduction of electric energy demand for the selected group of consumers on the territory of the Silesian province. Activities have also been undertaken under the "Smart Home" project, aimed at preparation of the undertaking and acquisition of co-financing for its implementation from KIC InnoEnergy. This project comprises the creation of a system of integrated devices allowing for effective remote management of electric equipment and controlling of security at home.

In order to improve the coordination of the research and development activities in TAURON Capital Group, in 2014 the Research and Development Office commenced its activities, established in 2013 within the structures of the Department of Regulation and External Funds of the Company. The office, among others, coordinates the activities in the scope of research and development in TAURON Capital Group and conducts cooperation with universities and research and development centres in the country and abroad.

In accordance with the assumptions, the establishment of the new organisational unit will be reflected in better adjustment of the research and development programmes conducted to the challenges faced by TAURON Capital Group, reduction of own R&D expenditure incurred, due to the effective use of the external funds, simultaneously benefiting from the support of the best specialists employed at universities and in research institutes as well as industrial partners from Poland and abroad.

At present, the activities aimed at development and implementation of the *Research and development policy in TAURON Group* are ongoing, which shall define the target model of research and development activity functioning in TAURON Capital Group, in particular, in the scope of:

1) indicating future competitive advantages of TAURON Capital Group, associated with the research and development activity,
2) indicating priority areas and development directions of the research and development activity, compliant with the current and predicted development trends in Europe and worldwide,
3) optimum use of the potential of both companies of TAURON Capital Group and the former economic and scientific partners,
4) optimum use of the support for research and development activity available under the public funds.

## 7.3. Issues concerning natural environment

**The most important actions in the area of environmental protection**

The most important actions in the area of environmental protection conducted in TAURON Capital Group in 2014 included:

1) construction of the installation for flue gas de-nitrification at 200 MW class units in Łaziska Power Plant and Jaworzno III Power Plant, which shall contribute to $NO_x$ emission reduction in the units to the level of 200mg/Nm$^3$; in 2014 installations at unit no. 9 in Łaziska Power Plant and unit no. 3 in Jaworzno III Power Plant were constructed,
2) commencement of construction of the power unit with 910 MW capacity in Jaworzno III Power Plant, whose commissioning shall significantly affect the reduction of ambient air emission of $NO_x$, $SO_2$, $CO_2$ and particulate matter,
3) continuation of implementation of environmental programmes: *Emergency oil spill – oil sumps*, *Equipping existing oil separators with additional safeguards and alarm signals*. *Change in the organisation of rainwater or melt water discharge and obtaining of the relevant permits* in TAURON Dystrybucja,
4) conducting the activities comprising the treatment (recovery) of mining waste in the filling installation and for production of aggregates and mixtures of aggregates.
5) modernisation of hydroelectric plants, aimed, among others, at mitigation od the hazard of environmental contamination with oils.

Companies of TAURON Capital Group conduct the responsible environmental protection policy and apply due diligence to ensure that the implemented investments are compliant with the requirements and consider the technological developments in the area of environmental protection.

**Fees for economic use of the natural environment**

In 2014 companies of TAURON Capital Group incurred costs of fees due to economic use of the environment at the total amount of approximately PLN 46,562.5 thousand.

The table below presents the level of fees for economic use of the environment due in 2014 in individual companies.

**Table no. 54. The level of fees for economic use of the environment due in 2014**

| No. | Company name | Fees for economic use of the environment due for 2014 (in PLN thousand) |
|---|---|---|
| 1. | TAURON Wytwarzanie | 29,765.0 |
| 2. | TAURON Wydobycie | 8,601.7 |
| 3. | TAURON Ciepło | 8,000.9 |
| 4. | TAURON Dystrybucja | 125.0 |
| 5. | KW Czatkowice | 57.4 |
| 6. | TAURON Dystrybucja Serwis | 9.2 |
| 7. | TAURON Obsługa Klienta | 1.5 |
| 8. | TAURON EKOENERGIA | 0.9 |
| 9. | TAURON Sprzedaż | 0.9 |
| | **Total** | **46,562.5** |

**Criminal sanctions for infringement of the requirements in the area of environmental protection**

On 28 July 2014 TAURON Ciepło received the decision of the Mayor of the City of Bielsko-Biała of 14 July 2014, imposing the fine in the amount of PLN 1,757,076.40 due to excessive logging of tree crowns on the premises of ZEC Bielsko-Biała EC1. The execution of the decision was postponed for a period of three years. The fine shall be waived for trees that will maintain their viability.

### 7.4. Policy on Corporate Social Responsibility (CSR)

In 2011, in acknowledgement that communication of CSR actions is particularly important in case of companies listed at stock exchange, within Corporate Strategy, the need to develop and implement the CSR strategy (within integration of PR function), at the level of the Company and "TAURON Group". Accordingly, in 2012 the *Strategy of Corporate Social Responsibility, i.e. the Strategy of Sustainable Development of TAURON Group for 20122015, with estimates up to the year 2020* was developed.

The strategic objectives defined by the Corporate Strategy and the strategies of Business Areas, provided basis for provisions of this document. The Strategy of sustainable development indicates two leading directions: ensuring the energy safety and client, as well as three supporting directions: involvement of employees in organisation development, environmental protection in the value chain and management of economic and social impacts. All key companies of TAURON Capital Group have been engaged in implementation of the strategy of sustainable development, appointing coordinators within their structures, to be responsible for supervising the implementation of the strategy and reporting of results to the corporate centre. On the other hand, in TAURON the coordinator for sustainable development was appointed, responsible, among others, for preparation of CSR reports.

The strategy of sustainable development is directly related to all areas of activities of TAURON Capital Group, consolidating both the approach to CSR and the methodology of assessment of actions undertaken based on the indicators of the Global Reporting Initiative. In 2014 the second report on sustainable development was published, presenting the measures undertaken by TAURON Capital Group in the area of Corporate Social Responsibility in 2013 as well as data summing up the implementation of the goals planned in the sustainable development strategy up to 2015. The report has been prepared in accordance with the latest reporting standards – GRI G.4, which was confirmed by the certificate – GRI Materiality Matters' Check. The report was subject to the external verification by an independent auditor. The Company was also audited in connection with joining the RESPECT Index – the index comprising companies listed at the stock exchange, operating in accordance with the rules of sustainable development. For the second time TAURON received a positive result and was included in the index.

One of the directions of the strategy of sustainable development is the management of the economic and social effects. The resulting goals are implemented, among others, through the activities of TAURON Foundation which enables even more effective implementation of CSR actions in the scope of care for safety of local communities and actions for public benefit.

In 2014 TAURON Foundation and the Company implemented, based on the employee voluntary programme, the next issue of the action *Houses of Positive Energy*, dedicated to 24-hours custody and caretaking facilities, aimed at improvement of the living conditions of children from orphanages. The action covered all the facilities within the area of operations of TAURON Capital Group. The project attracted substantial interest – over 70 establishments looking after almost 3,000 children participated in the event. In 2014 the Foundation also continued the project called *Heroes day by day*, the aim of which is to build awareness of potential donors of bone marrow and increase the number of potential donors. The volunteers of TAURON Foundation organised several information actions and days of bone marrow donor in companies of TAURON Capital Group, and during the events sponsored by TAURON, as a result of which 1975 potential bone marrow donors were registered.

TAURON Capital Group, acting in the area of southern Poland, has a leading position in energy sales and generation. These conditions cause that the scope of actions conducted for the benefit of the communities in which companies of TAURON Capital Group operate, is very broad. Many projects are supported which are important for inhabitants of the regions of Upper and Lower Silesia, Opolskie, Małopolska and Podkarpacie Regions. Among others, TAURON cooperates with the Mountain Voluntary Emergency Service (GOPR), the goal of which is to increase safety in the mountains. The Company is the strategic partner of the project, actively participating both in its summer and winter edition.

In 2014 TAURON also launched the cooperation with the SIEMACHA Association – one of the leading NGOs in the country focusing on implementation of projects in the area of education, sports and therapy, providing systemic assistance to children and teenagers. In the scope of the established cooperation, TAURON's patronage covered sports activities of the association, gaining the title of *TAURON – SIEMACHA's sports partner*. In 2014 such projects were supported as *Foootball Children's Day with TAURON*, *Juliada 2014* or *I swim with TAURON*.

Activities of companies of TAURON Capital Group are also worth mentioning. In 2014 the campaign called *TAURON Fuses* was continued. The part of the action implemented by TAURON Sprzedaż focused on raising awareness of clients on the energy market, in particular, in order to protect against practices of unfair sellers. On the other hand, a part of the project related to education of children and teenagers was conducted by TAURON Dystrybucja, teaching the rules of safe electric energy use. A new stage of the *TAURON Fuses* campaign was also launched*, Switch on at work* addressed mainly to employees of construction companies who have contact with electric energy and electricity supplied equipment in their work.

The Company is also the signatory of the declaration signed on 17 June 2009 during the national conference under the cycle *Responsible Energy*, comprising the principles of sustainable development in energy sector in Poland. In 2013 the Company joined a group of signatories of the *Business declaration for the sustainable development*, consequently undertaking to get involved in the implementation of strategic goals of the *Vision of sustainable development for the Polish business 2050*.

## 7.5. Awards and distinctions

In 2014 TAURON and companies of TAURON Capital Group received the following awards and distinctions.

**Figure no. 70. Awards and distinctions**

| AWARDS AND DISTINCTIONS GRANTED TO TAURON and COMPANIES OF TAURON CAPITAL GROUP IN 2014 | |
|---|---|
| **FEBRUARY** | Granting the distinction to TAURON in the 10th issue of the ranking *The most interesting of the best*. The Editor's Office of the Economic Monthly, New Industry and the wnp.pl portal granted the distinction illustrating the most important tendencies in implementation of IT projects for enterprises, indicating projects worth particular business and public attention. |
| **APRIL** | Gaining the *Forbes Diamonds* award by TAURON in the annual ranking distinguishing activities of the best companies. The website of the Company was also awarded, recognised as the best website in the Province of Silesia, winning the e-Diamonds Forbes & Biznes.pl 2014. ranking. The Company TAURON Dystrybucja, during the Forbes Diamonds gala 2014 received the first award in the category of enterprises of revenue exceeding 250 million PLN in Małopolska Region. Within the same classification, TAURON Sprzedaż received a distinction.<br>Taking 7th position by TAURON in the 16th issue of the List of top 500 published by *Rzeczpospolita*, like a year ago. The same place was gained in the ranking of the best companies that improved their net result, accompanying the List of 500. TAURON Capital Group was also recognised as the 5th biggest investor and 9th biggest employer in Poland. |
| **MAY** | Taking the 6th position by TAURON Capital Group in the List of 500 by *Polityka*, simultaneously maintaining its position gained last year, and among the most profitable enterprises it was promoted by one position – to the fifth place.<br>TAURON Capital Group was ranked 13th in the ranking of twenty leaders organised for the 20th Anniversary of the List of 500.<br>Taking the 2nd place by TAURON among the top companies of the Silesian Province in the ranking of *Pillars of Polish Economy*, published by "Puls Biznesu". The Jury has taken into account the scale of activities of the enterprises and their importance for the local community. |
| **JUNE** | TAURON gaining the distinction in the plebiscite: *Hero of the Capital Market 2014*, organised by the Association of Individual Investors – the biggest and the most important organisation associating persons investing in the capital. |
| **SEPTEMBER** | Taking the 24th place by TAURON Capital Group in the list of top 500 comprising the biggest companies from Central and Eastern Europe, developed by "Rzeczpospolita" daily and Deloitte. TAURON was also included among TOP 25 among the biggest companies listed on the stock exchange. |
| **OCTOBER** | Receiving of the main award by TAURON in the category of enterprises for the annual report for 2013 and the distinction for the annual report on Internet, granted by the jury of the competition *The Best Annual Report* , organised by the Institute of Accounting and Taxes.<br>Distinguishing TAURON with the title *New Impulse 2014* for the commencement of the implementation of 910 MW coal-fired unit construction at Jaworzno III Power Plant. |
| **DECEMBER** | The report on sustainable development of TAURON Capital Group received the award of Internet Users in the 8th edition of the competition on *Social Reports*, organised by the Forum of Responsible Business. The report contains the review of practices and projects addressed, among others to clients and local communities, implemented both by companies of TAURON Capital Group and the TAURON Foundation. |

## 7.6. Investor relations

Since the beginning of its stock exchange listing, the motto of the Company has been the effective and transparent information policy. Therefore, TAURON Capital Group pays special attention to communication with the investor environment. It is conducted not only at the level obligatory activities required by law (current and periodical reports) but also through many additional activities addressed directly to institutional and individual investors. The Company participates in many investor conferences, road shows in Poland and abroad, where the participants of the capital market may get acquainted with the situation of TAURON Capital Group and the condition of the energy sector and its perspectives.

Each publication of periodical reports in 2014 was combined with organisation of conferences for analysts and managers, during which members of the Company Management Board discussed financial results published in the reports and presented key achievements in the reported periods, followed by question and answer sessions. The conferences were broadcast on Internet in Polish and in English and it was possible to listen to them by phone. Owing to these activities, investors interested in the Company had a possibility to follow these events directly and acquire information at the same time as the participants of the conferences.

In 2014 the Members of the Management Board participated in fifteen conferences and road shows during which about 100 meetings were held with managers and analysts. Meetings with corporate investors were held not only in Poland but also in the financial centres of Europe and North America, among others, in New York, London, Paris and Vienna.

On 22 October 2014, the Company organised the second issue of the Individual Investor's Day. Several dozen of individual investors interested in TAURON Capital Group had the opportunity to meet the Management Board and the management staff, and visit Jaworzno III Power Plant – a new biomass burning unit of 50 MW capacity and the pilot CCS installation designed for capturing, transport and storage of $CO_2$. During this event presentations were also held concerning the updated Corporate Strategy and financial results gained in the 1st half of 2014.

In 2014 the Company continued its activities oriented towards practical aspects of communication with individual investors. For many years TAURON has been the strategic partner of the programme initiated by the Ministry of Treasury, under the name "Civic Shareholding". The objective of the Programme is to encourage the Poles to active and aware participation in economic life of the country, through active saving and investing in shares of privatised companies and stock exchange instruments. Under the "Civic Shareholding" programme representatives of the Company conducted training in the scope of investor relations for other listed companies and actively participated in the preparation of the scenario and promotion of the educational video "Everything you would like to know about the exchange".

Activities have also focused on technical aspects of communication with investors. In 2014 the Company launched the application for mobile devices dedicated for investors and organised two chats with individual investors. Activity in the scope of contacts with individual investors resulted in joining the programme of Individual Investors' Association "10 of 10 – company friendly to investors" and receiving of the distinction *Hero of the Capital Market* in June 2014.

The Company also participated in other events addressed to small investors, among others, it was a partner of sports competitions of the capital market, *Capital Market Games* and supported the conference for individual investors *WallStreet* in Karpacz.

TAURON cares for the content and validity of the information placed on the website related to investor relations which is the first contact with TAURON Capital Group for many investors. The Investor Relation section is updated on an on-going basis and contains a lot of useful information about important events, financial results, general meetings and video broadcasts of conferences summarising the financial results.

The high quality of investor relations conducted is confirmed by numerous awards and distinctions, granted to the Company in three last issues of the competition on *The Best Annual Report* organised by the Institute of Accounting and Taxes. In the last year's issue of the competition, TAURON received the first main award in the category of enterprises, for the report for 2013, and the distinction for the interactive annual report on Internet. Furthermore, Krzysztof Zawadzki – Vice President of the Board or Economics and Finance of TAURON, took the first place in the ranking of Thomson Reuters Extel 2014 for the best CFO (Chief Financial Officer) in investor communication among Polish listed companies.

The following table presents the timeline of events and activities carried out within investor relations which took place in 2014.

**Table no. 55. Timeline of events and activities carried out within investor relations in 2014**

| No. | Date | Event |
|---|---|---|
| 1. | 07 January 2014 | Extraordinary General Meeting of TAURON |
| 2. | 30 January 2014 | Participation in DM mBank conference in Warsaw |
| 3. | 18 March 2014 | Publication of the separate and consolidated annual report for 2013 |
| 4. | 18 March 2014 | Meeting of the Management Board with analysts managing funds associated with the publication of the financial results for 2013 |

| No. | Date | Event |
|---|---|---|
| 5. | 26 March 2014 | Participation in the CEE Energy Day, WOOD & Company conference, Warsaw |
| 6. | 3–4 April 2014 | Participation in the Polish Capital Market Conference, DM PKO BP and GPW, London |
| 7. | 07 April 2014 | Participation in the Energy & Mining Conference, UniCredit, Warsaw |
| 8. | 15 April 2014 | Publication of recommendations of the Management Board concerning the profit distribution for 2013 and defining of the amount allocated for the payment of the dividend |
| 9. | 14 May 2014 | Publication of the extended consolidated report for the 1st quarter of 2014 |
| 10. | 14 May 2014 | Meeting of the Management Board with analysts managing funds, associated with the publication of the financial results for the 1st quarter of 2014 |
| 11. | 16 May 2014 | Ordinary General Meeting of TAURON |
| 12. | 10 June 2014 | Participation in the Utilities & Renewables Conference, Bank of America Merrill Lynch, London |
| 13. | 11–12 June 2014 | Roadshow connected with the issue of bonds in cooperation with JP Morgan |
| 14. | 14 August 2014 | Day of determining the right of dividend |
| 15. | 21 August 2014 | Publication of the consolidated report for the 1st half of 2014 |
| 16. | 21 August 2014 | Meeting of the Management Board with analysts managing funds, connected with the publication of the financial results for the 1st half of 2014 |
| 17. | 22 August 2014 | Chat with individual investors |
| 18. | 4 September 2014 | Meeting of the Management Board with analysts managing funds, associated with the publication of the financial results for the 1st half of 2014, DM PKO BP, Warsaw |
| 19. | 04 September 2014 | Date of dividend payment |
| 20. | 15–16 September 2014 | Participation in the Annual Emerging Europe Investment Conference, UniCredit, Warsaw |
| 21. | 30 September 2014 | Participation in the EuroLatam Infrastructure & Utilities Conference, Santander, New York |
| 22. | 2–6 October 2014 | Roadshow in cooperation with Goldman Sachs, Boston, Des Moines, San Antonio, Austin |
| 23. | 8–9 October 2014 | Participation in the Erste Group Investor Conference, Stegersbach |
| 24. | 13–15 October 2014 | Roadshow associated with the issue of bonds in cooperation with ING |
| 25. | 22 October 2014 | Day of Individual Investor in TAURON |
| 26. | 13 November 2014 | Publication of the consolidated report for the Q3 2014 |
| 27. | 13 November 2014 | Meeting of the Management Board with analysts managing funds, associated with the publication of the financial results for Q3 2014 |
| 28. | 13 November 2014 | Chat with individual investors |
| 29. | 20 November 2014 | Participation in the Utilities, Mining & Industrials Conference, ING, Warsaw |
| 30. | 17–21 November 2014 | Participation in the investor conference within the Polish-American Innovation Week, GPW/HSBC, Los Angeles, San Diego and San Francisco |
| 31. | 4 December 2014 | Participation in the WOOD's Winter in Prague Conference, WOOD & Company, Prague |

**Management Board of the Company**

Katowice, 10 March 2015

| | | |
|---|---|---|
| Dariusz Lubera | – President of the Board | ....................................................................... |
| Aleksander Grad | – Vice President of the Board | ....................................................................... |
| Katarzyna Rozenfeld | – Vice President of the Board | ....................................................................... |
| Stanisław Tokarski | – Vice President of the Board | ....................................................................... |
| Krzysztof Zawadzki | – Vice President of the Board | ....................................................................... |

# APPENDIX A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

Below the glossary of trade terms and list of abbreviations most commonly used in this report, is presented.

**Table no. 56. Explanation of abbreviations and trade terms applied in the text of the report**

| No. | Abbreviation and trade term | Full name/explanation |
|---|---|---|
| 1. | Abener Energia | Abener Energia S.A. with the seat in Stalowa Wola |
| 2. | ArcelorMittal | ArcelorMittal Poland S.A. with its seat in Dąbrowa Górnicza |
| 3. | ARE | Agency of Energy Market (Agencja Rynku Energii S.A.) with the seat in Warsaw |
| 4. | AUTOZET | “AUTOZET” sp. z o.o. with its seat in Tarnów |
| 5. | Bank Pekao | Bank Pekao S.A. with the seat in Warsaw |
| 6. | BELS INVESTMENT | BELS INVESTMENT sp. z o.o. with its seat in Jelenia Góra |
| 7. | BGK | Bank Gospodarstwa Krajowego with the seat in Warsaw |
| 8. | BH Warszawa | Bank Handlowy w Warszawie S.A. with the seat in Warsaw |
| 9. | Biomasa GT | Biomasa Grupa TAURON sp. z o.o. with its seat in Stalowa Wola (formerly: “BUDO-TRANS” limited liability company) |
| 10. | BNP Paribas BP | BNP Paribas Bank Polska S.A. with the seat in Warsaw |
| 11. | BRE Bank | BRE Bank S.A. with the seat in Warsaw |
| 12. | BUDO-TRANS | “BUDO-TRANS” sp. z o.o. with the seat in Stalowa Wola (currently: Biomasa Grupa TAURON sp. z o.o.) |
| 13. | BZ WBK | Bank Zachodni WBK S.A. with the seat in Wrocław |
| 14. | CAO | Central Allocation Office GmbH with the seat in Freising, Germany |
| 15. | Cash pooling | Cash pooling operating in the Company – consolidation of balances of bank accounts through physical cross-posting of cash from accounts of TAURON Capital Group in the bank in which cash pooling operates to the bank account of Pool Leader whose function is fulfilled by the Company. At the end of each working day, from cash is cross-posted from the bank accounts of companies of TAURON Capital Group which show positive balance to the bank account of Pool Leader. At the beginning of each working day, bank accounts of companies of TAURON Capital Group are credited from the bank account of the Pool Leader with the amount demanded to maintain cash flow of the company of TAURON Capital Group on a given working day. |
| 16. | CC Poland Plus | CC Poland Plus sp. z o.o. with the seat in Kraków |
| 17. | CCS | (Carbon Capture and Storage) $CO_2$ sequestration – the process based on separation and capturing of carbon dioxide from flue gases in order to reduce its emission to ambient air |
| 18. | Colour certificates | Property rights resulting from certificates of origin of energy generated in the way subject to support, the so-called colour certificates:<br>1) **green** – certificates of origin of electric energy from renewable energy sources,<br>2) **violet** – certificates of origin of electric energy generated in cogeneration, burning methane released and captured during underground mining works in active, under liquidation or liquidated hard coal mines, or burning gas acquired from biomass processing,<br>3) **red** – certificates of origin of electric energy from cogeneration (CHP certificates – Combined Heat and Power),<br>4) **yellow** – certificates of origin of electric energy generated in cogeneration from sources of total installed capacity below 1 MW or gas-burning, |
| 19. | CIRS | (Currency Interest Rate Swap) – transaction of interest rate exchange |
| 20. | CSR | (Corporate Social Responsibility) – social responsibility of business |
| 21. | CUW | Centre of Common Services, CUW IT – IT services, CUW R – services in the area of accounting |
| 22. | Deloitte Polska | Deloitte Polska Sp. z o. o. Spółka Komandytowa with its seat in Warsaw |
| 23. | DM | Brokerage House |

| No. | Abbreviation and trade term | Full name/explanation |
|---|---|---|
| 24. | Good Practices | Good Practices of Companies Listed at GPW |
| 25. | EIB | The European Investment Bank with the seat in Luxemburg |
| 26. | EBIT | (Interest Rate Swap) result on operating activity before taxing |
| 27. | EBITDA | (Earnings before Interest, Taxes, Depreciation and Amortization) result on operating activity before taxing, increased by amortization and depreciation |
| 28. | e-BOK | Electronic Customer Service Office |
| 29. | EC Stalowa Wola | Elektrociepłownia Stalowa Wola S.A. with the seat in Stalowa Wola |
| 30. | EDF | EDF Polska Centrala sp. z o.o. with the seat in Warsaw |
| 31. | EEX | (European Energy Exchange) European Energy Exchange with the seat in Leipzig |
| 32. | EKOPEC | EKOPEC sp. z o.o. with the seat in Będzin |
| 33. | EL-AUTO | Zakład Obsługi Zaplecza Transportu Energetyki "EL-AUTO" sp. z o.o. with its seat in Częstochowa |
| 34. | Elektrownia Blachownia Nowa | Elektrownia Blachownia Nowa sp. z o.o. with its seat in Kędzierzyn Koźle. |
| 35. | ELVITA | Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA-Jaworzno III sp. z o.o. with its seat in Jaworzno |
| 36. | ENEA | ENEA S.A. with the seat in Poznań |
| 37. | ENERGA | ENERGA S.A. with the seat in Gdańsk |
| 38. | Enpower | Enpower sp. z o.o. with the seat in Katowice, |
| 39. | Enpower service | Enpower Service sp. z o.o. with the seat in Katowice |
| 40. | ERM | Complex System of Enterprise Risk Management |
| 41. | EU ETS | (European Union Emission Trading System) the European system of $CO_2$ emission allowances trading |
| 42. | EUA | (European Union Allowances) – allowance to introduce the equivalent to the air, within the meaning of art. 2 item 4 of the Act of 17 July 2009 on the management system of emissions of greenhouse gases and other substances, carbon dioxide ($CO_2$), which is used for settlements of emission size within the system, which can be managed based on principles stipulated in the Act of 28 April 2011 on the system of greenhouse gases emission allowances trading (Journal of Laws No. 122, item 695). |
| 43. | EUR | Euro – a common European currency introduced in some EU Member States |
| 44. | FITCH | FITCH rating agency |
| 45. | GAZ-SYSTEM | Operator of Transmission Gas Pipelines GAZ-SYSTEM S.A. with its seat in Warsaw |
| 46. | GDF Suez | GDF SUEZ Energia Polska S.A. with its seat in Połaniec |
| 47. | GPW | Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) with the seat in Warsaw |
| 48. | GRI | Global Reporting Initiative |
| 49. | TAURON Capital Group | TAURON Polska Energia S.A. Capital Group |
| 50. | "TAURON Group" | TAURON Group established by the Management of the Company pursuant to the Code of TAURON Group, comprising the Company and selected companies of TAURON Capital Group. |
| 51. | GUS | Central Statistical Office (Główny Urząd Statystyczny) |
| 52. | GWh | gigawatt hour |
| 53. | GZE | Górnośląski Zakład Elektroenergetyczny S.A. with the seat in Gliwice |
| 54. | ING Bank | ING Bank Śląski S.A. with the seat in Katowice |

| No. | Abbreviation and trade term | Full name/explanation |
|---|---|---|
| 55. | IRGIT | Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Exchange Clearing House) with the seat in Warsaw |
| 56. | IRiESP | Instructions of transmission grid operation and maintenance |
| 57. | IRS | (Interest Rate Swap) contract on exchange of interest rate payments, one of the basic derivatives subject to trade at the interbank market |
| 58. | LTC | Long-term contracts – long-term contracts on sales of power and electric energy, listed in the Appendix no. 1 to the Act of 29 June 2007 on principles of covering of the costs incurred by producers due to the premature termination of long-term contracts for sales of power and electric energy (Journal of Laws No 130, item 905, as amended). |
| 59. | EC | European Commission |
| 60. | KGHM | KGHM Polska Miedź S.A. with the seat in Lubin |
| 61. | KIC InnoEnergy | Community of Knowledge and Innovation – KIC InnoEnergy, with its seat in Kraków |
| 62. | Code of TAURON Group | The document entitled Code of TAURON Group, adopted by the Management Board of the Company |
| 63. | Audit Committee | Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. |
| 64. | Nominations and Remuneration Committee | Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A. |
| 65. | Strategy Committee | Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. |
| 66. | Kompania Węglowa | Kompania Węglowa S.A. with the seat in Katowice |
| 67. | Ksh | Code of Commercial Companies |
| 68. | KSE | National Power System |
| 69. | kv | kilovolt – 1,000 volts |
| 70. | KW Czatkowice | Kopalnia Wapienia Czatkowice sp. z o.o. with the seat in Krzeszowice |
| 71. | KWK Brzeszcze | “Brzeszcze” Coal Mine with its seat in Brzeszcze |
| 72. | Marselwind | Marselwind sp. z o.o. with the seat in Katowice |
| 73. | MEGAWAT MARSZEWO | MEGAWAT MARSZEWO sp. z o.o. with the seat in Jelenia Góra |
| 74. | IMF | International Monetary Fund with its seat in Washington |
| 75. | Mg | Megagram – million gram (1,000,000 g) i.e. 1 t |
| 76. | MOSTOSTAL | Mostostal Warszawa S.A. with the seat in Warsaw |
| 77. | MSR | (Market Stability Reserve) stabilisation reserve on the market of allowances |
| 78. | IFRS | International Financial Reporting Standards |
| 79. | MW | Megawatt |
| 80. | MWe. | Megawatt of electric capacity |
| 81. | MWt | Megawatt of heating capacity |
| 82. | MWh | Megawatt hour |
| 83. | NCBiR | National Centre for Research and Development |
| 84. | Business Area | Area of operations of subsidiaries included in TAURON Group, determined by the Company, constituting the business segment of TAURON Group |
| 85. | Governance Area | Governance Area indicated in the List of Governance Areas, i.e. the document issued by the Management Board of the Company, pursuant to the Code, established based on Corporate Strategy and included in the business model of TAURON Group |
| 86. | OPR | Operating Power Reserve |
| 87. | DSO | Distribution System Operator |
| 88. | TSO | Transmission System Operator |

| No. | Abbreviation and trade term | Full name/explanation |
|---|---|---|
| 89. | OTC | (Over The Counter Market) – the European market operating outside the regulated exchange market |
| 90. | RES | Renewable Energy Sources |
| 91. | PEPKH in liquidation | Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. with the seat in Tarnów, in liquidation |
| 92. | PGE | PGE Polska Grupa Energetyczna S.A. with the seat in Warsaw |
| 93. | PGE EJ1 | PGE EJ1 sp. z o.o. with the seat in Warsaw |
| 94. | PGK | Tax Capital Group |
| 95. | PGNiG | Polskie Górnictwo Naftowe i Gazownictwo S.A. with the seat in Warsaw |
| 96. | PGNiG Termika | PGNiG Termika S.A. with the seat in Warsaw |
| 97. | PIR | Polskie Inwestycje Rozwojowe S.A. with its seat in Warsaw |
| 98. | GDP | Gross Domestic Product |
| 99. | PKO BP | Powszechna Kasa Oszczędności Bank Polski S.A. |
| 100. | PLN | The symbol of Polish currency – Polish Zloty |
| 101. | PMEC | Property rights for certificates of origin confirming generation of electricity in other co-generation sources |
| 102. | PMGM | Property rights for certificates of origin confirming generation of electricity in co-generation, from gas-fired sources or sources with the total installed capacity below 1 MW |
| 103. | PMMET | Property rights for certificates of origin confirming generation of electricity in co-generation, burning methane released and captured during underground mining works in active, under liquidation or liquidated hard coal mines, or burning gas acquired from biomass processing. |
| 104. | PMOZE | Property rights for certificates of origin confirming generation of electricity in RES in the period before 1 March 2009 |
| 105. | PMOZE_A | Property rights for certificates of origin confirming generation of electricity in RES in the period after 1 March 2009 |
| 106. | PSE | Polskie Sieci Elektroenergetyczne S.A. with the seat in Konstancin-Jeziorna |
| 107. | RAFAKO | RAFAKO S.A. with the seat in Racibórz |
| 108. | RB | Balancing Market |
| 109. | RDN/RDNg | Day Ahead Market |
| 110. | Organisational Regulations/ Bylaws | Document entitled Organisational Regulations of TAURON Polska Energia S.A. |
| 111. | RESPECT Index | Exchange index where companies operating in accordance with the sustainable development rules are listed |
| 112. | ROIC | Return On Invested Capital |
| 113. | RTT/RTTg | Commodity Forward Market |
| 114. | SPOT Market | In relation to electric energy, it is the place of concluding of trade transactions for electric energy, for which the period of delivery falls at the latest, three days after the date of transaction (usually one day before the date of delivery). Functioning of SPOT market for electric energy is strongly linked with RB operating provided by the TSO |
| 115. | Company | TAURON Polska Energia S.A. with its seat in Katowice |
| 116. | Corporate Strategy | The document entitled Corporate Strategy of TAURON Group for 2014–2017 with estimates until the year 2023, being the update of the document Corporate Strategy of TAURON Group for 20112015 with estimates until the year 2020. |
| 117. | TAMEH Czech | TAURON Czech s.r.o. with its seat in Ostrava, Czech Republic |
| 118. | TAMEH HOLDING | TAMEH HOLDING sp. z o.o. with its seat in Dąbrowa Górnicza |

| No. | Abbreviation and trade term | Full name/explanation |
|---|---|---|
| 119. | TAMEH POLSKA | TAMEH POLSKA sp. z o.o. with its seat in Dąbrowa Górnicza |
| 120. | TAURON | TAURON Polska Energia S.A. with its seat in Katowice |
| 121. | TAURON Ciepło | TAURON Ubezpieczenia sp. z o.o. with the seat in Katowice (formerly: Enpower service sp. z o.o. |
| 122. | TAURON Ciepło S.A. | TAURON Ciepło S.A. with its seat in Katowice (a company acquired by Enpower service sp. z o.o. which changed the enterprise name to “TAURON Ciepło sp. z o.o.” on 30 April 2014 |
| 123. | TAURON Czech Energy | TAURON Czech Energy s.r.o. with its seat in Ostrava, Czech Republic |
| 124. | TAURON Dystrybucja | TAURON Dystrybucja S.A. with its seat in Kraków |
| 125. | TAURON Dystrybucja Pomiary | TAURON Dystrybucja Pomiary sp. z o.o. with the seat in Tarnów |
| 126. | TAURON Dystrybucja Serwis | TAURON Dystrybucja Serwis S.A. with the seat in Wrocław |
| 127. | TAURON EKOENERGIA | TAURON EKOENERGIA sp. z o.o. with its seat in Jelenia Góra |
| 128. | TAURON Ekoserwis | TAURON Ekoserwis sp. z o.o. with the seat in Rożnów |
| 129. | TAURON Obsługa Klienta | TAURON Obsługa Klienta sp. z o.o. with the seat in Wrocław |
| 130. | TAURON Sprzedaż | TAURON Sprzedaż sp. z o.o. with its seat in Kraków |
| 131. | TAURON Sprzedaż GZE | TAURON Sprzedaż GZE sp. z o.o. with the seat in Gliwice |
| 132. | TAURON Sweden Energy | TAURON Sweden Energy AB (publ) with its seat in Stockholm, Sweden |
| 133. | TAURON Ubezpieczenia | TAURON Ubezpieczenia sp. z o.o. with the seat in Katowice |
| 134. | TAURON Wydobycie | TAURON Wydobycie S.A. with the seat in Jaworzno (formerly: Południowy Koncern Węglowy S.A.) |
| 135. | TAURON Wytwarzanie | TAURON Wytwarzanie S.A. with the seat in Katowice |
| 136. | TAURON Wytwarzanie GZE | TAURON Wytwarzanie GZE sp. z o.o. with the seat in Gliwice |
| 137. | TAURON Wytwarzanie Serwis | TAURON Wytwarzanie Serwis sp. with the seat in Jaworzno |
| 138. | TGE | Towarowa Giełda Energii S.A. (Polish Power Exchange) with the seat in Warsaw |
| 139. | TWh | Terrawatt hour |
| 140. | EU | the European Union |
| 141. | UOKiK | Office for Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów) |
| 142. | USD | (United States Dollar) international abbreviation of American dollar |
| 143. | ERO | Energy Regulatory Office |
| 144. | WFOŚiGW Katowice | Regional Fund of Environmental Protection and Water Management in Katowice |
| 145. | WFOŚiGW Kraków | Regional Fund of Environmental Protection and Water Management in Kraków |
| 146. | GM/SM | General Meeting/Shareholders’ Meeting |
| 147. | ZEC Bielsko-Biała | Zespół Elektrociepłowni Bielsko-Biała S.A. with its seat in Bielsko-Biała |
| 148. | ZE PAK | Complex of power plants Pątnów - Adamów - Konin S.A. with its seat in Konin |
| 149. | ZG Janina | Janina Mining Plant |
| 150. | ZW Katowice | Zakład Wytwarzania Katowice in Katowice |
| 151. | ZW Nowa | Zakład Wytwarzania Nowa in Dąbrowa Górnicza (formerly: Elektrociepłownia EC Nowa sp. z o.o.) |
| 152. | ZW Tychy | Zakład Wytwarzania Tychy in Tychy (formerly: Elektrociepłownia Tychy S.A.) |

# APPENDIX B: LIST OF TABLES AND FIGURES

Below the list of tables and figures occurring in this report is provided.

**List of Tables**

**List of Figures**

# STATEMENTS OF THE MANAGEMENT BOARD OF TAURON POLSKA ENERGIA S.A.

# STATEMENT

**of the Management Board of TAURON Polska Energia S.A.
on the compliance of the Consolidated financial statements
of TAURON Capital Group
and the Management Board's report on the operations
of TAURON Capital Group**

I, the undersigned, represent that, to my best knowledge, the Consolidated financial statements of TAURON Capital Group and comparable figures were prepared in accordance with applicable accounting rules and give the true and fair picture of the assets, financial standing and performance of TAURON Capital Group.

I also certify that the Management Board's report on the operations of TAURON Capital Group gives the true picture of the development, achievements and situation of TAURON Polska Energia S.A. Capital Group, including the description of key risks and threats.

Management Board Members:

| | | |
|---|---|---|
| Dariusz Lubera | – President of the Management Board | ....................................................................... |
| Aleksander Grad | – Vice-President of the Management Board | ....................................................................... |
| Katarzyna Rozenfeld | – Vice-President of the Management Board | ....................................................................... |
| Stanisław Tokarski | – Vice-President of the Management Board | ....................................................................... |
| Krzysztof Zawadzki | – Vice-President of the Management Board | ....................................................................... |

10 March 2015

*date*

# S T A T E M E N T

**of the Management Board of TAURON Polska Energia S.A.**
**on the appointment of the entity authorized to audit financial statements**
**(Consolidated financial statements of TAURON Capital Group)**

I, the undersigned, represent that the entity authorized to audit financial statements and examining the financial statements of TAURON Capital Group was appointed in accordance with legal regulations, and this entity and auditors examining the statements have met conditions for developing an impartial and independent report on the review of the audited financial statements in accordance with applicable regulations and professional standards.

Management Board Members:

| | | |
|---|---|---|
| Dariusz Lubera | – President of the Management Board | ...................................................................... |
| Aleksander Grad | – Vice-President of the Management Board | ...................................................................... |
| Katarzyna Rozenfeld | – Vice-President of the Management Board | ...................................................................... |
| Stanisław Tokarski | – Vice-President of the Management Board | ...................................................................... |
| Krzysztof Zawadzki | – Vice-President of the Management Board | ...................................................................... |

10 March 2015

*date*