TAURON
POLSKA ENERGIA

Annual report of TAURON Polska Energia S.A. 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 Polska Energia S.A., 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 has been consistently implementing the assumptions of the corporate strategy, generating sound financial results. In the previous year, revenues of the company amounted to approximately PLN 8.7 billion, and the net profit – to over PLN 1.1 billion. 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 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 standalone figures of TAURON Polska Energia S.A.				
Sales revenue	8 689 799	10 909 760	2 074 284	2 590 777
Operating profit	58 652	266 802	14 000	63 358
Profit before tax	1 172 527	1 696 522	279 886	402 879
Net profit	1 146 443	1 688 972	273 660	401 086
Other comprehensive income	(17 054)	63 336	(4 071)	15 040
Total comprehensive income	1 129 389	1 752 308	269 589	416 126
Earnings per share (in PLN/EUR) (basic and diluted)	0,65	0,96	0,16	0,23
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	4 463	534 186	1 065	126 855
Cash flows from investing activities	(438 236)	(1 059 910)	(104 608)	(251 700)
Cash flows from financing activities	1 701 129	(279 177)	406 065	(66 297)
Net increase (decrease) in cash and cash equivalents	1 267 356	(804 901)	302 522	(191 142)
	As of 31.12.2014	As of 31.12.2013	As of 31.12.2014	As of 31.12.2013
Non-current assets	26 617 011	25 968 345	6 244 753	6 261 657
Current assets	3 723 519	1 993 786	873 594	480 755
Total assets	30 340 530	27 962 131	7 118 347	6 742 412
Issued capital	8 762 747	8 762 747	2 055 873	2 112 931
Total equity	20 239 567	19 443 162	4 748 508	4 688 262
Long-term liabilities	7 511 096	5 576 565	1 762 217	1 344 658
Short-term liabilities	2 589 867	2 942 404	607 622	709 492
Total liabilities	10 100 963	8 518 969	2 369 839	2 054 150

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).

TAURON POLSKA ENERGIA S.A.

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

TAURON POLSKA ENERGIA S.A.
KATOWICE, ULICA KS. PIOTRA ŚCIEGIENNEGO 3

FINANCIAL STATEMENTS
FOR THE 2014 FINANCIAL YEAR

WITH
AUDITOR'S OPINION
AND
AUDIT REPORT

TABLE OF CONTENTS

Deloitte.

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AUDITOR'S OPINION

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

We have audited the attached financial statements of TAURON Polska Energia S.A. with its registered office in Katowice, at ul. ks. Piotra Ściegiennego 3, including a statement of financial position prepared as at 31 December 2014, statement of comprehensive income, statement of changes in equity, 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, as required by the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and additional explanations, including a regulatory statement required under Article 44 of the Energy Law of 10 April 1997 (Journal of Laws of 2012 item 1059 as amended, hereinafter the "Energy Law") presented in the form of note 50.

Preparation of financial statements and a report on the activities in line with the law and drawing up a regulatory statement compliant with Article 44 of the Energy Law is the responsibility of the Management Board of the Company.

The Management Board of the Company and members of its Supervisory Board are obliged to ensure that the financial statements and the report on the activities 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 financial statements with the accounting principles (policy) adopted by the Company and whether the financial statements give a true and fair view of the financial and economic position as well as the financial performance of the Company and on the correctness of the underlying accounting records. We were also required to audit and express an opinion on compliance of the regulatory statement with the requirements of Article 44 of the Energy Law.

Our audit of the financial statements and the regulatory statement 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 financial statements and the regulatory statement 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 Company, verification - largely on a test basis – of the accounting evidence and records supporting the amounts and disclosures in the financial statements, as well as overall evaluation of the financial statements. We believe that the procedures applied have provided a reasonable basis to express an opinion on the financial statements and the regulatory statement's compliance with Article 44 of the Energy Law.

In our opinion the audited 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 Company 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 and based on properly kept accounting records,

– comply with the provisions of law and the by-laws of the Company, which affect the contents of the financial statements.

In our opinion, the regulatory statement of the Company prepared as at 31 December 2014 and for the period ended as at that date presented in note 50 in all material respects complies with Article 44 of the Energy Law.

The report on the activities of the Company 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 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 FINANCIAL STATEMENTS OF TAURON POLSKA ENERGIA S.A. FOR THE 2014 FINANCIAL YEAR

I. GENERAL INFORMATION

1. Details of the audited Company

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

The Company operates as a joint stock company. It is recorded in the Register of Entrepreneurs kept by the District Court Katowice-Wschód VIII Business-Registry Division in Katowice under KRS number 0000271562.

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

As at 31 December 2014, the 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. In the audited period, the Company conducted activities mainly in the area of head office and holding operations, sales of electricity, coal, biomass and gaseous fuels in a network system.

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 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. Information on the financial statements for the previous financial year

The activities of the Company in 2013 resulted in a net profit of PLN 1,688,972 thousand. The financial statements of the Company 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 financial statements for the 2013 financial year was held on 15 May 2014. The General Shareholders' Meeting decided to distribute the net profit for 2013 in the following manner:
- dividends for shareholders – PLN 332,984 thousand,
- reserve capital – PLN 1,355,988 thousand.

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

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

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

The entity authorized to audit the financial statements was appointed by the Supervisory Board. The audit of the financial statements was performed based on the agreement of 7 May 2013 concluded between TAURON Polska Energia S.A. and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with 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 financial statements was conducted under the supervision of Artur Maziarka, key certified auditor (No. 90108) in the registered office of the Company from 24 November to 28 November 2014, from 2 February to 6 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 financial statements of the Company.

4. Availability of data and 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 10 March 2015.

II. ECONOMIC AND FINANCIAL POSITION OF THE COMPANY

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

Main financial data from the statement of comprehensive income (PLN '000)	2014	2013
Sales revenue	8,689,799	10,909,760
Operating expenses	(8,632,506)	(10,644,832)
Operating profit (loss)	58,652	266,802
Net profit (loss)	1,146,443	1,688,972

Main financial data from statement of financial position (PLN '000)		
Inventories	177,272	149,317
Trade receivables	941,842	1,083,164
Current assets	3,723,519	1,993,786
Total assets	30,340, 530	27,962,131
Equity	20,239,567	19,443,162
Short-term liabilities (including short-term provisions and accruals)	2,589,867	2,942,404
Trade payables	594,007	772,481
Total liabilities and provisions	10,100,963	8,518,969

Profitability and efficiency ratios	2014	2013
– return on sales	1%	2%
– net return on equity	6%	10%
– assets turnover ratio	0.29	0.39
– receivables turnover in days	42	36
– payables turnover in days	28	25
– inventory turnover in days	7	6

Liquidity/Net working capital		
– debt ratio	33%	30%
– equity to fixed assets ratio	67%	70%
– net working capital (PLN '000)	1,133,652	(948,618)
– current ratio	1.44	0.68
– quick ratio	1.37	0.63

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

- a decrease in the return on sales and a decrease in the net return on equity;
- a decrease in the assets turnover ratio;
- an increase in the receivables and liabilities 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 and the quick ratio.

III. DETAILED INFORMATION

1. Evaluation of the accounting system

The Company has valid documentation describing the adopted accounting principles, complying in all material respects with Article 10 of the Accounting Act. The principles have been applied consistently and did not change compared to the principles applied in the prior year. The opening balance resulting from the approved financial statements for the prior financial year has been properly introduced into the accounting records of the audited period.

Based on tests performed during the audit procedures, we have verified the adopted accounting system and found no misstatements that would affect the financial statements. Our audit did not include, though, the entire accounting system used by the Company. Our audit procedures, however, did not cover the analysis of the entire accounting system used by the Company.

The Company performed a physical count of assets and liabilities within the scope necessary to confirm the existence of the presented assets and liabilities.

2. Information identifying the audited financial statements

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

– statement of financial position prepared as at 31 December 2014, with total assets and liabilities plus equity of PLN 30,340,530 thousand,
– statement of comprehensive income for the period from 1 January 2014 to 31 December 2014, with a net profit of PLN 1,146,443 thousand and the total comprehensive income of PLN 1,129,389 thousand,
– statement of changes in equity for the period from 1 January 2014 to 31 December 2014, disclosing an increase in equity of PLN 796,405 thousand,
– 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 1,267,356 thousand,
– notes, comprising a summary of significant accounting policies and other explanatory information.

3. Information about selected material items of the financial statements

The structure of assets and liabilities as well as items affecting the financial result has been presented in the financial statements.

Long-term investments

Long-term investments of the Company include:
– shares in controlled entities of PLN 20,809,799 thousand,
– debt securities issued by subsidiaries of PLN 5,522,725 thousand,
– loans granted of PLN 198,331 thousand,
– investment property of PLN 32,552 thousand,
– other financial assets of PLN 5,286 thousand.

Explanatory notes correctly present changes in investments during the financial year.

Inventories

The structure of inventories and related impairment losses has been correctly presented in the relevant explanatory note to the statement of financial position.

Receivables

The ageing structure of trade receivables has been correctly presented in the relevant explanatory note to the statement of financial position. The audited sample did not include past-due or cancelled receivables.

Liabilities

The nature of contracted loans, security and maturity has been presented in the explanatory notes to the financial statements.

The liabilities' structure by type and maturity has been correctly presented in the relevant explanatory note to the statement of financial position.

Prepayments, accruals and provisions for liabilities

The structure of prepayments, accruals and provisions for liabilities has been presented in the notes.

4. Completeness and correctness of drawing up the introduction to the financial statements, notes and explanations and the report on the activities of the Company

The Company confirmed the validity of the going concern principle in the preparation of the 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 financial statements.

The notes to the financial statements give a correct and complete description of the reporting items and clearly present other information required under IFRS.

The Management Board of Company prepared and supplemented the financial statements with a report on the activities of the Company 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 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 Company's Management Board, in which the Board stated that the Company complied with the laws in force.

....
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

TAURON POLSKA ENERGIA S.A.

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

TABLE OF CONTENTS

(in PLN '000)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Sales revenue	**11**	8 689 799	10 909 760
Cost of sales	**12**	(8 526 855)	(10 523 336)
Profit on sale		**162 944**	**386 424**
Other operating income		2 821	3 675
Selling and distribution expenses	**12**	(25 286)	(39 498)
Administrative expenses	**12**	(80 365)	(81 998)
Other operating expenses		(1 462)	(1 801)
Operating profit		**58 652**	**266 802**
Dividend income	**14**	1 076 836	1 500 627
Other finance income	**15**	434 491	275 899
Finance costs	**16**	(397 452)	(346 806)
Profit before tax		**1 172 527**	**1 696 522**
Income tax expense	**17**	(26 084)	(7 550)
Net profit		**1 146 443**	**1 688 972**
Other comprehensive income subject to reclassification to profit or loss:		**(16 368)**	**63 105**
Change in the value of hedging instruments		(20 207)	33 397
Income tax expense	**17**	3 839	29 708
Other comprehensive income not subject to reclassification to profit or loss:		**(686)**	**231**
Actuarial gains/(losses) related to provisions for post-employment benefits		(847)	199
Income tax expense	**17**	161	32
Other comprehensive income, net of tax		**(17 054)**	**63 336**
Total comprehensive income		**1 129 389**	**1 752 308**
Earnings per share (in PLN)	**33**		
– basic and diluted, for net profit		0.65	0.96

Accounting principles (policies) and explanatory notes to the financial statements constitute an integral part hereof.

(in PLN '000)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2014	As at 31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	**19**	5 263	9 189
Investment property	**20**	32 552	36 169
Intangible assets	**21**	8 278	56 973
Shares	**22**	20 809 799	20 221 322
Bonds	**23**	5 522 725	5 165 000
Loans granted	**25**	198 331	189 310
Other financial assets	**26**	5 286	237 739
Other non-financial assets		3 636	7 059
Deferred tax asset	**17.3**	31 141	45 584
		26 617 011	**25 968 345**
Current assets			
Intangible assets	**27**	20 215	98 149
Inventories	**28**	177 272	149 317
Income tax receivables		8 384	28 527
Trade and other receivables	**29**	988 949	1 134 856
Bonds	**23**	1 276 001	52 830
Derivative instruments	**24**	1 811	34
Other non-financial assets	**30**	22 007	22 946
Cash and cash equivalents	**31**	1 228 880	507 127
		3 723 519	**1 993 786**
TOTAL ASSETS		**30 340 530**	**27 962 131**

Accounting principles (policies) and explanatory notes to the financial statements constitute an integral part hereof.

(in PLN '000)

STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 31 December 2014	As at 31 December 2013
EQUITY AND LIABILITIES			
Equity			
Issued capital	**32.1**	8 762 747	8 762 747
Reserve capital	**32.3**	10 393 686	9 037 699
Revaluation reserve from valuation of hedging instruments	**32.4**	(143 019)	(126 651)
Retained earnings/Accumulated losses	**32.5**	1 226 153	1 769 367
Total equity		**20 239 567**	**19 443 162**
Non-current liabilities			
Interest-bearing loans and borrowings	**34**	7 374 836	5 445 279
Liabilities under finance leases	**35**	30 169	33 159
Other financial liabilities		5 239	5 239
Derivative instruments	**24**	93 501	87 573
Provisions for employee benefits	**36**	7 351	5 267
Accruals, deferred income and government grants	**38**	–	48
		7 511 096	**5 576 565**
Current liabilities			
Current portion of interest-bearing loans and borrowings	**34**	1 800 265	1 858 032
Current portion of liabilities under finance leases	**35**	2 990	3 266
Trade and other payables		631 125	819 147
Derivative instruments	**24**	102 615	73 358
Provisions for employee benefits	**36**	665	516
Other provisions	**37**	34 189	110 580
Accruals, deferred income and government grants	**38**	13 185	11 475
Other non-financial liabilities	**39**	4 833	66 030
		2 589 867	**2 942 404**
Total liabilities		**10 100 963**	**8 518 969**
TOTAL EQUITY AND LIABILITIES		**30 340 530**	**27 962 131**

Accounting principles (policies) and explanatory notes to the financial statements constitute an integral part hereof.

(in PLN '000)

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2014

	Note	Issued capital	Reserve capital	Revaluation rezerve from valuation of hedging instruments	Retained earnings/ Accumulated losses	Total equity
As at 1 January 2014		**8 762 747**	**9 037 699**	**(126 651)**	**1 769 367**	**19 443 162**
Profit for the period		–	–	–	1 146 443	**1 146 443**
Other comprehensive income		–	–	(16 368)	(686)	**(17 054)**
Total comprehensive income for the year		**–**	**–**	**(16 368)**	**1 145 757**	**1 129 389**
Appropriation of prior year profits	**32.5**	–	1 355 987	–	(1 355 987)	**–**
Dividends	**18**	–	–	–	(332 984)	**(332 984)**
As at 31 December 2014		**8 762 747**	**10 393 686**	**(143 019)**	**1 226 153**	**20 239 567**

YEAR ENDED 31 DECEMBER 2013

	Note	Issued capital	Reserve capital	Revaluation rezerve from valuation of hedging instruments	Retained earnings/ Accumulated losses	Total equity
As at 1 January 2013		**8 762 747**	**7 953 021**	**(189 756)**	**1 515 996**	**18 042 008**
Profit for the period		–	–	–	1 688 972	**1 688 972**
Other comprehensive income		–	–	63 105	231	**63 336**
Total comprehensive income for the year		**–**	**–**	**63 105**	**1 689 203**	**1 752 308**
Appropriation of prior year profits		–	1 084 678	–	(1 084 678)	**–**
Dividends	**18**	–	–	–	(350 510)	**(350 510)**
Settlement of PKE Broker Sp. z o.o. merger		–	–	–	(644)	**(644)**
As at 31 December 2013		**8 762 747**	**9 037 699**	**(126 651)**	**1 769 367**	**19 443 162**

Accounting principles (policies) and explanatory notes to the financial statements constitute an integral part hereof.

(in PLN '000)

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Cash flows from operating activities			
Profit before taxation		1 172 527	1 696 522
Adjustments for:			
Depreciation and amortization		19 434	23 232
(Gain)/loss on foreign exchange differences		16 875	1 869
Interest and dividends, net		(1 124 962)	(1 433 138)
(Gain)/loss on investing activities		(16 861)	5 854
(Increase)/decrease in receivables		157 291	173 276
(Increase)/decrease in inventories		(27 955)	26 855
Increase/(decrease) in payables excluding loans and borrowings		(244 607)	71 007
Change in other non-current and current assets		93 706	31 707
Change in deferred income, government grants and accruals		790	905
Change in provisions		(75 005)	(8 247)
Income tax paid		33 230	(54 135)
Other		–	(1 521)
Net cash from (used in) operating activities		**4 463**	**534 186**
Cash flows from investing activities			
Sale of property, plant and equipment and intangible assets		26 568	22 396
Purchase of property, plant and equipment and intangible assets		(7 133)	(35 558)
Sale of shares in unlisted and listed companies		1 856	–
Purchase of shares in unlisted and listed companies	**40.1**	(98 625)	(270 791)
Purchase of bonds	**40.1**	(3 745 520)	(6 130 000)
Redemption of bonds	**40.1**	2 004 067	3 580 000
Repayment of loans granted		11 700	161 390
Loans granted		(18 050)	(108 800)
Dividends received		1 076 835	1 500 627
Interest received	**40.1**	310 066	220 678
Other		–	148
Net cash from (used in) investing activities		**(438 236)**	**(1 059 910)**
Cash flows from financing activities			
Payment of finance lease liabilities		(3 230)	(734)
Issue of debt securities	**40.2**	2 950 000	–
Redemption of debt securities	**40.2**	(1 148 200)	–
Proceeds from loans and borrowings	**40.2**	693 273	450 000
Repayment of loans and borrowings	**40.2**	(132 818)	(71 455)
Dividends paid	**18**	(332 984)	(350 510)
Interest paid	**40.2**	(314 904)	(296 384)
Other		(10 008)	(10 094)
Net cash from (used in) financing activities		**1 701 129**	**(279 177)**
Net increase/(decrease) in cash and cash equivalents		**1 267 356**	**(804 901)**
Net foreign exchange difference		(186)	(1 869)
Cash and cash equivalents at the beginning of the period	**31**	**(1 198 421)**	**(393 520)**
Cash and cash equivalents at the end of the period, of which:	**31**	**68 935**	**(1 198 421)**
restricted cash	**31**	44 765	70 330

Accounting principles (policies) and explanatory notes to the financial statements constitute an integral part hereof.

INTRODUCTION

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

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

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

The Company was assigned statistical number (REGON) 240524697 and tax identification number (NIP) 9542583988.

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

The scope of the core business of TAURON Polska Energia S.A. includes:

- Head office and holding operations, except for financial holdings – PKD 70.10 Z;
- Sales of electricity – PKD 35.14 Z;
- Sales of coal and biomass – PKD 46.71.Z;
- Sales of gaseous fuels in a network system – PKD 35.23.Z.

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

The financial statements prepared by the Company cover the financial year ended 31 December 2014 and include comparable data for the year ended 31 December 2013. These financial statements were approved for publication by the Management Board on 10 March 2015.

The consolidated financial statements for the year ended 31 December 2014 prepared by the Company 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 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 TAURON Polska Energia S.A. for the year ended 31 December 2014 (point 6.11.1.).

2. Shares in related parties

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	Core business	Share of TAURON in the entity's capital and governing body
1	TAURON Wydobycie S.A.	Jaworzno	Hard coal mining	100.00%
2	TAURON Wytwarzanie S.A.	Katowice	Generation, transmission and distribution of electricity and heat	100.00%
3	TAURON Ekoenergia Sp. z o.o.[1]	Jelenia Góra	Generation and sale of electricity	100.00%
4	TAURON Dystrybucja S.A.	Kraków	Distribution of electricity	99.71%
5	TAURON Dystrybucja Serwis S.A.[2]	Wrocław	Services	99.71%
6	TAURON Dystrybucja Pomiary Sp. z o.o.[2]	Tarnów	Services	99.71%
7	TAURON Sprzedaż Sp. z o.o.	Kraków	Sale of electricity	100.00%
8	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sale of electricity	100.00%
9	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sale of electricity	100.00%
10	TAURON Ciepło Sp. z o.o.[3]	Katowice	Production and distribution of heat	100.00%
11	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Services	100.00%
12	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Limestone quarrying, crushing and grinding; stone quarrying	100.00%
13	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. w likwidacji[4]	Tarnów	Sale of electricity	100.00%
14	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Services	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.

As at 31 December 2014 TAURON Polska Energia S.A. held the following direct and indirect interest in the following jointly-controlled entities:

Item	Company name	Registered office	Core business	Share of TAURON in the entity's capital and governing body
1	Elektrociepłownia Stalowa Wola S.A.[1]	Stalowa Wola	Production, transmission, distribution and sales of electricity	50.00%
2	Elektrownia Blachownia Nowa Sp. z o.o.[1]	Kędzierzyn Koźle	Generation of electricity	50.00%
3	TAMEH HOLDING Sp. z o.o.	Dąbrowa Górnicza	Head office and holding operations	50.00%
4	TAMEH POLSKA Sp. z o.o.[2]	Dąbrowa Górnicza	Generation, transmission, distribution and sale of electricity and heat	50.00%
5	TAMEH Czech s.r.o.[2]	Ostrawa, Czech Republic	Production, trade and services	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 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.

4. Going concern

These financial statements have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future. As at the date of approval of these financial statements for publication, there were no circumstances that would indicate a threat to the Company's ability to continue as a going concern.

5. Functional and presentation currency

These 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 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

Taking into account the indications that the Company's capitalization has recently been below the carrying amount as well as the situation in the energy market, as at 31 December 2014 the Company tested its shares disclosed under non-current assets for impairment. Shares constitute about 70% of the balance sheet total.

The test was conducted based on the present value of projected cash flows from operations of major companies, by reference to detailed projections for 2015–2024 and the estimated residual value. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed in the market. Projections also take into account changes in the legal environment known as at the date of the test.

The level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.94% to 10.03% in nominal terms before tax. WACC is calculated 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.

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

- The adopted price path of power coal, other coal sizes and gaseous fuels;
- The adopted electricity wholesale price path, 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 published by 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 cancel 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;
- Maintaining or growing the production capacity of the existing non-current assets as a result of replacement and development investments.

Fixed assets were also tested for impairment. To this aim, the Company applied assumptions used for impairment testing of shares.

The results of the tests did not indicate the necessity to recognize any impairment losses on assets held.

Sensitivity analyses conducted by the Company reveal that the projected prices of electricity and the adopted discount rates are the key factors exerting an effect on the estimated cash flows of the key companies. According to the Company, no rationally possible and highly probable change in any key assumption made in the analyses will increase the carrying amount of shares and fixed assets to a level exceeding their recoverable amount.

(in PLN '000)

Measurement of provisions for employee benefits

Provisions for post-employment benefits including provisions for retirement and disability benefits, appropriations to the Social Benefit Fund for future pensioners and individuals entitled to disability allowances and the energy tariff for employees have been estimated based on actuarial methods. Provision for jubilee bonuses was also estimated using these methods.

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

	Year ended 31 December 2014	Year ended 31 December 2013
Discount rate (%)	2.25%	4.00%
Estimated inflation rate (%)	2.35%	2.50%
Employee rotation rate (%)	5.83%	5.67%
Estimated salary increase rate (%)	2.35%	2.50%
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	10.64	10.70

Sensitivity analysis of measurement results as at 31 December 2014 to changes in key actuarial assumption by 0.5 percentage point has been presented below:

Provision	Measurement as at 31 December 2014	Financial discount rate		Planned increases in base amount	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	1 332	1 435	1 241	1 239	1 436
Employee electricity rates	1 284	5 335	4 927	4 914	5 346
Social Fund	280	1 491	1 115	1 114	1 489
Jubilee bonuses	5 120	319	245	245	320
Provision, total	**8 016**	**8 580**	**7 528**	**7 512**	**8 591**

As discussed in Note 36 discount rate reduction by 0.5 percentage point would result in an increase in provision for employee benefits from PLN 8 016 thousand to PLN 8 580 thousand. Discount rate increase by 0.5 percentage point, i.e. application of a 2.75% discount rate would result in a decrease in provision to PLN 7 528 thousand.

The benefits were calculated based on the assumptions set out in the Compensation Policy. Reducing the planned increases of compensation bases by 0.5 percentage point would result in a decrease in provision for employee benefits to PLN 7 512 thousand, while their increase would cause an increase in the provision up to PLN 8 591 thousand.

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.

As in the financial year ended 31 December 2014 the Company recognized taxable income and expects to generate taxable income in the following years, it recognized a deferred tax asset in the full amount.

Provision for the obligation to surrender energy certificates

Due to the sales of electricity to end users, as at 31 December 2014 the Company was required to surrender a number of certificates of electricity generated using renewable sources, in CHP methane-fuelled units, in CHP units fired with gaseous and non-gaseous fuels as well as energy efficiency certificates.

Nearly the entire estimated obligation to surrender renewable energy certificates and methane cogeneration energy certificates were covered with certificates acquired and held as at the end of the reporting period. Certificates of origin for electricity generated in CHP units fired with gaseous and non-gaseous fuels constituted ca. 40% of the estimated obligation to surrender these energy certificates. The portion corresponding to energy certificates was provisioned for in the amount of certificates held. The provision for the obligation to surrender energy efficiency certificates was estimated at substitution price. The provision for the remaining shortage in energy certificates was estimated based on market prices or substitution fees, depending on the intended method of covering the shortage in individual types of certificates.

As at 31 December 2014, the Company recognized a short-term provision for the obligation to surrender energy certificates of PLN 34 189 thousand, as compared to PLN 109 792 thousand as at 31 December 2013.

Intra-group bonds

Intra-group bonds issued by subsidiaries and acquired by TAURON Polska Energia S.A., with the total par value of PLN 5 522 030 thousand as at the end of the reporting period, including those maturing within one year with the par value of PLN 2 050 000 thousand, have been classified as long-term instruments. Such classification reflects the nature of funding under the intra-group bond issue scheme, which enables cash management in the medium and long term. The agreements assume the possibility to roll over the bonds in question.

Write-downs of inventories

In 2014 the Company recognized write-downs for energy certificates totaling to PLN 3 206 thousand and it utilized write-downs for certificates of PLN 3 146 thousand due to the sale of certificates. The write-downs were recognized in order to adjust the carrying amount to the net realizable value, taking into account market prices. The total adverse impact on the profit was PLN 60 thousand.

Depreciation and amortization rates

The rates and charges are based on projected economic useful life of property, plant and equipment and intangible assets and estimates regarding residual value of fixed assets. Every year the Company verifies the adopted useful lives based on the current estimates.

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. As at the end of the reporting period the Company held no foreign currency forwards.

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 transaction price. The forward price is calculated based on a zero coupon yield curve.

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

In the period covered by the financial statements no other material changes of estimated values and estimating methodologies occurred that would have an effect on the current or future periods.

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 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;
- A*nnual 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 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 Company analyzed the impact of the abovementioned standards, amendments to 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.

Based on preliminary analysis of IFRS 15's impact on the accounting policies applied, 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 happens rarely in the Company. The new guidelines of IFRS 15 are not expected to result in the need to change the systems, but before the standard enters into force the Company intends to carry out a five-step analysis of contracts with customers including contract 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 principles applied indicates one change important for the Company, 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 by the Company to manage financial assets. Additionally, the standard introduces a new hedge accounting model which requires detailed risk management disclosures.

According to the Management Board other standards, revised standards and interpretations in question do not materially impact the existing accounting policies.

The Company did not choose an early application of any standard, interpretation or change, which was published, but is not yet mandatorily effective.

8. Changes to accounting policies

The accounting principles (policies) adopted for the preparation of the financial statements are consistent with those adopted for the preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2013, except for the following standards and amendments to standards applicable in the EU to annual periods beginning on or after 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 introduction of the abovementioned standards and amendments to standards has not exerted a significant effect on the accounting principles (policy) adopted by the Company.

9. Significant accounting policies

9.1. 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.

(in PLN '000)

Exchange rates applied for the purpose of balance sheet measurement:

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

9.2. Property, plant and equipment

Property, plant and equipment are fixed assets:

- held by the entity to be used in delivery of goods and provision of services or for administrative purposes, and
- expected to be used for more than one year;
- probable to generate future economic benefits for the entity;
- whose cost can be reliably measured.

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. 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 the entity's consuming economic benefits generated by the asset.

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

Tangible fixed assets by type	Average remaining depreciation period in years
Plant and machinery	1 year
Motor vehicles	1 year
Other tangible fixed assets	2 years

Depreciation method and rate, as well as the residual value of fixed assets are verified at least at the end of each financial year. Any changes resulting from the review are recognized as estimate changes. 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 (calculated as the difference between the potential net selling price and the carrying amount of an item) 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.

9.3. Investment property

The Company presents real property as investments if it is treated as a source of revenue from rent or held due to increase in its value, or both, where the real property is not:

- used for delivery of goods or provision of services, administration activities or
- held for sale under standard business operations of the Company.

At initial recognition investment property is measured at cost including transactional expenses, After initial recognition all investment properties held are measured in line with IAS 16 Property, Plant and Equipment, i.e. at cost less any accumulated depreciation charges and any impairment losses. This implies that the Company gradually depreciates the real property during its entire useful life.

9.4. Intangible assets

Intangible assets include identifiable non-cash assets without a tangible form, such as:

- certificates of energy generated using renewable sources, in cogeneration or from natural gas sources acquired for surrendering;
- acquired property rights classified as non-current assets, suitable for business use, with projected useful life exceeding one year, intended for use for internal purposes, in particular:
  - copyright and related titles, licenses, concessions (including those related to computer software);
  - titles to inventions, patents, trademarks, utility and decorative models, computer software;
  - know-how, i.e. amount equivalent to the value of industrial, trade, scientific or organizational information;
- R&D expenses;
- acquired right to perpetual usufruct of land;
- other intangible assets recognized at acquisition as a result of a business combination.

Energy certificates are presented as intangible assets classified to non-current and current assets.

Certificates of origin for energy produced using renewable resources (RES) and CHP sources for internal purposes acquired for surrendering due to the sale of electricity to end buyers in order to meet the surrendering obligation for a given year are classified to current intangible assets. At initial recognition energy certificates are measured at cost. Energy certificates acquired in order to comply with the surrendering obligation in the following years are classified to non-current intangible assets.

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.

The Company assesses whether the useful life of an intangible asset is determined or undetermined and, if determined, estimates its duration or another measure providing the basis to define the useful life.

Intangible assets with determined useful life are amortized over the period of their estimated use and tested for impairment each time when impairment evidence occurs. The period and method of amortization of intangible assets with determined useful life are verified 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. Depreciation 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 asset item.

The Company does not have any intangible assets with undetermined useful life.

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

Intangible assets by type	Average remaining amortization period in years
Software	1 year
Other intangible assets	5 years

9.5. Impairment of non-financial non-current assets

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

The recoverable amount of the asset or cash-generating unit corresponds to the fair value less costs to sell the asset, or CGU, respectively, or its value in use, whichever is higher. 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. 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.

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. Impairment losses on assets used in continuing operations are charged to the classes of expenses corresponding to the function of the given impaired asset.

9.6. Shares in subsidiaries

Shares in subsidiaries are measured at cost less impairment losses. Impairment loss is recognized in line with IAS 36 *Impairment of Assets*, where the carrying amount is compared to the higher of: fair value less costs to sell and the value in use.

9.7. Financial assets

Categories of financial assets:

- financial assets measured at fair value through profit or loss;
- loans and receivables;
- financial assets available for sale;
- financial 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.

The category includes intra-group bonds issued by subsidiaries and taken up by the Company.

Financial assets available for sale (AFS)

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 losses;
- 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 entity's title to the payment has been determined.

9.8. Impairment of financial assets

As at the balance sheet date, the Company 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 originated loans 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.

9.9. Derivative financial instruments

The Company hedges FX risk using currency forward contracts.

The Company also concludes forward and future contracts for purchase and sale of emission allowances, power and other commodities (currently: Gasoil). 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 Company uses interest rate swaps, which has been discussed in detail in Note 9.10.

In order to hedge interest rate risk and currency risk the Company uses derivative financial instrument – Coupon Cross Currency Interest Rate Swap.

9.10. Hedge accounting

In order to hedge interest rate risk the Company 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.

9.11. Other non-financial assets

The Company recognizes other non-financial assets as prepayments if the following conditions are met:

- they result from past events: expenses incurred by the entity for operating purposes;
- their amount can be reliably determined;
- they will result in inflow of future economic benefits;
- they pertain to future reporting periods.

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 Company 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.

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 advance payments for future purchases of property, plant and equipment, intangible assets and inventories. Advance payments are presented in line with the assets they refer to, as current or non-current assets, respectively.

9.12. Inventories

The Company's inventories include acquired emission allowances and certificates of energy generated using renewable sources and in cogeneration intended for trading purposes.

At initial recognition inventories are measured at cost.

At the end of the reporting period inventories are measured at cost or net realizable value, whichever is lower. Net realizable value is the difference between the estimated sale price in the ordinary course of business and the estimated costs of completion with the estimated costs necessary to make the sale.

If the cost is higher than the net realizable value, the Company recognizes an appropriate impairment loss.

Release of goods and materials is measured using the weighted average method; costs of entertainment and advertising and office supplies may be charged directly to consumption costs upon purchase.

9.13. 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.

9.14. 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 equivalent disclosed in the 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, the balance of cash reduced by outstanding overdraft liabilities is recognized in the statement of cash flows. The balances of loans granted and taken out in cash pool transactions are disclosed as an adjustment to the balance of cash, as they are mainly used to manage current liquidity.

9.15. Issued capital

Issued capital is recognized in the amount determined in the by-laws and recorded in the court register of the Company.

9.16. 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 credit facility/loan.

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

Amortized cost includes costs incurred to arrange a credit facility or loan 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.

9.17. Trade payables and other financial liabilities

Short-term 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. Derivatives are also classified as held for trading, unless they are classified as effective hedging instruments.

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 Company 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.

9.18. Provisions for employee benefits

In accordance with the Compensation Policy the employees of the Company 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;
- benefits from the Company's Social Benefits Fund.

Jubilee benefits are paid to employees 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 provisions for post-employment benefits are fully charged to other comprehensive income, while actuarial gains or losses on jubilee benefits are changed to profit or loss.

9.19. Other provisions

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

The Company recognized the following other provisions:

- 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 Company recognizes a provision for costs of acquiring and surrendering energy certificates so as to fulfil the obligation to present the certificates for redemption or to pay a substitution fee.

Provision for the obligation to surrender certificates for energy produced using renewable sources or CHP units 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 Company's 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.

9.20. 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.

9.21. 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"). Therefore, the Company has established the fund and it makes periodical appropriations. The objective of the Fund is to co-finance social activities in the Company.

The Company sets off the Fund's assets against its liabilities to the Fund, because such assets do not constitute separate assets of the Company.

9.22. Lease

Finance leases transferring substantially all the risks and rewards of ownership of a lease object to the Company 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 principles applied to assets leased should be consistent with those applied to 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.

9.23. 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.

TAURON Polska Energia S.A., as the Company Representing the Tax Capital Group, is responsible to make monthly tax prepayments 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 prepayment 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 charge for the given reporting period determined by the Company 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 accounted for in profit or loss.

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 losses 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 Company 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.

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 in Other non-financial assets or Other non-financial liabilities.

9.24. 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.

The following items are excluded when a business combination is accounted for using the pooling of interest method:

- share capital of the acquiree;
- mutual receivables and liabilities or other similar settlements of the combined entities;
- revenue and costs of business transactions executed in the period covered by the financial statements, which were effected before the business combination.
- gains or losses on business transactions concluded between the combined entities prior to the business combination in amounts equal to the value of combined assets and liabilities.

When accounting for business combinations, the Company uses the consolidated financial statements as the source of the value of assets and liabilities in a subsidiary acquired. The value of shares of the acquiree in controlled entities has been specified by reference to the value of the net assets of these entities disclosed in the consolidated financial statements and the goodwill of a given controlled entity.

The difference between the net book value of assets recognized as a result of a business combination in the statement of financial position of the acquirer and the value of investments recognized thus far in the accounting records of the acquirer is recognized in the equity of the acquirer.

9.25. Statement of comprehensive income

Financial revenue and expenses for a given period are presented in the Statement of comprehensive income. In accordance with applicable standards, the Company discloses revenue and expenses for the period recognized through profit or loss in the statement of comprehensive income, while gains and losses not recognized through profit or loss are disclosed in other comprehensive income.

Change in hedging instruments 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.

9.26. Sales revenue

Revenue is recognized in the amount it is probable that future economic benefits relating to a transaction will flow to the Company and the amount of the revenue can be measured reliably. 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 recognition criteria:

Revenue from the sale of goods and materials is recognized if significant ownership-related risks and benefits from goods and materials have been transferred to the buyer and if the revenue amount can be reliably measured and incurred costs can be reliably estimated.

Revenue also includes amounts due for the sale of 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.

9.27. Operating expense

The Company presents costs by function.

Such costs include:

- 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).

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

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

9.28. Other operating revenue and expense

Other operating revenue and expense include in particular items related to:

- disposal of property, plant and equipment and intangible assets;
- recognition and derecognition of provisions, except for those related to financial transactions or charged to operating expense;
- assets (including cash) granted or received free of charge or donated;
- damages, fines and penalties and other costs not related to routine business operations.

9.29. Financial revenue and expense

Financial revenue and expense include in particular those regarding:

- revenue from profit sharing in other entities, including dividends;
- interest;
- sale of financial assets;
- revaluation of financial instruments, except for AFS financial assets, whose revaluation effects are charged to other comprehensive income;
- interest related to measurement of employee benefits, in line with IAS 19 *Employee Benefits*;
- changes in the balance of provision resulting from the nearing deadline to incur the expense (discount reversing effect);
- forex differences resulting from transactions performed during the reporting period and balance sheet measurement of assets and liabilities at the end of the reporting period, except for forex differences recognized in the gross value of a fixed asset;
- other items related to financial activity.

The Company sets off foreign exchange revenue against expense if they result from similar transactions. If the exchange differences are significant and they do not relate to similar transactions, the Company carries out appropriate analysis to determine whether they should be presented separately.

Interest revenue and expense is recognized on the cumulative basis as accrued, including the effective interest rate method applied to the carrying amount of the given financial instrument including the materiality principle.

Dividends are recognized at the moment of determining shareholders' cum dividend title.

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, 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.

(in PLN '000)

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

10. Information on operating segments

10.1. Operating segments

The Company carries out its business in two operating segments, that is "Sales" and "Holding Operations".

"Holding Operations" segment assets include:

- shares in subsidiaries;
- bonds acquired from subsidiaries;
- cash pool loan receivables, including a cash pool deposit;
- receivables arising from other loans granted to related parties.

"Holding Operations" segment liabilities include:

- bonds issued by the Company, including liabilities arising from valuation of hedging instruments related to such bonds;
- loans obtained from the European Investment Bank to carry out investment projects in subsidiaries;
- liabilities due to loans from related parties, including under the cash pool agreement.

"Holding Operations" include intra-group receivables and liabilities arising from income tax settlements of the Tax Capital Group companies.

Financial revenue and expenses include dividend income as well as net interest income and expense earned/incurred by the Company in relation to the central financing model adopted by the Group.

Unallocated expenses include the Company's general and administrative expense, as they are incurred for the Group as a whole and are not directly attributable to a specific operating segment.

EBITDA is the profit/loss on continuing operations before tax, finance income and expense, increased by amortization/depreciation.

Year ended 31 December 2014	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	2 767 694	–	–	**2 767 694**
Sales within the Group	5 922 105	–	–	**5 922 105**
Segment revenue	**8 689 799**	**–**	**–**	**8 689 799**
Profit/(loss) of the segment	**139 017**	**–**	**–**	**139 017**
Unallocated expenses	–	–	(80 365)	**(80 365)**
EBIT	**139 017**	**–**	**(80 365)**	**58 652**
Net finance income/(costs)	–	1 151 962	(38 087)	**1 113 875**
Profit/(loss) before income tax	**139 017**	**1 151 962**	**(118 452)**	**1 172 527**
Income tax expense	–	–	(26 084)	**(26 084)**
Net profit/(loss) for the year	**139 017**	**1 151 962**	**(144 536)**	**1 146 443**
Assets and liabilities				
Segment assets	2 452 176	27 848 516	–	**30 300 692**
Unallocated assets	–	–	39 838	**39 838**
Total assets	**2 452 176**	**27 848 516**	**39 838**	**30 340 530**
Segment liabilities	656 978	9 380 216	–	**10 037 194**
Unallocated liabilities	–	–	63 769	**63 769**
Total liabilities	**656 978**	**9 380 216**	**63 769**	**10 100 963**
EBIT	**139 017**	**–**	**(80 365)**	**58 652**
Depreciation/amortization	**(19 434)**	**–**	**–**	**(19 434)**
EBITDA	**158 451**	**–**	**(80 365)**	**78 086**
Other segment information				
Capital expenditure*	3 820	–	–	**3 820**

* Capital expenditure includes expenditures for property, plant and equipment and non-current intangible assets, except for energy certificates acquired by the Company.

(in PLN '000)

In the financial year ended 31 December 2014 the revenue from sales to two major clients from the Capital Group constituted 44% and 12% of the Company's revenue in the "Sales" segment and amounted to PLN 3 839 655 thousand and PLN 1 038 551 thousand, respectively.

Year ended 31 December 2013	Sales	Holding activity	Unallocated items	Total
Revenue				
Sales outside the Group	2 980 734	–	–	**2 980 734**
Sales within the Group	7 929 026	–	–	**7 929 026**
Segment revenue	**10 909 760**	**–**	**–**	**10 909 760**
Profit/(loss) of the segment	**348 800**	**–**	**–**	**348 800**
Unallocated expenses	–	–	(81 998)	**(81 998)**
EBIT	**348 800**	**–**	**(81 998)**	**266 802**
Net finance income (costs)	–	1 488 837	(59 117)	**1 429 720**
Profit/(loss) before income tax	**348 800**	**1 488 837**	**(141 115)**	**1 696 522**
Income tax expense	–	–	(7 550)	**(7 550)**
Net profit/(loss) for the year	**348 800**	**1 488 837**	**(148 665)**	**1 688 972**
Assets and liabilities				
Segment assets	1 360 588	26 527 404	–	**27 887 992**
Unallocated assets	–	–	74 139	**74 139**
Total assets	**1 360 588**	**26 527 404**	**74 139**	**27 962 131**
Segment liabilities	973 179	7 398 165	–	**8 371 344**
Unallocated liabilities	–	–	147 625	**147 625**
Total liabilities	**973 179**	**7 398 165**	**147 625**	**8 518 969**
EBIT	**348 800**	**–**	**(81 998)**	**266 802**
Depreciation/amortization	**(23 232)**	**–**	**–**	**(23 232)**
EBITDA	**372 032**	**–**	**(81 998)**	**290 034**
Other segment information				
Capital expenditure*	19 442	–	–	**19 442**

* Capital expenditure includes expenditures for property, plant and equipment and non-current intangible assets, except for energy certificates acquired by the Company.

In the financial year ended 31 December 2013 the revenue from sales to two major clients from the Capital Group constituted 44% and 13% of the Company's revenue in the "Sales" segment and amounted to PLN 4 791 023 thousand and PLN 1 364 852 thousand, respectively.

10.2. Geographic areas of operations

The majority of the Company's business operations is carried out in Poland. In the years ended 31 December 2014 and 31 December 2013 export sales amounted to PLN 422 261 thousand and PLN 478 682 thousand, respectively.

(in PLN '000)

11. Sales revenue

	Year ended 31 December 2014	Year ended 31 December 2013
Revenue from sales of goods for resale and materials (excise duty not excluded)	**8 579 081**	**10 790 992**
Excise duty	(15 036)	(858)
Revenue from sales of goods for resale and materials, of which:	**8 564 045**	**10 790 134**
Electricity	7 925 020	9 877 998
Gas	76 970	72 424
Property rights arising from energy certificates	378 235	471 420
Emission allowances	183 451	367 103
Other	369	1 189
Rendering of services, of which:	**125 754**	**119 626**
Trading income	57 641	61 861
Other	68 113	57 765
Total sales revenue	**8 689 799**	**10 909 760**

The Company has been acting as an agent in transactions involving biomass and coal purchase for the Group companies. The Company purchases raw materials from third parties and from the TAURON Group companies, which are subsequently sold to the Group companies only. The Company recognizes revenue only from agency services – supply management.

In the year ended 31 December 2014 raw materials acquired and resold as a result of the transactions in question amounted to PLN 1 856 014 thousand. The Company recognized revenue due to agency services of PLN 38 998 thousand.

12. 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	(19 434)	(23 232)
Materials and energy	(1 301)	(3 456)
Distribution services	(164)	(2 227)
Consultancy services	(6 169)	(9 034)
IT services	(26 160)	(24 943)
Other external services	(20 477)	(19 614)
Taxes and charges	(4 871)	(22 857)
Employee benefits expense	(71 474)	(67 317)
Impairment loss on inventories	(3 206)	(4 412)
Advertising expenses	(31 921)	(27 509)
Other	(2 472)	(2 477)
Total costs by type	**(187 649)**	**(207 078)**
Change in prepayments, accruals and deferred income	–	11 213
Selling and distribution expenses	25 286	39 498
Administrative expenses	80 365	81 998
Cost of goods for resale and materials sold	(8 444 857)	(10 448 967)
Cost of sales	**(8 526 855)**	**(10 523 336)**

A decrease in the costs of taxes and charges in the year ended 31 December 2014 year-on-year is mainly due to a decrease in the costs of transmission and exchange fees for sales of electricity.

(in PLN '000)

13. Employee benefits expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Wages and salaries	(56 211)	(52 800)
Social security costs	(6 667)	(6 608)
Jubilee bonuses	(1 461)	(573)
Appropriations to the Social Fund	(356)	(335)
Post-employment benefits expenses, including:	(3 662)	(3 513)
Retirement, disability and similar benefits	(190)	(150)
Special electricity rates and charges	(64)	(33)
Social Fund	(23)	(15)
Costs of employee retirement plans	(3 385)	(3 314)
Other employee benefits expenses	(3 117)	(3 488)
Employee benefits expenses, of which:	**(71 474)**	**(67 317)**
Items included in cost of sales	(18 828)	(12 128)
Items included in selling and distribution expenses	(9 869)	(9 095)
Movement in prepayments, accruals and deferred income	–	(337)
Items included in administrative expenses	(42 777)	(45 757)

14. Dividend income

As the Company carries out holding operations, it discloses significant dividend income recognized under financial revenue as at the dates of the resolutions on dividend payment, unless such resolutions set other record dates.

In the year ended 31 December 2014 the Company recognized dividend income of PLN 1 076 836 thousand as compared to PLN 1 500 627 thousand in 2013.

15. Other finance income

	Year ended 31 December 2014	Year ended 31 December 2013
Income from financial instruments, of which:	**433 539**	**273 021**
Interest income	401 116	272 081
Gain on disposal of investments	32 423	–
Net income from realized derivative instruments	–	940
Other finance income	**952**	**2 878**
Total other finance income	**434 491**	**275 899**

Gain on disposal of investment results mainly from taking up shares in the increased capital of TAMEH HOLDING Sp. z o.o. with the fair value of PLN 414 938 thousand in return for the contribution of shares in TAMEH POLSKA Sp. z o.o. with the value of PLN 382 457 thousand. The transaction was discussed in detail in Note 22 to these financial statements.

An increase in interest income reported in the year ended 31 December 2014 of PLN 129 035 thousand vs. the comparative period resulted mainly from:

- an increase in interest on intra-group bonds amounting to PLN 144 440 thousand. Interest income on bonds acquired amounted to PLN 375 337 thousand in 2014 as compared to PLN 230 897 thousand in 2013;
- a decrease in other interest income items of PLN 15 405 thousand.

(in PLN '000)

16. Finance costs

	Year ended 31 December 2014	Year ended 31 December 2013
Financial instrument costs, of which:	**(396 652)**	**(346 131)**
Interest costs	(356 103)	(329 506)
Foreign exchange losses	(13 509)	(2 912)
Remeasurement of derivatives	(12 236)	(1 049)
Impairment losses	(173)	–
Commissions	(14 017)	(12 664)
Net expense due to realized derivatives	(614)	–
Other financial expenses	**(800)**	**(675)**
Total financial expenses	**(397 452)**	**(346 806)**

The increase in costs arising from measurement of derivatives results mainly from negative measurement of an interest rate swap, 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 for the period.

17. Income tax

17.1. Tax expense in the statement of comprehensive income

Key items of the tax expense disclosed in the statement of comprehensive income:

	Year ended 31 December 2014	Year ended 31 December 2013
Current income tax	**(7 640)**	**(23 394)**
Current income tax expense	(7 560)	(27 098)
Adjustments to current income tax from previous years	(80)	3 704
Deferred tax	**(18 444)**	**15 844**
Income tax expense in profit or loss	**(26 084)**	**(7 550)**
Income tax expense in other comprehensive income	**4 000**	**29 740**

(in PLN '000)

17.2. Reconciliation of the effective tax rate

	As at 31 December 2014	As at 31 December 2013
Profit/(loss) before tax	**1 172 527**	**1 696 522**
Tax at Poland's statutory tax rate of 19%	**(222 780)**	**(322 339)**
Adjustments to income tax from previous years	(80)	3 704
Tax resulting from tax non-deductible costs, including:	(16 477)	(4 171)
Non tax-deductible expenses under Article 15.2 of the Corporate Income Tax Act	(11 743)	(2 435)
Other	(4 734)	(1 736)
Tax resulting from income not included in taxable base, including:	210 778	285 119
Dividends	204 599	285 119
Other	6 179	–
Unrecognized deferred tax asset	–	26 607
Settlement of the TCG	2 440	3 599
Other	35	(69)
Tax at the effective tax rate of **2.2%** (2013: **0.4%**)	**(26 084)**	**(7 550)**
Income tax expense in profit/(loss)	(26 084)	(7 550)

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	198	2 314
– interest receivable on bonds	22 459	10 038
– difference between tax base and carrying amount of other financial assets	4 470	3 170
– other	406	143
Deferred tax liability	**27 533**	**15 665**

	As at 31 December 2014	As at 31 December 2013
Deferred tax assets		
– provisions for the obligation to surrender energy certificates	6 496	20 861
– provision for employee benefits	1 523	1 099
– other provisions and accruals	2 070	2 178
– difference between tax base and carrying amount of fixed and intangible assets	1 118	1 017
– difference between tax base and carrying value of inventories	11	–
– difference between tax base and carrying amount of financial liabilities	12 020	4 513
– valuation of hedging instruments	34 377	30 354
– other	1 059	1 227
Deferred tax assets, of which:	**58 674**	**61 249**
Deferred tax assets recognized in profit or loss	24 934	31 509
Deferred tax assets recognized in other comprehensive income	33 740	29 740
Deferred tax asset, net	**31 141**	**45 584**
Deferred tax in the statement of financial position	**31 141**	**45 584**

(in PLN '000)

17.4. Tax Capital Group

Major companies constituting the Tax Capital Group: TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., TAURON Dystrybucja S.A., TAURON Ciepło Sp. z o.o., TAURON Sprzedaż Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o. and TAURON Ekoenergia Sp. z o.o.

As at 31 December 2014, the Tax Capital Group had income tax receivables of PLN 8 390 thousand, including:

- the surplus of tax prepayments of PLN 184 526 thousand made by the Tax Capital Group for 2014 and the set-off of tax overpayment for 2013 of PLN 33 361 thousand against tax charges of the Tax Capital Group for 2014 in the amount of PLN 214 101 thousand;
- overpayment made by a subsidiary for prior years to be set off against the Group's liability of PLN 4 520 thousand;
- other adjustments of PLN 84 thousand.

Moreover, the Tax Capital Group has a receivable resulting from income tax adjustment for 2013 in the amount of PLN 22 250 thousand, fully covered with an impairment allowance resulting from pending court proceedings.

The Company has adjusted the income tax receivables by the Tax Capital Group's interest liability of PLN 6 thousand in the statement of financial position.

At the same time, due to the Company's settlements, as the Representative Company, with the Tax Capital Group companies, it disclosed liabilities to these subsidiaries arising from tax overpayment of PLN 21 480 thousand, which have been presented in the statement of financial position under "Trade and other payables", as well as receivables from the Tax Capital Group companies arising from tax underpayment of PLN 4 353 thousand, which have been presented in the statement of financial position under "Trade and other receivables".

18. Dividends paid and proposed

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

	Year ended 31 December 2014	Year ended 31 December 2013
Dividend paid in the period	332 984	350 510
Dividend per share (in PLN)	0.19	0.20

On 15 May 2014, the Ordinary General Shareholders' Meeting 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.

On 16 May 2013, the 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.

(in PLN '000)

19. Property, plant and equipment

Year ended 31 December 2014

	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	**7 125**	**4 714**	**11 519**	**23 358**	**2**	**23 360**
Direct purchase	–	–	–	**–**	1 677	**1 677**
Allocation of assets under construction	–	1 195	390	**1 585**	(1 585)	**–**
Sale, disposal	–	–	(648)	**(648)**	–	**(648)**
Donation	(97)	–	–	**(97)**	–	**(97)**
Liquidation	(209)	–	(584)	**(793)**	–	**(793)**
Other changes	–	(33)	–	**(33)**	(2)	**(35)**
Closing balance	**6 819**	**5 876**	**10 677**	**23 372**	**92**	**23 464**
ACCUMULATED DEPRECIATION						
Opening balance	**(3 840)**	**(3 416)**	**(6 915)**	**(14 171)**	**–**	**(14 171)**
Depreciation for the period	(2 595)	(953)	(2 019)	**(5 567)**	–	**(5 567)**
Sale, disposal	–	–	647	**647**	–	**647**
Donation	97	–	–	**97**	–	**97**
Liquidation	209	–	584	**793**	–	**793**
Closing balance	**(6 129)**	**(4 369)**	**(7 703)**	**(18 201)**	**–**	**(18 201)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**3 285**	**1 298**	**4 604**	**9 187**	**2**	**9 189**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**690**	**1 507**	**2 974**	**5 171**	**92**	**5 263**

Year ended 31 December 2013

	Plant and machinery	Motor vehicles	Other	Tangible fixed assets, total	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	**19 871**	**4 132**	**10 991**	**34 994**	**–**	**34 994**
Direct purchase	–	–	–	**–**	2 143	**2 143**
Reclassification from uncommissioned intangible assets	–	–	–	**–**	4 384	**4 384**
Allocation of assets under construction	5 196	582	747	**6 525**	(6 525)	**–**
Sale, disposal	(17 850)	–	(145)	**(17 995)**	–	**(17 995)**
Donation	(92)	–	–	**(92)**	–	**(92)**
Liquidation	–	–	(74)	**(74)**	–	**(74)**
Closing balance	**7 125**	**4 714**	**11 519**	**23 358**	**2**	**23 360**
ACCUMULATED DEPRECIATION						
Opening balance	**(6 924)**	**(2 390)**	**(4 894)**	**(14 208)**	**–**	**(14 208)**
Depreciation for the period	(3 658)	(1 026)	(2 159)	**(6 843)**	–	**(6 843)**
Sale, disposal	6 650	–	73	**6 723**	–	**6 723**
Donation	92	–	–	**92**	–	**92**
Liquidation	–	–	65	**65**	–	**65**
Closing balance	**(3 840)**	**(3 416)**	**(6 915)**	**(14 171)**	**–**	**(14 171)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**12 947**	**1 742**	**6 097**	**20 786**	**–**	**20 786**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**3 285**	**1 298**	**4 604**	**9 187**	**2**	**9 189**

(in PLN '000)

20. Investment property

	Year ended 31 December 2014	Year ended 31 December 2013
COST		
Opening balance	**36 169**	**–**
Merger	–	36 169
Closing balance	**36 169**	**36 169**
ACCUMULATED DEPRECIATION		
Opening balance	**–**	**–**
Depreciation for the period	(3 617)	–
Closing balance	**(3 617)**	**–**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**36 169**	**–**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**32 552**	**36 169**

The investment property is composed of buildings located in Katowice Szopienice at ul. Lwowska 23 used under a finance lease agreement with PKO Bankowy Leasing Sp. z o.o. The monthly lease payment is ca. PLN 316 thousand, while monthly depreciation charge is ca. PLN 301 thousand.

The Company is a party to a lease agreement with TAURON Wytwarzanie S.A. (the lessee) valid until 30 April 2018, specifying terms and conditions of subleasing buildings and structures discussed in the lease agreement mentioned above. In the year ended 31 December 2014, the revenue from investment property lease reached PLN 5 640 thousand.

The Company estimated the fair value of real property based on available information on sales prices in recent transactions concerning premises of similar use located in Katowice. The fair value estimated is close to the carrying amount and was categorized to Level 3 of the fair value hierarchy in line with IFRS 13 *Fair Value Measurement*.

21. Non-current intangible assets

Year ended 31 December 2014

	Software and licenses	Energy certificates	Other intangible assets	Intangible assets not commissioned for use	Intangible assets, total
COST					
Opening balance	**54 015**	**20 250**	**1 337**	**4 016**	**79 618**
Direct purchase	4	1 333	–	2 139	**3 476**
Reclassification of intangible assets not commissioned for use	2 102	–	1 569	(3 671)	**–**
Sale, disposal	(46 713)	–	–	(2 481)	**(49 194)**
Liquidation	(5 848)	–	(230)	–	**(6 078)**
Other changes	–	(16 182)	–	(3)	**(16 185)**
Closing balance	**3 560**	**5 401**	**2 676**	**–**	**11 637**
ACCUMULATED AMORTIZATION					
Opening balance	**(21 949)**	**–**	**(696)**	**–**	**(22 645)**
Amortization for the period	(10 003)	–	(247)	–	**(10 250)**
Sale, disposal	23 466	–	–	–	**23 466**
Liquidation	5 840	–	230	–	**6 070**
Closing balance	**(2 646)**	**–**	**(713)**	**–**	**(3 359)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**32 066**	**20 250**	**641**	**4 016**	**56 973**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**914**	**5 401**	**1 963**	**–**	**8 278**

In the year ended 31 December 2014 the Company sold intangible assets with a gross value of PLN 49 194 thousand and accumulated amortization of PLN 23 466 thousand to its subsidiary, TAURON Obsługa Klienta Sp. z o.o.

In the year ended 31 December 2014 the Company reclassified energy certificates held for surrendering in 2014 of PLN 12 380 thousand to current intangible assets. Additionally, under the amended Energy Law, industrial buyers are entitled to surrender energy certificates for redemption or pay a substitution fee independently, therefore energy certificates in the amount of PLN 3 802 thousand were reclassified to inventories due to the intended sale to industrial buyers.

(in PLN '000)

Year ended 31 December 2013

	Software and licenses	Energy certificates	Other intangible assets	Intangible assets not commissioned for use	Intangible assets, total
COST					
Opening balance	**59 036**	**–**	**1 104**	**3 881**	**64 021**
Direct purchase	–	20 250	–	17 299	**37 549**
Reclassification of intangible assets not commissioned for use	9 563	–	333	(9 896)	**–**
Sale, disposal	(14 423)	–	(100)	(2 610)	**(17 133)**
Reclassification to fixed assets	–	–	–	(4 384)	**(4 384)**
Other changes	(161)	–	–	(274)	**(435)**
Closing balance	**54 015**	**20 250**	**1 337**	**4 016**	**79 618**
ACCUMULATED AMORTIZATION					
Opening balance	**(10 410)**	**–**	**(558)**	**–**	**(10 968)**
Amortization for the period	(16 202)	–	(187)	–	**(16 389)**
Sale, disposal	4 663	–	49	–	**4 712**
Closing balance	**(21 949)**	**–**	**(696)**	**–**	**(22 645)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**48 626**	**–**	**546**	**3 881**	**53 053**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**32 066**	**20 250**	**641**	**4 016**	**56 973**

22. Shares

Change in shares, year ended 31 December 2014

No.	Company	Opening balance	Increases	Decreases	Closing balance
1	TAURON Wytwarzanie S.A.	7 590 778	8 911	(362 962)	**7 236 727**
2	TAURON Dystrybucja S.A.	9 511 628	–	–	**9 511 628**
3	TAURON Ciepło S.A	1 335 738	357 725	(1 693 463)	**–**
4	TAURON Ekoenergia Sp. z o.o.	939 765	–	–	**939 765**
5	TAURON Sprzedaż Sp. z o.o.	613 505	–	–	**613 505**
6	TAURON Obsługa Klienta Sp. z o.o.	39 831	–	–	**39 831**
7	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	49 056	–	–	**49 056**
8	TAURON Czech Energy s.r.o.	4 223	–	–	**4 223**
9	TAURON Sprzedaż GZE Sp. z o.o.	129 823	–	–	**129 823**
10	TAURON Wydobycie S.A.	–	494 755	–	**494 755**
11	TAURON Wytwarzanie GZE Sp. z o.o.	4 935	–	–	**4 935**
12	Kopalnia Wapienia Czatkowice Sp. z o.o.	–	41 178	–	**41 178**
13	TAURON Sweden Energy AB (publ)	–	232		**232**
14	CONCORDE INVESTISSEMENT S.A.	12	–	–	**12**
15	CC Poland Plus Sp. z o.o.	12	–	–	**12**
16	Energopower Sp. z o.o.	45	–	–	**45**
17	TAURON Ciepło Sp. z o.o. (formerly: Enpower Service Sp. z o.o.)	49	1 693 463	(365 469)	**1 328 043**
18	Enpower Sp. z o.o.	25	20	–	**45**
19	TAURON Ubezpieczenia Sp. z o.o.	25	–	–	**25**
20	Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. w Tychach	1 872	–	(1 872)	**–**
21	TAMEH HOLDING Sp. z o.o.	–	415 893	(41)	**415 852**
22	TAMEH POLSKA Sp. z o.o.	–	382 457	(382 457)	**–**
23	Marselwind Sp. z o.o.	–	107	–	**107**
	Total	**20 221 322**	**3 394 741**	**(2 806 264)**	**20 809 799**

Changes in shares classified as non-current assets in the financial year ended 31 December 2014 resulted from reorganization and the following events:

Separation of ZEC Bielsko Biała from TAURON Wytwarzanie S.A. to TAURON Ciepło 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., 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).

TAURON Polska Energia S.A. reclassified the book value of its investments in TAURON Wytwarzanie S.A. to investments in TAURON Ciepło S.A. of PLN 345 979 thousand.

Squeeze out of minority shareholders of TAURON Ciepło S.A.

Due to the squeeze out (mandatory acquisition) of minority shareholders of TAURON Ciepło S.A. the value of shares in TAURON Ciepło S.A. has increased by PLN 11 746 thousand. Following the squeeze out the interests in the company held by TAURON Polska Energia S.A. have reached 100%.

Business combination under common control of Enpower Service Sp. z o.o. and TAURON Ciepło S.A. and the change of the company's name

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.

TAURON Polska Energia S.A. reclassified the book value of its investments in TAURON Ciepło S.A. to investments in TAURON Ciepło Sp. z o.o. (formerly: Enpower Service Sp. z o.o.) of PLN 1 693 463 thousand.

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.

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.

Following the transaction the value of shares in TAURON Wydobycie S.A increased by PLN 184 755 thousand and the value of shares in Kopalnia Wapienia Czatkowice Sp. z o.o. grew by PLN 41 178 thousand.

Squeeze out of minority shareholders of TAURON Wytwarzanie S.A.

Due to the squeeze out (mandatory acquisition) of minority shareholders of TAURON Wytwarzanie S.A. the value of shares in TAURON Wytwarzanie S.A. has increased by PLN 8 911 thousand. Following the squeeze out the interests in the company held by TAURON Polska Energia S.A. have reached 100%.

Establishing TAMEH HOLDING Sp. z o.o. and TAMEH POLSKA Sp. z o.o.

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 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 by companies from the ArcelorMittal Group and covered with an organized part of enterprise of ArcelorMittal Poland S.A. (Elektrociepłownia Kraków).

On 10 December 2014 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. 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 division of TAURON Wytwarzanie S.A. did not entail reduction of 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 by PLN 5 thousand, up to PLN 658 681 thousand. On 19 December 2014 an 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 fair value of shares in TAMEH HOLDING Sp. z o.o. was PLN 414 938 thousand. The purchase price for shares taken up was increased by acquisition costs of PLN 873 thousand. The value of shares in TAMEH POLSKA Sp. z o.o. reached PLN 382 457 thousand. Moreover, following the division of TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. and contribution of organized parts of enterprises to TAMEH POLSKA Sp. z o.o. the carrying amount of shares held was reduced by PLN 16 983 thousand and PLN 365 469 thousand, respectively.

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 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.

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.

Sale of shares in Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. w Tychach to TAURON Ciepło Sp. z o.o.

On 23 October 2014 TAURON Polska Energia S.A. sold all shares held in Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. w Tychach to its subsidiary TAURON Ciepło Sp. z o.o. for PLN 1 853 thousand.

(in PLN '000)

Change in shares, year ended 31 December 2013

No.	Company	Opening balance	Increases/ Decreases	Closing balance
1	TAURON Wytwarzanie S.A.	8 118 182	(527 404)	**7 590 778**
2	TAURON Dystrybucja S.A.	9 511 628	–	**9 511 628**
3	TAURON Ciepło S.A.	773 334	562 404	**1 335 738**
4	TAURON Ekoenergia Sp. z o.o.	939 765	–	**939 765**
5	TAURON Sprzedaż Sp. z o.o.	613 505	–	**613 505**
6	TAURON Obsługa Klienta Sp. z o.o.	26 308	13 523	**39 831**
7	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o.	49 056	–	**49 056**
8	TAURON Czech Energy s.r.o.	4 223	–	**4 223**
9	TAURON Sprzedaż GZE Sp. z o.o.	129 821	2	**129 823**
10	TAURON Obsługa Klienta GZE Sp. z o.o.	13 523	(13 523)	**–**
11	TAURON Wytwarzanie GZE Sp. z o.o.	4 935	–	**4 935**
12	CONCORDE INVESTISSEMENT S.A.	12	–	**12**
13	CC Poland Plus Sp. z o.o.	12	–	**12**
14	Energopower Sp. z o.o.	25	20	**45**
15	Enpower Service Sp. z o.o.	25	24	**49**
16	Enpower Sp. z o.o.	25	–	**25**
17	TAURON Ubezpieczenia Sp. z o.o. (formerly Poen Sp. z o.o.)	25	–	**25**
18	Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. w Tychach	–	1 872	**1 872**
	Total	**20 184 404**	**36 918**	**20 221 322**

In the year ended 31 December 2013 changes in long-term investments resulted mainly from the following events:

- Separation of EC Katowice from TAURON Wytwarzanie S.A. to TAURON Ciepło S.A. (at present: TAURON Ciepło Sp. z o.o.);
- Business combination under common control of TAURON Obsługa Klienta Sp. z o.o. and TAURON Obsługa Klienta GZE Sp. z o.o. (subsidiaries);
- Acquisition of shares in TAURON Ciepło S.A. (currently: TAURON Ciepło Sp. z o.o.);
- Acquisition of shares in Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. w Tychach.

23. Bonds

Under the central financing model, TAURON Polska Energia S.A. acquires bonds issued by the TAURON Group companies.

The table below presents the balances of acquired bonds and interest accrued as at the end of the reporting period, i.e. 31 December 2014 and 31 December 2013, broken down by individual TAURON Group companies by which the bonds have been issued.

Company	As at 31 December 2014		As at 31 December 2013	
	par value of purchased bonds	accrued interest	par value of purchased bonds	accrued interest
TAURON Wytwarzanie S.A.	1 940 000	11 645	2 170 000	12 916
TAURON Dystrybucja S.A.	2 050 000	85 744	1 510 000	34 514
TAURON Ekoenergia Sp. z o.o.[1]	1 180 000	5 393	200 000	641
BELS INVESTMENT Sp. z o.o.[1]	–	–	275 000	634
MEGAWAT MARSZEWO Sp. z o.o.[1]	–	–	680 000	1 622
TAURON Ciepło Sp. z o.o.	1 033 780	8 605	230 000	2 187
TAMEH POLSKA Sp. z o.o.[2]	21 740	–	–	–
TAURON Wydobycie S.A.	370 000	3 823	100 000	316
TAURON Obsługa Klienta Sp. z o.o.	85 000	2 996	–	–
Total debentures, of which:	**6 680 520**	**118 206**	**5 165 000**	**52 830**
Non-current	5 522 030	695	5 165 000	–
Current	1 158 490	117 511	–	52 830

[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.s

[2] A portion of bonds issued by TAURON Ciepło Sp. z o.o. has been contributed to TAMEH POLSKA Sp. z o.o. in the process of separation of organized parts of the enterprise.

(in PLN '000)

Intra-group bonds issued by subsidiaries and acquired by TAURON Polska Energia S.A., with the total par value of PLN 5 522 030 thousand as at the end of the reporting period, including those maturing within one year and amounting to PLN 2 050 000 thousand, have been classified as long-term instruments. Such classification reflects the nature of funding under the intra-group bond issue scheme, which enables cash management in the medium and long term.

Short-term assets include bonds of subsidiaries with the total par value of PLN 1 158 490 thousand, with the redemption period up to 12 months of the end of the reporting period.

24. 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 future/forward	(250)	–	**312**	**(562)**	(6)	–	**34**	**(40)**
Currency forward	–	–	**–**	**–**	(1 129)	–	**–**	**(1 129)**
Total derivative instruments, including:			**1 811**	**(196 116)**			**34**	**(160 931)**
Current			**1 811**	**(102 615)**			**34**	**(73 358)**
Non-current			**–**	**(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 ot bonds issued, as presented in detail in Note 34.1 to these financial statements.

25. Loans granted

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 a subordinated loan and a VAT loan 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. In October 2014 the Company granted a short-term loan of PLN 500 thousand to TAMEH HOLDING Sp. z o.o.

As at the end of the reporting period the balance of the loans granted was the following:

	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	–	–
Other loans	500	5	–	–
Total loans, of which:	**183 350**	**21 348**	**177 000**	**12 310**
Non-current	**177 000**	**21 331**	**177 000**	**12 310**
Current	**6 350**	**17**	**–**	**–**

26. Other financial assets

As at 31 December 2014 the balance of other financial assets amounted to PLN 5 286 thousand and comprised a guarantee deposit of PLN 5 239 thousand, resulting from an assumed operating lease agreement concluded by PKO Bankowy Leasing Sp. z o.o. and PKE Broker Sp. z o.o. with the intended purpose of securing repayment of liabilities of the user, where the deposit is returnable on the date of settling the lease agreement.

(in PLN '000)

The decrease in other financial assets results mainly from the acquisition of shares in TAURON Wydobycie S.A. in January 2014, as discussed in detail in Note 22 to these financial statements. Consequently, an advance payment for the purchase of shares disclosed as at 31 December 2013 in other financial assets was reclassified to Shares.

27. Current intangible assets

Under current intangible assets, the Company discloses energy certificates.

	Year ended 31 December 2014	Year ended 31 December 2013
COST		
Opening balance	**98 149**	**113 302**
Direct purchase	7 868	103 940
Cancellation of energy certificates	(98 182)	(119 093)
Reclassification	12 380	–
Closing balance	**20 215**	**98 149**
IMPAIRMENT ALLOWANCES		
Opening balance	**–**	**–**
Closing balance	**–**	**–**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**98 149**	**113 302**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**20 215**	**98 149**

28. Inventories

	As at 31 December 2014	As at 31 December 2013
Historical cost		
Energy certificates	3 389	10 543
Greenhouse gas emission allowances	173 571	138 715
Merchandise	–	13
Materials	372	46
Total	**177 332**	**149 317**
Write-downs to net realizable value		
Energy certificates	(60)	–
Total	**(60)**	**–**
Net realizable value		
Energy certificates	3 329	10 543
Greenhouse gas emission allowances	173 571	138 715
Merchandise	–	13
Materials	372	46
Total	**177 272**	**149 317**

(in PLN '000)

29. Trade and other receivables

	As at 31 December 2014	As at 31 December 2013
Trade receivables	941 842	1 083 164
Receivables from sales of intangible assets	–	1 015
Other financial receivables, including:	47 107	50 677
Cash pool loans received, including accrued interest	29 224	114
Amounts paid as security	6 870	22 189
TCG receivable	4 353	27 528
Other loans granted	6 367	–
Other financial receivables	293	846
Total	**988 949**	**1 134 856**

30. Other short-term non-financial assets

	As at 31 December 2014	As at 31 December 2013
Prepayments	2 588	13 720
Receivables from excise duty	–	9 140
Receivables from input VAT	19 328	22
Other current assets	91	64
Total	**22 007**	**22 946**

31. Cash and cash equivalents

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	264 260	77 978
Short-term deposits (up to 3 months)	964 620	429 149
Total cash and cash equivalents presented in the statement of financial position, including:	**1 228 880**	**507 127**
– restricted cash	44 765	70 330
Cash pool	(1 151 591)	(1 615 281)
Overdraft	(11 918)	(93 645)
Foreign exchange and other differences	3 564	3 378
Total cash and cash equivalents presented in the statement of cash flows	**68 935**	**(1 198 421)**

The balances of loans granted and taken out in cash pool transactions do not represent cash flows from investing or financing activities as they are mainly used to manage the Group's liquidity on a day-to-day basis. They are disclosed as an adjustment to the balance of cash instead.

The balance of restricted cash consists mainly of:

- cash held in the settlement account for trading in electricity on the Polish Power Exchange (Towarowa Giełda Energii S.A), amounting to PLN 37 341 thousand, and
- cash held in special purpose accounts for transactions carried out on the European Energy Exchange and ICE Futures Europe of PLN 5 791 thousand.

Detailed information on cash pool balances has been presented in Note 34.4 to these financial statements.

(in PLN '000)

32. Issued capital and other capitals

32.1. Issued capital

Issued capital as at 31 December 2014

Class/ issue	Type of shares	Number of shares	Par 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
		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.

32.2. Major shareholders

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

Shareholder	Number of shares	Value of shares	% of issued capital	% 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%**

32.3. Reserve capital

In the financial year ended 31 December 2014 the reserve capital was increased by PLN 1 355 987 thousand as a result of distribution of profit for 2013.

32.4. Revaluation reserve from valuation of hedging instruments

	Year ended 31 December 2014	Year ended 31 December 2013
Opening balance	**(126 651)**	**(189 756)**
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	29 708
Closing balance	**(143 019)**	**(126 651)**

The revaluation reserve from measurement of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from bonds issued, as presented in detail in Note 34.1 to these financial statements.

The Company applies hedge accounting to hedging transactions covered by the policy for specific risk management in the area of finance.

As at 31 December 2014 the Company recognized PLN (143 019) thousand of revaluation reserve from measurement 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 IRS hedging transactions increased financial expenses arising from interest on bonds issued in the statement of comprehensive income.

(in PLN '000)

32.5. Retained earnings and dividend limitation

In the current period, changes in retained earnings result from:

- net profit of PLN 1 146 443 thousand;
- actuarial gains and losses, including deferred tax of PLN (686) thousand;
- allocation of the profit for 2013 to increase the reserve capital by PLN 1 355 987 thousand and dividend payment of PLN 332 984 thousand.

The amount of PLN 1 159 535 thousand, disclosed as retained earnings, may still be distributed.

	As at 31 December 2014	As at 31 December 2013
Non-distributable amounts included in retained earnings:	**77 015**	**77 700**
Actuarial gains/losses related to provisions for post-employment benefits	(820)	(135)
Retained earnings from merger	77 835	77 835
Retained earnings of the Company eligible for distribution, of which:	**1 149 138**	**1 691 667**
Profit for the period	1 146 443	1 688 972
Retained earnings from merger	2 651	2 651
Other	44	44
Total retained earnings/accumulated losses in the statement of financial position	**1 226 153**	**1 769 367**

33. 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	0.65	0.96

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 attributable to ordinary shareholders	1 146 443	1 688 972
Number of ordinary shares	1 752 549 394	1 752 549 394

(in PLN '000)

34. Interest-bearing loans and borrowings

	As at 31 December 2014	As at 31 December 2013
Non-current portion of loans and borrowings, including issued bonds:		
Issued bonds	5 644 306	4 291 460
Loans received from the European Investment Bank	1 021 263	1 153 819
Loan from the subsidiary	709 267	–
Total	**7 374 836**	**5 445 279**
Current portion of loans and borrowings, including issued bonds:		
Issued bonds	466 325	9 062
Cash pool loans received, including accrued interest	1 180 815	1 615 395
Loans from the European Investment Bank	139 148	139 930
Loan from the subsidiary	2 059	–
Overdraft	11 918	93 645
Total	**1 800 265**	**1 858 032**

34.1. Bonds issued

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

Bonds as at 31 December 2014

Tranche/ Bank	Maturity date	Currency	As at balance sheet date		of which maturing within (after the balance sheet date)					
			Accrued interest	Principal at amortized cost	up to 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
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	–
BGK*	20 December 2020	PLN	115	99 791	–	–	–	–	–	99 791
BGK*	20 December 2021	PLN	115	99 787	–	–	–	–	–	99 787
BGK*	20 December 2022	PLN	115	99 784	–	–	–	–	–	99 784
BGK*	20 December 2023	PLN	115	99 781	–	–	–	–	–	99 781
BGK*	20 December 2024	PLN	115	99 781	–	–	–	–	–	99 781
BGK*	20 December 2025	PLN	115	99 780	–	–	–	–	–	99 780
BGK*	20 December 2026	PLN	115	99 777	–	–	–	–	–	99 777
BGK*	20 December 2027	PLN	115	99 776	–	–	–	–	–	99 776
ING**	4 November 2019	PLN	7 953	1 748 810	–	–	–	–	1 748 810	–
Total bonds			**16 609**	**6 094 022**	**150 000**	**299 716**	**2 997 442**	**–**	**1 848 607**	**798 257**

* Bank Gospodarstwa Krajowego
** ING Bank Śląski

Bonds as at 31 December 2013

Tranche	Maturity date	Currency	As at balance sheet date		of which maturing within (after the balance sheet date)					
			Accrued interest	Principal at amortized cost	up to 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
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 bonds			**9 062**	**4 291 460**	**–**	**–**	**1 296 486**	**2 994 974**	**–**	**–**

Bonds were issued in a dematerialized form. These are unsecured coupon bonds with a floating interest rate determined as WIBOR 6M plus a fixed margin. Interest is due on a semi-annual basis.

(in PLN '000)

Change in the balance of bonds excluding interest accrued 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*	2 946 640	–
Redemption	(1 148 200)	–
Change in valuation	4 122	3 213
Closing balance	**6 094 022**	**4 291 460**

* Costs of issue have been included.

Pursuant to the agreement concluded in 2013 with Bank Gospodarstwa Krajowego, in the year ended 31 December 2014 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 and 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 with the value up to PLN 5 000 000 thousand as of July 2013 under Bond Issue Scheme. The interest is floating 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.

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.

34.2. Loans from the European Investment Bank

As at 31 December 2014, the balance of loans obtained from the European Investment Bank was PLN 1 160 411 thousand, including interest accrued of PLN 6 415 thousand. As at 31 December 2013, the outstanding amount was PLN 1 293 749 thousand.

Change in the balance of loans from the European Investment Bank, excluding interest accrued is presented below.

	Year ended 31 December 2014	Year ended 31 December 2013
Opening balance	**1 286 651**	**908 254**
Granted	–	450 000
Repaid	(132 818)	(71 455)
Measurement change	163	(148)
Closing balance	**1 153 996**	**1 286 651**

In the year ended 31 December 2014 the Company repaid PLN 132 818 thousand of the principal amount and PLN 60 218 thousand of interest.

(in PLN '000)

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 financial statements for publication no funds have been disbursed under this agreement.

34.3. Loan granted by a subsidiary

In December 2014 TAURON Polska Energia S.A. was granted a loan by a subsidiary TAURON Sweden Energy AB (publ) in the net amount of EUR 166 404 thousand (PLN 693 273 thousand). The nominal value of the loan was EUR 166 572 thousand. Cash received was reduced by the arrangement fee. The interest rate on a loan is fixed and interest will be paid annually, in December, until the final loan repayment. The loan will be fully repaid on 29 November 2029.

As at the end of the reporting period, the carrying amount of the loan was PLN 711 326 thousand, where PLN 2 059 thousand was contractual interest accrued as at the end of the reporting period.

34.4. Cash pool

In order to optimize cash management, financial liquidity and financial revenue and expense the TAURON Capital Group has introduced a cash pooling structure. On 18 December 2014 the Company concluded a new zero balancing agreement with PKO Bank Polska S.A. for a 3-year period with the possibility to extend the period by 12 months, with TAURON Polska Energia S.A. acting as the pool leader. The interest rates were determined on market terms.

The balances of receivables and liabilities arising from cash pool transactions have been presented in the table below.

	As at 31 December 2014	As at 31 December 2013
Receivables from cash pool loans granted	29 166	–
Interest receivable on loans granted under cash pool agreement	58	114
Total Receivable	**29 224**	**114**
Loans received under cash pool agreement	1 178 761	1 612 350
Interest payable on loans received under cash pool agreement	2 054	3 045
Total Liabilities	**1 180 815**	**1 615 395**

Surplus cash obtained by the Company under the cash pool agreement is deposited in bank accounts.

Under the 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. As at 31 December 2014 the Company had no outstanding amounts under the facilities in question.

34.5. Overdraft facilities

As at 31 December 2014 the balance of overdrafts amounted to EUR 2 796 thousand (PLN 11 918 thousand) and included a foreign currency overdraft agreement with NORDEA Bank Polska S.A. (currently: PKO Bank Polski S.A.) used to finance margin deposits and transactions related to trading in emission allowances.

As at 31 December 2013 the balance of overdrafts amounted to PLN 93 645 thousand and included a Multi-option Loan Agreement with NORDEA Bank Finland plc, concluded by the Company for the purpose of funding transactions in emission allowances, entered into in a foreign exchange: PLN 5 130 thousand (EUR 1 237 thousand) and financing available under the cash pool agreement: PLN 88 515 thousand.

(in PLN '000)

35. Lease

35.1. Operating lease liabilities

As at 31 December 2014 the Company used a real property located in Katowice at ul. ks. Piotra Ściegiennego 3, based on a lease agreement.

The Company's registered office is located in the leased premises with the usable area of 6 100 square meters and the average cost of lease with maintenance fees totals PLN 465 thousand.

35.2. Finance lease liabilities

Future minimum finance lease payments and the current amount of minimum net lease payments are the following:

	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	3 910	2 990	4 314	3 266
Within 1 to 5 years	31 910	30 169	35 832	33 159
More than 5 years	–	–	–	–
Minimum lease payments, total	**35 820**	**33 159**	**40 146**	**36 425**
Less amounts representing finance charges	(2 661)	–	(3 721)	–
Present value of minimum lease payments, of which:	**33 159**	**33 159**	**36 425**	**36 425**
Current	2 990	2 990	3 266	3 266
Non-current	30 169	30 169	33 159	33 159

As at 31 December 2014, the finance lease liability resulted from the lease of investment property.

36. Employee benefits

Based on the measurement carried out using actuarial methods the Company recognizes provisions for future employee benefits, including for:

- retirement, disability and death benefits;
- special reduced electricity tariff for employees;
- appropriations to the Company's Social Benefits Fund;
- jubilee benefits.

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	Jubilee bonuses	Provisions, total
Opening balance	**1 058**	**627**	**157**	**3 941**	**5 783**
Current service costs	190	64	23	960	**1 237**
Actuarial gains and losses: of which:	181	571	95	501	**1 348**
arising from changes in financial assumptions	270	548	98	570	**1 486**
arising from changes in demographic assumptions	(104)	(51)	(10)	(112)	**(277)**
arising from other changes	15	74	7	43	**139**
Benefits paid	(140)	(4)	(2)	(450)	**(596)**
Interest expense	43	26	7	168	**244**
Closing balance	**1 332**	**1 284**	**280**	**5 120**	**8 016**
Current	20	6	1	638	665
Non-current	1 312	1 278	279	4 482	7 351

(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	Jubilee bonuses	Provisions, total
Opening balance	**923**	**681**	**168**	**3 999**	**5 771**
Current service costs	195	68	24	1 035	**1 322**
Actuarial gains and losses, of which:	(56)	(113)	(30)	(232)	**(431)**
arising from changes in demographic assumptions	(184)	(137)	(33)	(440)	**(794)**
arising from other changes	128	24	3	208	**363**
Benefits paid	–	(3)	(3)	(796)	**(802)**
Past service costs	(45)	(35)	(9)	(230)	**(319)**
Interest expense	41	29	7	165	**242**
Closing balance	**1 058**	**627**	**157**	**3 941**	**5 783**
Current	90	5	1	420	516
Non-current	968	622	156	3 521	5 267

37. Other provisions

Change in other short-term provisions for the year ended 31 December 2014

	Provision for energy certificates	Other provisions	Total provisions
Opening balance	**109 792**	**788**	**110 580**
Recognision	34 189	–	**34 189**
Reversal	(205)	(788)	**(993)**
Utilisation	(109 587)	–	**(109 587)**
Closing balance	**34 189**	**–**	**34 189**

In 2014, in order to fulfill the obligation to surrender energy certificates for 2013, the Company surrendered energy certificates of PLN 98 182 thousand and paid a substitution fee of PLN 11 405 thousand, hence utilizing the provision in the amount of PLN 109 587 thousand. The surplus of the provision recognized at the end of 2013 over the amount applied of PLN 205 thousand was reversed, reducing costs in 2014. In order to meet its obligation to surrender energy certificates for 2014 the Company recognized a dedicated provision in the amount of PLN 34 189 thousand.

Change in other short-term provisions for the year ended 31 December 2013

	Provision for energy certificates	Other provisions	Total provisions
Opening balance	**118 250**	**788**	**119 038**
Recognision	109 792	–	**109 792**
Utilisation	(118 250)	–	**(118 250)**
Closing balance	**109 792**	**788**	**110 580**

(in PLN '000)

38. Deferred income and government grants

	As at 31 December 2014	As at 31 December 2013
Unused holidays	2 190	1 999
Bonuses	9 330	9 314
Audit fees	108	108
Government grants	48	95
Other deferred income	1 509	7
Total, of which:	**13 185**	**11 523**
Non-current	–	48
Current	13 185	11 475

39. Other short-term non-financial liabilities

	As at 31 December 2014	As at 31 December 2013
Taxes, customs, social security and other payables, of which:	**4 833**	**65 454**
Excise tax	1 594	846
VAT	–	61 684
Social security	2 046	1 752
Personal Income Tax	1 168	1 150
Other	25	22
Other non-financial liabilities:	**–**	**576**
Excess of Social Fund liabilities over Social Fund assets	–	576
Total	**4 833**	**66 030**

40. Significant items of the statement of cash flows

40.1. Cash flows from investing activities

Acquisition of shares

Expenditure for acquisition of shares of PLN 98 625 thousand resulted primarily from 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., as discussed in detail in Note 22 to these financial statements.

Acquisition of bonds

Payments related to acquisition of bonds, in the amount of PLN 3 745 520 thousand, are related to acquisition of intra-group bonds issued by the following subsidiaries:

- TAURON Dystrybucja S.A., amounting to PLN 2 100 000 thousand;
- TAURON Ciepło Sp. z o.o., amounting to PLN 825 520 thousand;
- TAURON Wydobycie S.A., amounting to PLN 370 000 thousand;
- TAURON Ekoenergia Sp. z o.o., amounting to PLN 365 000 thousand;
- TAURON Obsługa Klienta Sp. z o.o., amounting to PLN 85 000 thousand.

Redemption of bonds

Proceeds from redemption of bonds, in the amount of PLN 2 004 067 thousand, are related to redemption of intra-group bonds by the following subsidiaries:

- TAURON Dystrybucja S.A., amounting to PLN 1 560 000 thousand;
- TAURON Ekoenergia Sp. z o.o., amounting to PLN 340 000 thousand;
- TAURON Wydobycie S.A., amounting to PLN 100 000 thousand;
- TAURON Wytwarzanie S.A., amounting to PLN 4 067 thousand.

Interest received

Most proceeds from interest received are related to interest on acquired bonds of subsidiaries of PLN 309 961 thousand.

40.2. Cash flows from financing activities

Issuance of debt securities

Proceeds from issue of debt securities result from the issue of long-term unsecured bonds for the amount of PLN 1 750 000 thousand issued 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, as discussed in detail in Note 34.1 to these financial statements.

Redemption of debt securities

Expenditure for redemption of interest-bearing securities result from 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 34.1 to these financial statements.

Proceeds from loans and borrowings obtained by the Company

Proceeds from loans and borrowings obtained result mainly from a loan extended by a subsidiary TAURON Sweden Energy AB (publ) in the net amount of PLN 693 273 thousand (EUR 166 404 thousand), as discussed in detail in Note 34.3 to these financial statements.

Loans and borrowings repaid

Expenditures due to repayment of loans and borrowings resulted from repayment of the principal installments of loans granted by the European Investment Bank in prior years totaling to PLN 132 818 thousand.

Interest paid

Expenditures due to interest paid were related to the fact that the Company paid interest on bonds issued of PLN 253 510 thousand and interest on loans of PLN 60 374 thousand.

(in PLN '000)

OTHER INFORMATION

41. Contingent liabilities

The Company's contingent liabilities arise mainly from collateral and guarantees granted to related parties. Contingent liabilities recognized as of 31 December 2014:

Type of contingent liability	Company in respect of which contingent liability has been granted	Beneficiary	As at 31 December 2014		Balance as at 31 December 2013
			EUR	PLN	PLN
corporate guarantee	TAURON Sweden Energy AB (publ)	holders of bonds issued by TAURON Sweden Energy AB (publ)	168 000	716 066	–
blank promissory note	TAURON Wytwarzanie S.A.	Regional Fund for Environmental Protection and Water Management in Katowice		40 000	40 000
	TAURON Ciepło Sp. z o.o.			30 000	30 000
	TAURON Ciepło Sp. z o.o.			1 180	1 180
collateral of a bank guarantee	TAURON Dystrybucja Serwis S.A.	Nordea Bank Polska S.A.		–	202
collateral of a bank guarantee	TAURON Sprzedaż GZE Sp. z o.o.	Powszechna Kasa Oszczędności Bank Polski S.A.		–	593
	TAURON Sprzedaż Sp. z o.o.			281	1 618
	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. w likwidacji			–	1 000
	Kopalnia Wapienia Czatkowice Sp. z o.o.			492	1 762
	TAURON Dystrybucja Serwis S.A.			217	23
collateral of a loan	Kopalnia Wapienia Czatkowice Sp. z o.o.	Regional Fund for Environmental Protection and Water Management in Kraków		1 145	1 145
collateral of a contract	TAURON Wytwarzanie S.A.	Polskie Sieci Elektroenergetyczne S.A.		5 000	–
collateral of a contract	TAURON Czech Energy s.r.o.	SPP CZ a.s.	300	1 279	–
collateral of a bank guarantee	Elektrociepłownia Stalowa Wola S.A.	BNP Paribas Bank Polska S.A.		62 582	–

Changes in the year ended 31 December 2014:

- In December 2014 the Company granted a corporate guarantee to TAURON Sweden Energy AB (publ) to secure bonds issued by the entity. The guarantee is valid in the entire bond period, i.e. until 3 December 2029, and amounts to EUR 168 000 thousand;
- In November 2014 the Company concluded a surety agreement with Elektrociepłownia Stalowa Wola S.A. The surety amount is PLN 62 582 thousand and the agreement is valid until 12 September 2018;
- Collateral of the guarantee issued by NORDEA Bank Polska S.A. for TAURON Dystrybucja Serwis S.A. in the amount of PLN 202 thousand expired on 31 March 2014;
- TAURON Polska Energia S.A. granted collateral for the following agreements of its subsidiaries:
  - contract for provision of electricity transmission services concluded by TAURON Wytwarzanie S.A. – collateral amount of PLN 5 000 thousand for the benefit of Polskie Sieci Elektroenergetyczne S.A.;
  - trade contract of TAURON Czech Energy s.r.o. – collateral amount of EUR 300 thousand (PLN 1 279 thousand), for the benefit of SPP CZ a.s.
- Under the framework agreement for bank guarantees concluded with PKO Bank Polski S.A., the bank issues guarantees for subsidiaries. As at 31 December 2014 the total balance of bank guarantees granted reached PLN 990 thousand (versus PLN 4 996 thousand as at 31 December 2013).

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 Łaziska 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.

42. Collateral against liabilities

The most common forms of collateral against liabilities and transactions entered into by TAURON Polska Energia S.A. include declarations of submission to enforcement, authorizations to debit bank accounts as well as bank guarantees given by banks at the Company's request.

The key items collateralize the following agreements:

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.

As at 31 December 2014, under the agreement and at the request of the Company PKO Bank Polski S.A. extended bank guarantees to collateralize liabilities of the subsidiaries of TAURON Polska Energia S.A. totaling PLN 990 thousand (Note 41 hereto) and to collateralize transactions entered into 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 Sieci 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 concluded 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, as discussed in detail in Note 34.4 to these financial statements. 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

With a view to collateralizing transactions entered into at the ICE Futures Europe and the European Energy Exchange, mainly forwards concerning emission allowances, the Company transfers margin deposits for such transactions to separate bank accounts – as at 31 December 2014, such deposits amounted to PLN 5 791 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 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 expires on 31 March 2015. Additionally, the Company's transactions concluded on the Polish Power Exchange are also 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 the Company.

TAURON Polska Energia S.A. is a party to a finance lease agreement concerning real property 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.

(in PLN '000)

43. Capital commitments

As at 31 December 2014 the Company had no significant capital commitments.

44. Related party disclosures

44.1. Transactions with related parties and State Treasury companies

The Company enters into transactions with related parties as presented in Note 7 to these financial statements. In addition, due to the fact that the State Treasury of the Republic of Poland is the Company's major shareholder, State Treasury companies are treated as related parties. Transactions with State Treasury companies are mainly related to the operating activities of the Company. All related-party transactions were concluded on the arm's length basis.

The total value of revenue and expense resulting from transactions with the aforementioned entities and the balances of receivables and liabilities has been presented in the tables below.

Revenue and expense

	Year ended 31 December 2014	Year ended 31 December 2013
Revenue from subsidiaries, of which:	**9 235 705**	**11 931 518**
Revenue from operating activities	7 781 876	10 193 874
Dividend received	1 075 565	1 500 213
Finance income	378 264	237 431
Revenue from co-subsidiaries	**27 607**	**9 688**
Revenue from State Treasury companies	**746 965**	**1 357 630**
Costs from subsidiaries, of which:	**(2 996 319)**	**(5 019 362)**
Costs of operating activities	(2 964 182)	(4 990 064)
Finance costs	(32 137)	(29 298)
Costs incurred with relation to transactions with jointly-controlled entities	**(4 038)**	**–**
Costs from State Treasury companies	**(949 131)**	**(1 500 794)**

Receivables and liabilities

	As at 31 December 2014	As at 31 December 2013
Loans granted to subsidiaries and receivables from subsidiaries, of which:	**7 523 690**	**6 089 671**
Trade receivables	712 846	842 514
Loans granted under cash pool agreement plus interest accrued	29 223	14
Other financial receivables	282	1 785
Receivables from the TCG	4 353	27 528
Bonds	6 776 986	5 217 830
Loans granted to co-subsidiaries	**226 471**	**189 310**
Receivables from State Treasury companies	**95 890**	**114 143**
Liabilities to subsidiaries, of which:	**2 218 946**	**2 054 937**
Trade payables	299 189	409 960
Loans received under cash pool agreement plus interest accrued	1 180 815	1 615 395
Other loans received	711 326	–
Liabilities arising from the TCG	21 480	23 974
Other financial liabilities	5 239	5 608
Other non-financial liabilities	897	–
Liabilities to jointly-controlled entities	**4 966**	**–**
Liabilities to State Treasury companies	**114 941**	**166 197**

(in PLN '000)

Revenue from related parties includes revenue from sales of coal and biomass to TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o., which is presented in the statement of comprehensive income less cost in the amount of the surplus constituting the revenue due to agency services, presented in detail in Note 11.

A decrease in operating expense in the year ended 31 December 2014 year-on-year was mainly due to a decrease in purchases of electricity from TAURON Wytwarzanie S.A. The value of purchased electricity was PLN 1 484 895 thousand in 2014 and PLN 3 582 678 thousand in the preceding year.

In the year ended 31 December 2014, KGHM Polska Miedź S.A., PKP Energetyka S.A., Kompania Węglowa S.A. and PSE S.A. were the major business partners of TAURON Polska Energia S.A. among State Treasury companies in terms of sales revenue. The revenue from the aforementioned entities represented 84% of the total revenue generated in transactions with State Treasury companies.

The highest costs resulted from transactions with Kompania Węglowa S.A. and Katowicki Holding Węglowy S.A. and they accounted for 82% of total expenses incurred as a result of purchases from State Treasury companies.

The Company enters into material transactions in the energy market through Izba Rozliczeniowa Giełd Towarowych S.A. As it is only responsible for organization of commodities exchange trading, the Company does not classify purchase and sales transactions made through this entity as related-party transactions.

44.2. Executive compensation

The amount of compensation and other benefits granted to the Management Board, Supervisory Board and other key executives of the Company in the year ended 31 December 2014 and in the comparative period has been presented in the table below.

	Year ended 31 December 2014	Year ended 31 December 2013
Management Board	**9 144**	**7 420**
Short-term employee benefits (salaries and surcharges)	7 022	6 710
Post-service benefits for a Member of the Management Board	600	–
Termination benefits	750	–
Other	772	710
Supervisory Board	**908**	**936**
Short-term employee benefits (salaries and surcharges)	908	936
Other members of key management personnel	**12 819**	**11 961**
Short-term employee benefits (salaries and surcharges)	11 672	10 833
Post-employment benefits	140	126
Other	1 007	1 002
Total	**22 871**	**20 317**

No loans have been granted from the Company's Social Benefits Fund to members of the Company's Management Board, Supervisory Board or other key executives.

(in PLN '000)

45. Financial instruments

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

Categories and classes of financial assets	Note	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**	**1 811**	**34**	**34**
Derivatives	24	1 811	1 811	34	34
2 Financial assets available for sale		**5 179**	**–**	**6 973**	**–**
Long-term shares	22	5 179	–	6 973	–
3 Loans and receivables		**7 991 292**	**8 204 820**	**6 547 235**	**6 547 235**
Trade receivables	29	941 842	941 842	1 083 164	1 083 164
Proceeeds from sale of intangible assets		–	–	1 015	1 015
Bonds	23	6 798 726	7 012 254	5 217 830	5 217 830
Cash Pool loans granted	34.4	29 224	29 224	114	114
Other loans granted	25	204 698	204 698	189 310	189 310
Other financial receivables		16 802	16 802	55 802	55 802
4 Financial assets excluded from the scope of IAS 39		**20 804 620**	**–**	**20 446 849**	**–**
Shares in subsidiaries	22	20 388 768	–	20 214 349	–
Shares in jointly-controlled entities	22	415 852	–	–	–
Advance payment for acquisition of shares		–	–	232 500	–
5 Cash and cash equivalents	31	**1 228 880**	**1 228 880**	**507 127**	**507 127**
Total financial assets, of which in the statement of financial position:		**30 031 782**		**27 508 218**	
Non-current assets		**26 536 141**		**25 813 371**	
Shares		20 809 799		20 221 322	
Bonds		5 522 725		5 165 000	
Loans granted		198 331		189 310	
Other financial assets		5 286		237 739	
Current assets		**3 495 641**		**1 694 847**	
Trade and other receivables		988 949		1 134 856	
Bonds		1 276 001		52 830	
Derivative instruments		1 811		34	
Cash and cash equivalents		1 228 880		507 127	

(in PLN '000)

Categories and classes of financial liabilities	Note	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**	**15 183**	**1 169**	**1 169**
Derivatives	24	15 183	15 183	1 169	1 169
2 Financial liabilities measured at amortized cost		**9 811 465**	**9 849 118**	**8 127 697**	**8 127 697**
Arm's length loans, of which:		3 052 552	3 090 205	2 909 144	2 909 144
Liability under the cash pool loan	34.4	1 180 815	1 180 815	1 615 395	1 615 395
Loans from the European Investment Bank	34.2	1 160 411	1 198 064	1 293 749	1 293 749
Loan from the subsidiary	34.3	711 326	711 326	–	–
Overdraft	34.5	11 918	11 918	93 645	93 645
Bonds issued	34.1	6 110 631	6 110 631	4 300 522	4 300 522
Trade liabilities		594 007	594 007	772 481	772 481
Other financial liabilities		42 244	42 244	47 717	47 717
Liabilities due to purchases of fixed and intangible assets		113	113	4 188	4 188
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39		**33 159**	**33 159**	**36 425**	**36 425**
Liabilities under finance leases	35.2	33 159	33 159	36 425	36 425
4 Hedging derivative instruments (liabilities)	24	**180 933**	**180 933**	**159 762**	**159 762**
Total financial liabilities, of which in the statement of financial position:		**10 040 740**		**8 325 053**	
Non-current liabilities		**7 503 745**		**5 571 250**	
Interest-bearing loans and borrowings		7 374 836		5 445 279	
Liabilities under finance leases		30 169		33 159	
Other financial liabilities		5 239		5 239	
Derivative instruments		93 501		87 573	
Current liabilities		**2 536 995**		**2 753 803**	
Current portion of interest-bearing loans and borrowings		1 800 265		1 858 032	
Current portion of liabilities under finance leases		2 990		3 266	
Trade and other payables		631 125		819 147	
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 and hedging derivatives were measured in line with the method described in Note 6 to these financial statements. Fair value hierarchy disclosures were discussed in Note 45.2.

Financial instruments classified to other categories of financial instruments:

- Following a significant decrease in interest rates the Company carried out fair value measurement of fixed-rate financial instruments, which included bonds acquired by the Company, loans granted by the European Investment Bank and a loan from a subsidiary as at 31 December 2014. As the loan from a subsidiary was received in December 2014, the Company disclosed fair value of this loan as an approximation of the carrying amount. The 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. applying 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 held by the Company (excluding financial assets available for sale and excluded from the scope of IAS 39) 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, due to 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 Company did not disclose the fair value of shares in companies not quoted on active markets, categorized to financial assets available for sale. The Company is unable to reliably estimate the fair value of shares held in companies which are not listed on active markets. They are measured at cost less impairment losses

(in PLN '000)

as at the end of the reporting period. Similarly, in accordance with the Company's accounting policy, shares in subsidiaries and jointly-controlled entities (joint arrangements) – financial assets excluded from the scope of IAS 39 – are also measured at cost less impairment losses.

45.2. 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	
	1 level	2 level	1 level	2 level
Assets				
Derivate instruments – commodity	312	–	34	–
Derivate instruments – CCIRS	–	1 499	–	–
Liabilities				
Derivate instruments – commodity	562	–	40	–
Derivate instruments – currency	–	–	–	1 129
Derivate instruments – CCIRS	–	1 241	–	–
Derivate instruments – IRS	–	194 313	–	159 762

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

45.3. 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 measured at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Hedging instruments	Total
Dividends	–	1 271	–	1 075 565	–	–	–	–	**1 076 836**
Interest income/ (expense)	12 300	–	388 816	–	–	(279 385)	(1 019)	(75 699)	**45 013**
Commissions	–	–	–	–	–	(14 017)	–	–	**(14 017)**
Exchange differences	3 527	–	118	–	–	(17 154)	–	–	**(13 509)**
Impairment losses/ revaluation	–	–	(173)	–	(12 236)	–	–	–	**(12 409)**
Gain/(loss) on disposal of investments	–	(19)	–	32 442	–	–	–	–	**32 423**
Other	1 197	–	–	–	(1 811)	–	–	–	**(614)**
Net profit/(loss)	**17 024**	**1 252**	**388 761**	**1 108 007**	**(14 047)**	**(310 556)**	**(1 019)**	**(75 699)**	**1 113 723**
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 measured at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Hedging instruments	Total
Dividends	–	414	–	1 500 213	–	–	–	–	**1 500 627**
Interest income/ (expense)	26 201	–	245 881	–	–	(278 531)	(131)	(50 845)	**(57 425)**
Commissions	–	–	–	–	–	(12 664)	–	–	**(12 664)**
Exchange differences	(4 496)	–	1 584	–	–	–	–	–	**(2 912)**
Impairment losses/ revaluation	–	–	–	–	(1 049)	–	–	–	**(1 049)**
Other	2 644	–	–	–	(1 704)	–	–	–	**940**
Net profit/(loss)	**24 349**	**414**	**247 465**	**1 500 213**	**(2 753)**	**(291 195)**	**(131)**	**(50 845)**	**1 427 517**
Remeasurement	–	–	–	–	–	–	–	33 397	**33 397**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**33 397**	**33 397**

46. Financial risk management

The TAURON Capital Group has implemented the policy for management of specific risks in the area of finance, which defines the strategy for management of the currency and interest rate risk. The policy has also introduced hedge accounting in the Group, which lays down the principles and defines the types of hedge accounting, along with the accounting treatment of hedging instruments and hedged items, to be applied as part of hedge accounting under IFRS. 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. The policy has been presented in detail in Note 50 to the consolidated financial statements for the year ended 31 December 2014.

Hedge accounting

As at 31 December 2014 the Company 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 Company 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 discussed in detail in Note 34.1 to these 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. The accounting treatment of the aforementioned hedging transactions has been presented in detail in Note 32.4 to these financial statements.

Key risks related to financial instruments, the Company is exposed to in its business operations:

- credit risk
- liquidity risk;
- market risk, including:
  - interest rate risk;
  - currency risk;
  - commodity price risk.

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

(in PLN '000)

Classes of financial assets held by the Company that give rise to credit risk exposure with different characteristics include:

- trade receivables and receivables from sale of non-current assets;
- bonds;
- loans granted;
- other financial receivables;
- cash and cash equivalents;
- derivatives;
- other financial assets.

46.1.1. Credit risk related to trade and other financial receivables

The Company monitors credit risk related to its operations on on-going basis. In 2014, the Company was exposed to contractor's credit risk resulting from trade contracts concluded. To mitigate the risk, as a part of the regular analysis of reliability and financial standing of its contractors, in justified cases the Company required security in the form of bank, insurance or corporate guarantees. It has also introduced clauses which enable suspending energy supplies in case of default under timely payment of liabilities.

Trade receivables bear no interest and usually have a 30-day maturity period. Sales transactions are only entered into with clients subject to a verification procedure. This – in the opinion of the Management – eliminates any additional credit risk, over the level defined by the allowance for bad debts applied to the Company's trade receivables.

As at 31 December 2014 and 31 December 2013 the largest item in trade receivables were receivables from TAURON Sprzedaż Sp. z o.o., a subsidiary, amounting to PLN 331 459 thousand and PLN 339 296 thousand, respectively.

The ageing analysis and allowances for current trade and other receivables have been presented below.

Trade and other receivables as at 31 December 2014

	Not past due	Past due			Total
		<30 days	30–360 days	>360 days	
Value of item before allowance/ write-down					
Trade receivables	931 635	8 900	1 400	–	**941 935**
Other financial receivables	47 107	–	–	931	**48 038**
Total	**978 742**	**8 900**	**1 400**	**931**	**989 973**
Allowance/write-down					
Trade receivables	–	(93)	–	–	**(93)**
Other financial receivables	–	–	–	(931)	**(931)**
Total	**–**	**(93)**	**–**	**(931)**	**(1 024)**
Value of item net of allowance (carrying amount)					
Trade receivables	931 635	8 807	1 400	–	**941 842**
Other financial receivables	47 107	–	–	–	**47 107**
Total	**978 742**	**8 807**	**1 400**	**–**	**988 949**

(in PLN '000)

Trade and other receivables as at 31 December 2013

	Not past due	Past due			Total
		<30 days	30–360 days	>360 days	
Value of item before allowance/ write-down					
Trade receivables	1 076 638	6 463	72	–	**1 083 173**
Other financial receivables	51 692	–	–	664	**52 356**
Total	**1 128 330**	**6 463**	**72**	**664**	**1 135 529**
Allowance/write-down					
Trade receivables	(9)	–	–	–	**(9)**
Other financial receivables	–	–	–	(664)	**(664)**
Total	**(9)**	**–**	**–**	**(664)**	**(673)**
Value of item net of allowance (carrying amount)					
Trade receivables	1 076 629	6 463	72	–	**1 083 164**
Other financial receivables	51 692	–	–	–	**51 692**
Total	**1 128 321**	**6 463**	**72**	**–**	**1 134 856**

46.1.2. Credit risk related to other financial assets

According to the Company credit risk exposure of other classes of financial assets is insignificant. Bonds acquired by the Company and loans granted concern transactions with related parties. The items in question had not been overdue as at the end of the reporting period.

The Company manages credit risk related to cash by diversifying banks where it deposits its cash surplus. All entities the Company concludes deposit transactions with operate in the financial sector. They include high-rating banks with sufficient equity and stable, strong market position.

All entities the Company concludes derivative transactions with in order to hedge against interest rate and foreign exchange risk operate in the financial sector. They are Polish banks with high financial rating, sufficient equity and strong stable market position.

46.2. Liquidity risk

The Company maintains balance between continuity, flexibility and cost of financing by using various sources of financing, which enable management of liquidity risk and effective mitigation of risk consequences.

Liquidity is managed at the Capital Group level. Further, the 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 is mitigated in the Capital Group and individual Group entities.

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. As discussed in detail in Note 34.4 to these financial statements, under the cash pool agreement the Company is entitled to use external financing in the form of an overdraft up to PLN 300 000 thousand and an intraday limit up to PLN 500 000 thousand.

Ageing structure of financial liabilities presenting undiscounted payments under applicable agreements has been presented below.

(in PLN '000)

Financial liabilities as at 31 December 2014

	Carrying amount	Contractual undiscounted payments*	Including contractual undiscounted payments maturing during the period (from the reporting date)					
			less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans and borrowings (including bonds issued)	**9 175 101**	**(10 449 395)**	(1 373 868)	(619 067)	(3 332 267)	(281 745)	(2 394 309)	(2 448 139)
Trade liabilities	**594 007**	**(594 007)**	(593 942)	(21)	(22)	(22)	–	–
Liabilities due to purchases of fixed and intangible assets	**113**	**(113)**	(113)	–	–	–	–	–
Other financial liabilities	**42 244**	**(42 244)**	(37 005)	–	–	–	(5 239)	–
Liabilities under finance lease	**33 159**	**(35 820)**	(958)	(2 952)	(4 032)	(4 150)	(23 728)	–
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	**10 040 740**	**(11 366 007)**	**(2 005 886)**	**(724 845)**	**(3 429 025)**	**(284 528)**	**(2 424 500)**	**(2 497 223)**

* 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	Contractual undiscounted payments	Including contractual undiscounted payments maturing during the period (from the reporting date)					
			less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans and borrowings (including bonds issued)	**7 303 311**	**(8 032 954)**	(1 795 080)	(262 072)	(1 640 437)	(3 288 849)	(341 317)	(705 199)
Trade liabilities	**772 481**	**(772 481)**	(772 481)	–	–	–	–	–
Liabilities due to purchases of fixed and intangible assets	**4 188**	**(4 188)**	(4 188)	–	–	–	–	–
Other financial liabilities	**47 717**	**(47 717)**	(42 478)	–	–	–	(5 239)	–
Liabilities under finance lease	**36 425**	**(40 146)**	(1 082)	(3 231)	(3 923)	(4 032)	(27 878)	–
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	**8 325 013**	**(9 065 890)**	**(2 615 309)**	**(340 606)**	**(1 702 093)**	**(3 328 249)**	**(374 434)**	**(705 199)**

As at 31 December 2014 the Company had granted guarantees, sureties and other forms of collateral to related parties for the total amount of PLN 858 242 thousand, as discussed in detail in Note 41 to these financial statements. The key item is a corporate guarantee granted to a subsidiary to collateralize bonds issued by the entity up to EUR 168 000 thousand (PLN 716 066 thousand). Bondholders are guarantee beneficiaries. The guarantee is valid in the entire bond period, i.e. until the redemption date of 3 December 2029. The guarantees and sureties granted by the Company constitute contingent liabilities and do not considerably affect the liquidity risk of the Company.

46.3. Market risk

Market risk results from possible adverse impact of fluctuations of the fair value of financial instruments or related future cash flows due to market price changes on the Company's performance.

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

- interest rate risk;
- currency risk;
- commodity risk.

46.3.1. Interest rate risk

The Company 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 Company is also exposed to lost benefit risk related to a decrease in interest rates of fixed interest rate debt.

(in PLN '000)

Carrying amount of financial instruments of the Company exposed to the interest rate risk, by age:

Interest rate risk as at 31 December 2014 – floating rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Bonds	87 771	–	–	50 000	2 000 000	**2 137 771**
Loans granted	35 591	–	–	–	198 331	**233 922**
Cash and cash equivalents	1 228 880	–	–	–	–	**1 228 880**
Total	**1 352 242**	**–**	**–**	**50 000**	**2 198 331**	**3 600 573**
Financial liabilities						
Arm's length loans	1 180 815	–	–	–	–	**1 180 815**
Overdraft	11 918	–	–	–	–	**11 918**
Bonds issued	461 476	–	–	1 848 607	798 257	**3 108 340**
Total	**1 654 209**	**–**	**–**	**1 848 607**	**798 257**	**4 301 073**

Interest rate risk as at 31 December 2014 – fixed rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Bonds	1 188 230	60 000	35 695	3 007 030	370 000	**4 660 955**
Total	**1 188 230**	**60 000**	**35 695**	**3 007 030**	**370 000**	**4 660 955**
Financial liabilities						
Arm's length loans	141 207	132 733	132 732	265 464	1 199 601	**1 871 737**
Bonds issued	4 849	2 997 442	–	–	–	**3 002 291**
Hedging derivative instruments (IRS)	88 673	92 260	–	–	–	**180 933**
Total	**234 729**	**3 222 435**	**132 732**	**265 464**	**1 199 601**	**5 054 961**

Interest rate risk as at 31 December 2013 – floating rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Bonds	34 622	–	–	200 000	1 410 000	**1 644 622**
Loans granted	114	–	–	–	189 310	**189 424**
Cash and cash equivalents	507 127	–	–	–	–	**507 127**
Total	**541 863**	**–**	**–**	**200 000**	**1 599 310**	**2 341 173**
Financial liabilities						
Arm's length loans	1 615 395	–	–	–	–	**1 615 395**
Overdraft	88 602	–	–	–	–	**88 602**
Bonds issued	3 013	856 974	–	–	–	**859 987**
Total	**1 707 010**	**856 974**	**–**	**–**	**–**	**2 563 984**

(in PLN '000)

Interest rate risk as at 31 December 2013 – fixed rate

Financial instruments	<1 year	1–2 years	2–3 years	3–5 years	>5 years	Total
Financial assets						
Bonds	18 208	–	–	2 600 000	955 000	**3 573 208**
Total	**18 208**	**–**	**–**	**2 600 000**	**955 000**	**3 573 208**
Financial liabilities						
Arm's length loans	139 930	132 724	132 724	265 448	622 923	**1 293 749**
Overdraft	5 043	–	–	–	–	**5 043**
Bonds issued	6 049	439 512	2 994 974	–	–	**3 440 535**
Hedging derivative instruments (IRS)	72 229	54 996	32 537	–	–	**159 762**
Total	**223 251**	**627 232**	**3 160 235**	**265 448**	**622 923**	**4 899 089**

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 34.1 to these financial statements, was presented in the tables above together with measurement of hedging instruments under fixed-rate financial instruments.

Other financial instruments of the Company which have not been included in the tables above bear no interest and therefore are not exposed to the interest rate risk.

46.3.2. Currency risk

The Company's exposure to currency risk by financial instrument classes as at 31 December 2014 and 31 December 2013.

Currency position as at 31 December 2014

	Total carrying amount in PLN	EUR		USD	
		in currency	in PLN	in currency	in PLN
Financial assets					
Trade receivables and other financial receivables	958 644	1 096	4 671	–	–
Cash and cash equivalents	1 228 880	5 049	21 520	444	1 557
Derivatives (assets)	1 811	–	–	89	312
Total	**2 189 335**	**6 145**	**26 191**	**533**	**1 869**
Financial liabilities					
Arm's length loans	3 052 552	166 888	711 326	–	–
Overdraft	11 918	2 796	11 918	–	–
Trade and other financial liabilities	636 251	1 379	5 877	91	320
Derivatives (liabilities)	196 116	132	562	–	–
Total	**3 896 837**	**171 195**	**729 683**	**91**	**320**
Net currency position		**(165 050)**	**(703 492)**	**442**	**1 549**

Currency position as at 31 December 2013

	Total carrying amount in PLN	EUR	
		in currency	in PLN
Financial assets			
Trade receivables and other financial receivables	1 138 966	864	3 583
Cash and cash equivalents	507 127	1 824	7 564
Derivatives (assets)	34	8	34
Total	**1 646 127**	**2 696**	**11 181**
Financial liabilities			
Overdrafts	93 645	1 237	5 130
Trade and other financial liabilities	820 198	3 775	15 656
Liabilities due to purchases of fixed and intangible assets	4 188	99	411
Derivatives (liabilities)	160 931	10	41
Total	**1 078 962**	**5 121**	**21 238**
Net currency position		**(2 425)**	**(10 057)**

In 2014 and in 2013 TAURON Polska Energia S.A. 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 Company. The Company has not used hedge accounting to hedge currency risk. As at the end of the reporting period the Company held no open forward contracts.

46.3.3. Commodity price risk

The Company is exposed to adverse effects of risks related to changes in cash flows and financial performance in the domestic currency due to changes in prices of goods in the open market position. The Company's exposure to the risk of prices of goods reflects the volume of electricity and gas acquired. The volume and cost of electricity and gas acquired have been presented below.

Fuel type	Unit	2014		2013	
		Volume	Purchase cost	Volume	Purchase cost
Electricity	MWh	47 147 770	7 781 085	50 923 419	9 597 191
Gas	k m^3	388 529	83 886	418 298	81 174
Total			**7 864 971**		**9 678 365**

As for trading in coal and biomass the Company is not exposed to the price risk, as it acts as an agent generating revenue from agency trading only.

46.3.4. Market risk – sensitivity analysis

At present, TAURON Polska Energia S.A. is mainly exposed to the risk of changes in EUR/PLN and USD/PLN exchange rates. The Company 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 Company 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 Company'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 Company 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 Company 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 Company 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.

46.3.4.1. Interest rate risk sensitivity analysis

The Company identifies its exposure to the interest rate risk for WIBOR and EURIBOR. 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)*
Bonds	6 798 726	2 137 771	14 751	–	(14 751)	–	–	–
Loans granted	233 922	233 922	1 614	–	(1 614)	–	–	–
Cash and cash equivalents	1 228 880	1 228 880	8 320	–	(8 320)	–	209	(209)
Derivatives (assets)	1 811	1 499	(4 624)	–	4 624		(223)	223
Arm's length loans	3 052 552	1 180 815	(8 148)	–	8 148	–	–	–
Overdraft	11 918	11 918	–	–	–	–	(116)	116
Bonds issued	6 110 631	6 110 631	(42 163)	–	42 163	–	–	–
Derivates (liabilities)	196 116	195 554	(36 212)	31 773	36 212	(31 773)	(26 016)	26 016
Total			**(66 462)**	**31 773**	**66 462**	**(31 773)**	**(26 146)**	**26 146**

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)*
Bonds	5 217 830	1 644 622	15 624	–	(15 624)	–	–	–
Loans granted	189 424	189 424	1 800	–	(1 800)	–	–	–
Cash and cash equivalents	507 127	507 127	4 746	–	(4 746)	–	17	(17)
Arm's length loans	2 909 144	1 615 395	(15 346)	–	15 346	–	–	–
Overdraft	93 645	88 602	(841)	–	841	–	(1)	1
Bonds issued	4 300 522	4 300 522	(40 855)	–	40 855	–	–	–
Derivates (liabilities)	160 931	159 762	–	75 397	–	(75 397)	–	–
Total			**(34 872)**	**75 397**	**34 872**	**(75 397)**	**16**	**(16)**

46.3.4.2. Currency risk sensitivity analysis

The Company identifies foreign currency risk related to EUR/PLN and USD/PLN exchange rates. The tables below present sensitivity of the gross financial profit/loss to reasonably possible changes in the EUR/PLN and USD/PLN 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		USD/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +7.7%	exchange rate EUR/PLN -7.7%	exchange rate USD/PLN +12.89%	exchange rate USD/PLN -12.89%
			Profit/(Loss)	*Profit/(Loss)*	*Profit/(Loss)*	*Profit/(Loss)*
Trade and other financial receivables	958 644	4 671	360	(360)	–	–
Cash and cash equivalents	1 228 880	23 077	1 657	(1 657)	201	(201)
Derivatives (assets)	1 811	1 811	1 925	(1 925)	40	(40)
Overdraft	11 918	11 918	(918)	918	–	–
Arm's length loans	3 052 552	711 326	(54 772)	54 772	–	–
Trade and other financial liabilities	636 251	6 197	(452)	452	(41)	41
Derivatives (liabilities)	196 116	1 803	25 162	(25 162)	–	–
Total			**(27 038)**	**27 038**	**200**	**(200)**

(in PLN '000)

The exposure to risk as at 31 December 2014 is representative for the Company'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 Arm's length loans class containing a loan from a subsidiary received in December 2014 and Derivatives – assets and liabilities which include CCIRS transaction entered into by the Company in November 2014 (Note 24).

Year ended 31 December 2013

Classes of finacial instruments	31 December 2013		Sensitivity analysis for currency risk as at 31 December 2013	
			EUR/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +7.75%	exchange rate EUR/PLN -7.75%
			Profit/(Loss)	*Profit/(Loss)*
Trade and other financial receivables	1 138 966	3 583	278	(278)
Cash and cash equivalents	507 127	7 564	586	(586)
Derivatives (assets)	34	34	3	(3)
Overdraft	93 645	5 130	(398)	398
Trade and other financial liabilities	820 198	15 656	(1 213)	1 213
Liabilities due to purchases of fixed and intangible assets	4 188	411	(32)	32
Derivatives (liabilities)	160 931	41	(3)	3
Total			**(779)**	**779**

The exposure to risk as at 31 December 2013 is representative for the Company's exposure to risk during the annual period preceding the aforementioned date.

47. Financial and capital management

Finance and capital is managed at the level of the TAURON Polska Energia S.A. Capital Group, which has been presented in detail in Note 51 to the Consolidated Financial Statements for the year ended 31 December 2014.

48. Employment structure

The following note presents average headcount in the annual periods ended 31 December 2014 and 31 December 2013.

	Year ended 31 December 2014	Year ended 31 December 2013
Management	5	4
Administration	214	195
Sales department	105	106
Total	**324**	**305**

49. 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. for the year ended 31 December 2014 (Section 4.9).

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

Under Article 44.2 of the Energy Law TAURON Polska Energia S.A., as an energy company, is obliged to prepare financial statements including a balance sheet and an income statement broken down by individual types of business activities.

The Company has identified the following types of business activities in accordance with Article 44.1 of the Energy Law:

- Trade in electricity
- Trade in gaseous fuels
- Other activity

(in PLN '000)

The principles of preparing a statement of comprehensive income (profit and loss account) broken down by type of business activity

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

The Company has directly separated sales revenue and cost of sales related to individual types of activities.

Selling and distribution expenses related to the entire sales process carried out by the Company were divided proportionally to the sales revenue generated by the Company.

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

General and administrative expense of the Company is incurred for the benefit of the entire Capital Group, hence it has been recognized in the statement of comprehensive income as unallocated items and is not directly attributable to a specific business activity, as such attribution would be unjustified. Also, CIT charged to profit or loss has been presented under unallocated items.

Statement of comprehensive income by type of activity for the financial year 2014

Year ended 31 December 2014	Electricity	Gas	Other activity	Unallocated items	Total
Sales revenue	7 943 468	77 263	669 068	–	**8 689 799**
Cost of sales	(7 791 756)	(75 807)	(659 292)	–	**(8 526 855)**
Gross profit	**151 712**	**1 456**	**9 776**	**–**	**162 944**
Other operating income	–	–	2 821	–	**2 821**
Selling and distribution expenses	(23 115)	(225)	(1 946)	–	**(25 286)**
Administrative expenses	–	–	–	(80 365)	**(80 365)**
Other operating expenses	–	–	(1 462)	–	**(1 462)**
Operating profit	**128 597**	**1 231**	**9 189**	**(80 365)**	**58 652**
Dividend income	–	–	1 076 836	–	**1 076 836**
Other finance income	–	–	434 491	–	**434 491**
Finance costs	–	–	(397 452)	–	**(397 452)**
Profit before tax	**128 597**	**1 231**	**1 123 064**	**(80 365)**	**1 172 527**
Income tax expense	–	–	–	(26 084)	**(26 084)**
Net profit for the year	**128 597**	**1 231**	**1 123 064**	**(106 449)**	**1 146 443**

Statement of comprehensive income by type of activity for the financial year 2013

Year ended 31 December 2013	Electricity	Gas	Other activity	Unallocated items	Total
Sales revenue	9 890 489	72 424	946 847	–	**10 909 760**
Cost of sales	(9 596 111)	(71 856)	(855 369)	–	**(10 523 336)**
Gross profit	**294 378**	**568**	**91 478**	**–**	**386 424**
Other operating income	–	–	3 675	–	**3 675**
Selling and distribution expenses	(35 808)	(262)	(3 428)	–	**(39 498)**
Administrative expenses	–	–	–	(81 998)	**(81 998)**
Other operating expenses	–	–	(1 801)	–	**(1 801)**
Operating profit	**258 570**	**306**	**89 924**	**(81 998)**	**266 802**
Dividend income	–	–	1 500 627	–	**1 500 627**
Other finance income	–	–	275 899	–	**275 899**
Finance costs	–	–	(346 806)	–	**(346 806)**
Profit before tax	**258 570**	**306**	**1 519 644**	**(81 998)**	**1 696 522**
Income tax expense	–	–	–	(7 550)	**(7 550)**
Net profit for the year	**258 570**	**306**	**1 519 644**	**(89 548)**	**1 688 972**

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

The Company has directly separated trade receivables, trade payables and other receivables and other liabilities related to individual types of its business activities.

(in PLN '000)

Equity, provisions for employee benefits, cash and income tax receivables and payables have been disclosed as unattributed items in the statement of financial position.

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

Statement of financial position by type of activity as at 31 December 2014

As at 31 December 2014	Electricity	Gas	Other activity	Unallocated items	Total
ASSETS					
Non-current assets, of which	**–**	**–**	**26 585 870**	**31 141**	**26 617 011**
Shares	–	–	20 809 799	–	**20 809 799**
Bonds	–	–	5 522 725	–	**5 522 725**
Deferred tax asset	–	–	–	31 141	**31 141**
Current assets, of which	**677 741**	**1 323**	**1 807 191**	**1 237 264**	**3 723 519**
Income tax receivables	–	–	–	8 384	**8 384**
Trade and other receivables	677 741	1 323	309 885	–	**988 949**
Bonds	–	–	1 276 001	–	**1 276 001**
Cash and cash equivalents	–	–	–	1 228 880	**1 228 880**
TOTAL ASSETS	**677 741**	**1 323**	**28 393 061**	**1 268 405**	**30 340 530**
EQUITY AND LIABILITIES					
Equity	**–**	**–**	**–**	**20 239 567**	**20 239 567**
Non-current liabilities, of which	**–**	**–**	**7 503 745**	**7 351**	**7 511 096**
Interest-bearing loans and borrowings	–	–	7 374 836	–	**7 374 836**
Provisions for employee benefits	–	–	–	7 351	**7 351**
Current liabilities, of which	**276 500**	**3 325**	**2 309 377**	**665**	**2 589 867**
Current portion of interest-bearing loans and borrowings	–	–	1 800 265	–	**1 800 265**
Trade and other payables	276 500	3 325	351 300	–	**631 125**
Provisions for employee benefits	–	–	–	665	**665**
Other provisions	–	–	34 189	–	**34 189**
TOTAL EQUITY AND LIABILITIES	**276 500**	**3 325**	**9 813 122**	**20 247 583**	**30 340 530**

Statement of financial position by type of activity as at 31 December 2013

As at 31 December 2013	Electricity	Gas	Other activity	Unallocated items	Total
ASSETS					
Non-current assets, of which	**–**	**–**	**25 922 761**	**45 584**	**25 968 345**
Shares	–	–	20 221 322	–	**20 221 322**
Bonds	–	–	5 165 000	–	**5 165 000**
Deferred tax asset	–	–	–	45 584	**45 584**
Current assets, of which	**833 465**	**2 740**	**621 927**	**535 654**	**1 993 786**
Income tax receivables	–	–	–	28 527	**28 527**
Trade and other receivables	833 465	2 740	298 651	–	**1 134 856**
Bonds	–	–	52 830	–	**52 830**
Cash and cash equivalents	–	–	–	507 127	**507 127**
TOTAL ASSETS	**833 465**	**2 740**	**26 544 688**	**581 238**	**27 962 131**
EQUITY AND LIABILITIES					
Equity	**–**	**–**	**–**	**19 443 162**	**19 443 162**
Non-current liabilities, of which	**–**	**–**	**5 571 298**	**5 267**	**5 576 565**
Interest-bearing loans and borrowings	–	–	5 445 279	–	**5 445 279**
Provisions for employee benefits	–	–	–	5 267	**5 267**
Current liabilities, of which	**476 985**	**6 646**	**2 458 257**	**516**	**2 942 404**
Current portion of interest-bearing loans and borrowings	–	–	1 858 032	–	**1 858 032**
Trade and other payables	476 985	6 646	335 516	–	**819 147**
Provisions for employee benefits	–	–	–	516	**516**
Other provisions	–	–	110 580	–	**110 580**
TOTAL EQUITY AND LIABILITIES	**476 985**	**6 646**	**8 029 555**	**19 448 945**	**27 962 131**

51. Events after the end of the reporting period

Acquisition of shares in Biomasa Grupa TAURON Sp. z o.o.

On 14 January 2015 TAURON Polska Energia S.A. acquired 4 267 shares in Biomasa Grupa TAURON Sp. z o.o., constituting 100% of the issued capital of the entity with the value of PLN 1 230 thousand from TAURON Wytwarzanie S.A., a subsidiary.

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 financial statements of TAURON Polska Energia S.A., prepared for the year ended 31 December 2014 in accordance with the International Financial Reporting Standards have been presented on 75 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.
FOR THE FINANCIAL YEAR 2014

MARCH 2015

TABLE OF CONTENTS

1. TAURON POLSKA ENERGIA S.A.

1.1. Basic data on the Company

TAURON Polska Energia Spółka Akcyjna (hereinafter referred to as the Company or TAURON) 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 table below presents general information on the Company and the basic types of activities conducted by the Company.

Table no. 1. General Information on TAURON:

<table>
<tr><th>No.</th><th>General Information</th><th>Basic types of activities conducted by the Company</th></tr>
<tr><td>1.</td><td>Name (company) TAURON Polska Energia S.A.</td><td rowspan="8">1) Activities of head offices and holdings, excluding financial holdings (PKD 70.10 Z),
2) Electric energy trade (PKD 35.14 Z),
3) Wholesale of fuel and derivative products (coal and biomass trading) (PKD 46.71 Z),
4) Gas fuel trade (PKD 35.23 Z).</td></tr>
<tr><td>2.</td><td>Legal form: joint stock company</td></tr>
<tr><td>3.</td><td>Seat: Katowice</td></tr>
<tr><td>4.</td><td>Website: www.tauron-pe.pl</td></tr>
<tr><td>5.</td><td>National Court Register: 0000271562
District Court Katowice-Wschód in Katowice</td></tr>
<tr><td>6.</td><td>Tax Identification Number – NIP: 9542583988</td></tr>
<tr><td>7.</td><td>Company Identification Number – REGON: 240524697</td></tr>
<tr><td>8.</td><td>The Company does not have any branches (plants)</td></tr>
</table>

The figure below presents the level of TAURON share capital according to the status as at 31 December 2014, divided by the quantity of shares.

Figure no. 1. Share capital of TAURON (paid up) as at 31 December 2014, divided by the quantity of shares

Share capital (paid up)
PLN 8,762,746,970.00
number of shares: **1,752,549,394**

AA series shares
(bearer shares)
1,589,438,762 shares
Nominal value per share: **PLN 5.00**

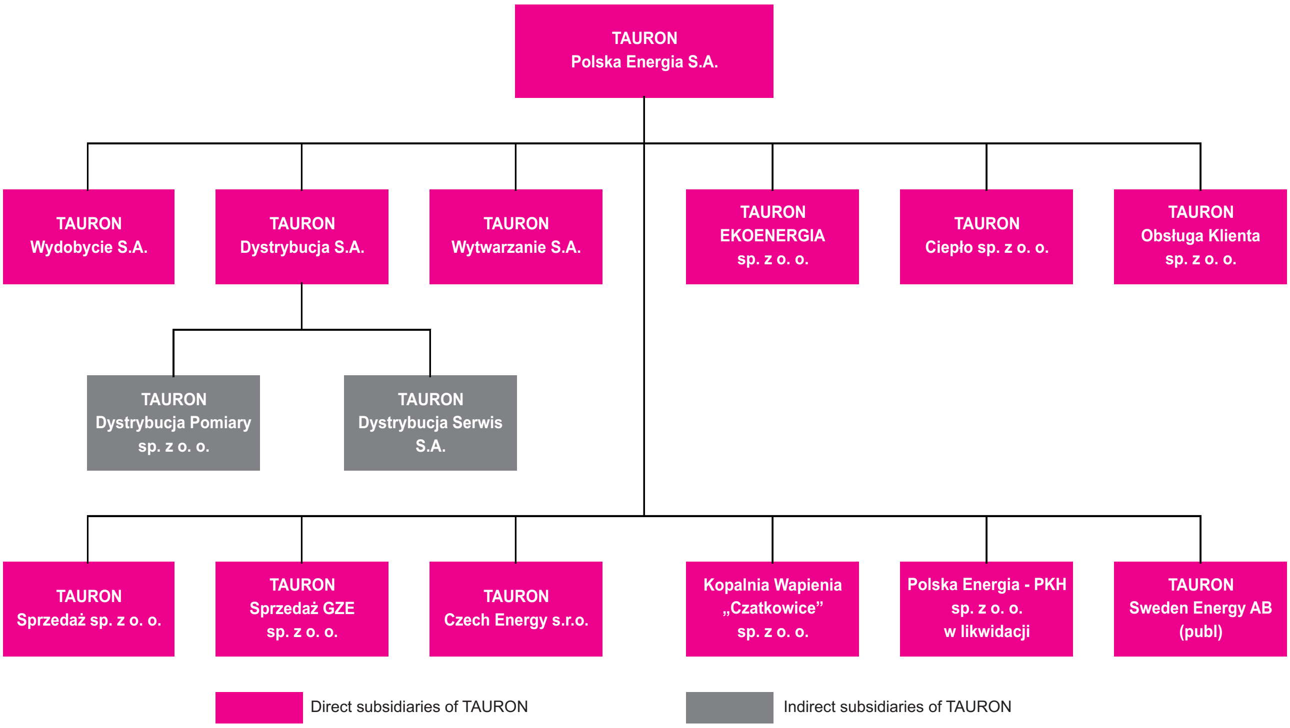
BB series shares
(ordinary, registered shares)
163,110,632 shares
Nominal value per share: **PLN 5.00**

1.2. Organisation and structure of TAURON Capital Group

As at 31 December 2014, the key companies of TAURON Polska Energia S.A. Capital Group (TAURON Capital Group), besides the entities of the parent company, TAURON, comprised 14 subsidiaries subject to consolidation. Moreover, the Company holds, directly or indirectly, shares in other 44 companies.

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. 2. Structure of TAURON Capital Group, including companies subject to consolidation, as at 31 December 2014



Moreover, TAURON Capital Group 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.

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

Detailed information on companies covered by consolidation and on TAURON share in their initial capital and in their governing body, is presented in item 1.5 of this report.

1.3. Strategy and Policy of the Company Development

1.3.1. Development policy

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.

1.3.2. 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.

In the scope of implementing the investment tasks:

1) the agreement with the consortium of RAFAKO S.A. (consortium leader) and MOSTOSTAL WARSZAWA S.A. concerning the construction of the 910 MW_e capacity generation unit at Jaworzno III Power Plant was signed,
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.

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 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 Zakład Wytwarzania Nowa (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 sp. z o.o. (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.

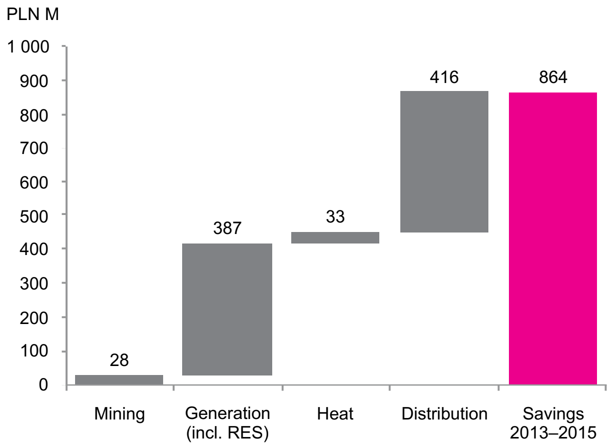
Treating budgetary discipline as a priority in the scope of investment expenditure and operating costs applies in each Business Area. The executed activities related to the improvement of operational and investment effectiveness enabled to prepare TAURON Capital Group to the functioning under the changeable 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 Programme was developed and is implemented taking into account the objective consisting in the continuous 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 million 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. 4. Effectiveness Improvement Programme for 2013–2015



In 2013–2014, savings at a level of approximately PLN 719 million were achieved.

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 implementation of Corporate Strategy, 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.

1.3.3. Assessment of implementation opportunities of investment projects

Strategic investments as well as their financing are 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.

1.3.4. Main domestic and foreign investments

Investments in equity securities implemented by the Company in 2014 and until the day of completion of this report were associated with the reorganisation changes in TAURON Capital Group. The main investments of the Company included:

Purchase of equity securities

1. On 15 January 2014 the General Meeting (WZ) of Kompania Węglowa S.A. (Kompania Węglowa) approved the sales of 16,730,525 registered shares of TAURON Wydobycie S.A. (TAURON Wydobycie); consequently, the last condition required to assign the 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 Kopalnia Wapienia Czatkowice (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.

3. On 14 January 2015, the Company purchased, from its subsidiary, TAURON Wytwarzanie, 4,267 shares of the company Biomasa Grupa TAURON sp. z o.o. (Biomasa GT) with the total nominal value of PLN 237,885.25, constituting 100% of share in the initial capital. 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.

Taking over shares in newly established 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 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.

   The above mentioned companies were established for the purpose of implementation of the joint project with ArcelorMittal Poland S.A. (ArcelorMittal) aimed at appointment of an entity to execute the investment and operational tasks in the scope of industrial power engineering.

   On 10 December 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the order on entering the division of the following companies to the register: TAURON Wytwarzanie, TAURON Ciepło sp. z o.o. (TAURON Ciepło) and ArcelorMittal (Divided Companies) through the separation, pursuant to Article 529 § 1 item 4 of the Code of Commercial Companies, 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 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.

   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 for Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on incorporation of a limited liability company with its registered office in Katowice – Marselwind sp. z o.o. (Marselwind), 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 establishment of the company was aimed at enabling the implementation of the project comprising the division of the TAURON EKOENERGIA sp. z o.o. company (TAURON EKOENERGIA) through the separation 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 Code of Commercial Companies, 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 registered, 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 1each, 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.

Squeeze out

1. 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.

2. 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.

1.4. The management concept of the Company and TAURON Capital Group

1.4.1. 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.

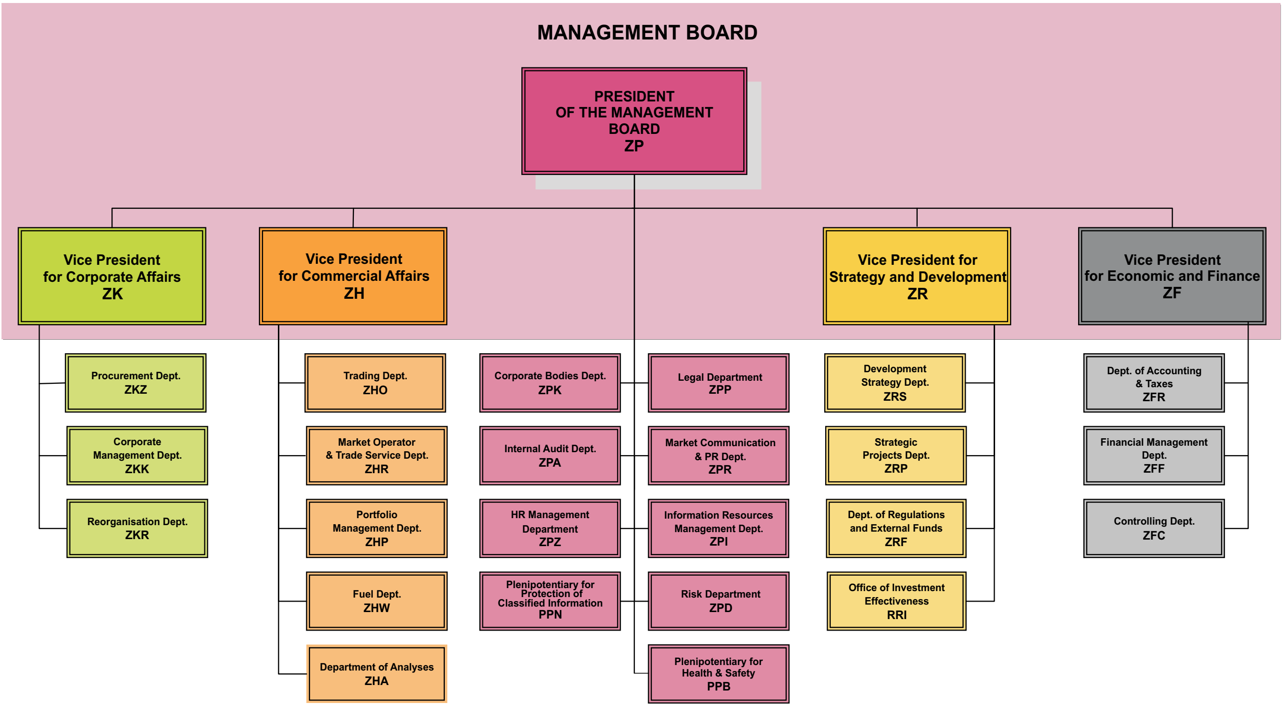
1.4.2. Changes in the management rules of the Company and TAURON Capital Group

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. 5. 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.

1.5. 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. 2. 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	Service activities	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 companies: TAURON EKOENERGIA, and MEGAWAT MARSZEWO sp. z o.o. and BELS INVESTMENT sp. z o.o. 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 sp. z o.o. (Enpower service) and TAURON Ciepło 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 company Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. (PEPKH) 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. 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	Basic 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.is held by TAURON indirectly through the co-subsidiary, TAMEH HOLDING.*

2. OPERATIONS OF TAURON POLSKA ENERGIA S.A.

2.1. Factors essential for development

The operations of the Company 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 of TAURON and TAURON Capital Group operations, as well as at the level of the European Union and global economy, 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 EU level, including the opinions and decisions of public administration institutions and authorities, for example: Office for Competition and Consumer Protection (OCCP), Energy Regulatory Office (ERO) and the EC,
3) changes in the regulations related to the energy sector, as well as changes in the legal environment, including: tax law, commercial law, environmental protection law,
4) situation in electric energy sector, including the activity and measures undertaken by competition in the energy market,
5) resumption of the support system of electric energy generation in high performance co-generation (“red” and “yellow” certificates),
6) geological and mining conditions,
7) number of free CO_2 emission allowances allocated after 2013, and prices of the allowances acquired,
8) prices of electric energy and fuel,
9) environmental protection requirements,
10) scientific and technical progress,
11) demand for electric energy and other products of the energy market, including changes arising from seasonality and weather conditions.

2.2. Factors and unusual events significantly affecting the financial result achieved

2.2.1. Internal factors and their assessment

In 2014, no material internal factors occurred which would have a significant impact on the financial result achieved.

2.2.2. External factors and their assessment

2.2.2.1. Macroeconomic environment

The basic area of TAURON 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 the Company.

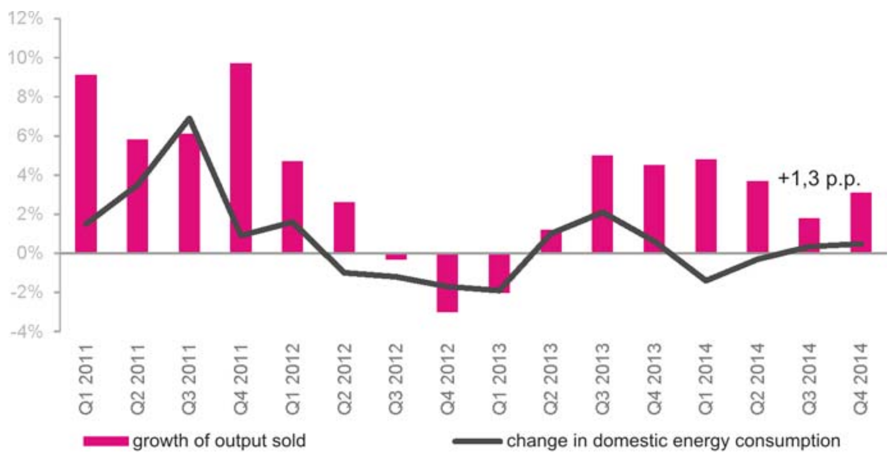
The condition of the Polish economy is considerably associated with the economic trends in the EU and in international markets. In 2014, the dynamics of economic growth in Europe was not optimistic.

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 Products (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 the whole 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. 6. 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 Operating Power Reserve (ORM), 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.

The significant decline in prices of steam 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 steam 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.

National Power System (KSE) balance and prices in the Balancing Market (RB)

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 Transmission System Operator (TSO), the weighted average price of electric energy sold freely on the 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 ORM payment mechanism with the maximum reference price of PLN 37.13/MWh in peak hours.

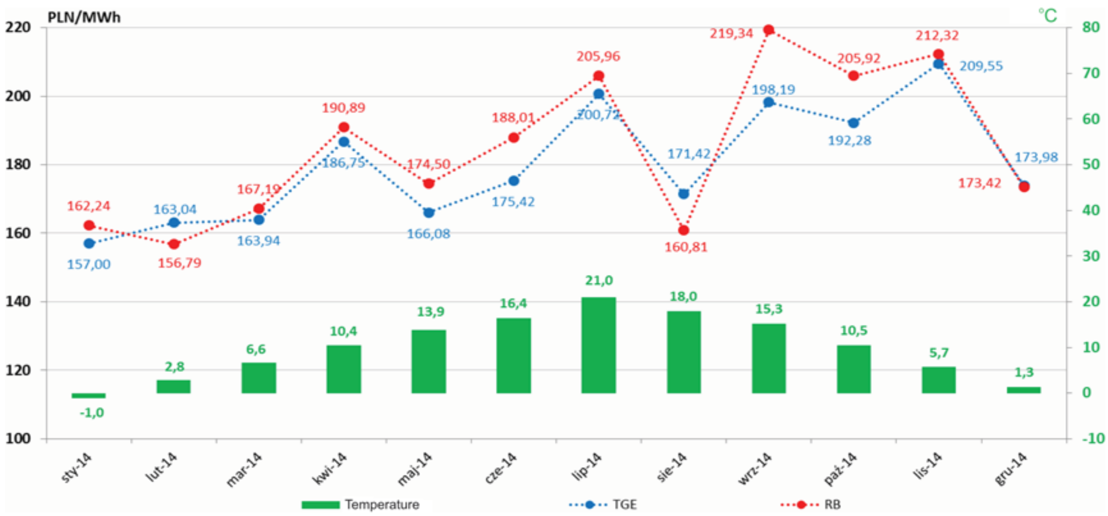
According to the TSO data for 2014, the following changes were recorded as compared to 2013:

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 ORM 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. 7. 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 ORM, 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. 8. 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.

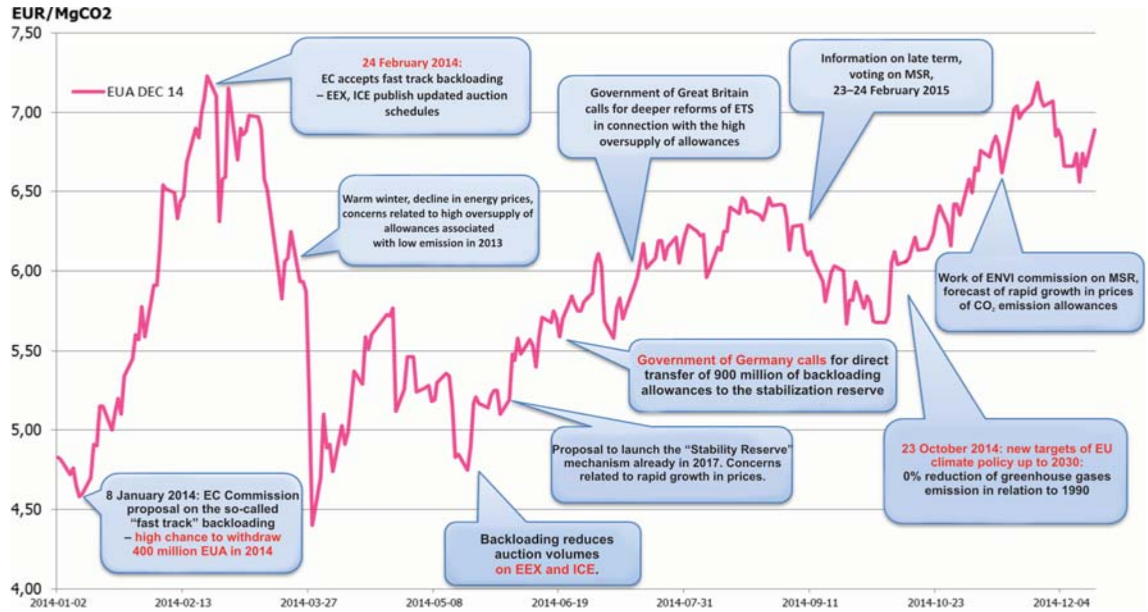
Figure no. 9. Average monthly gas prices on the SPOT market and in the quotations of Y-15 contracts.

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. 10. Impact of EC activities and political events on quotations of the forward product, EUA Dec-14



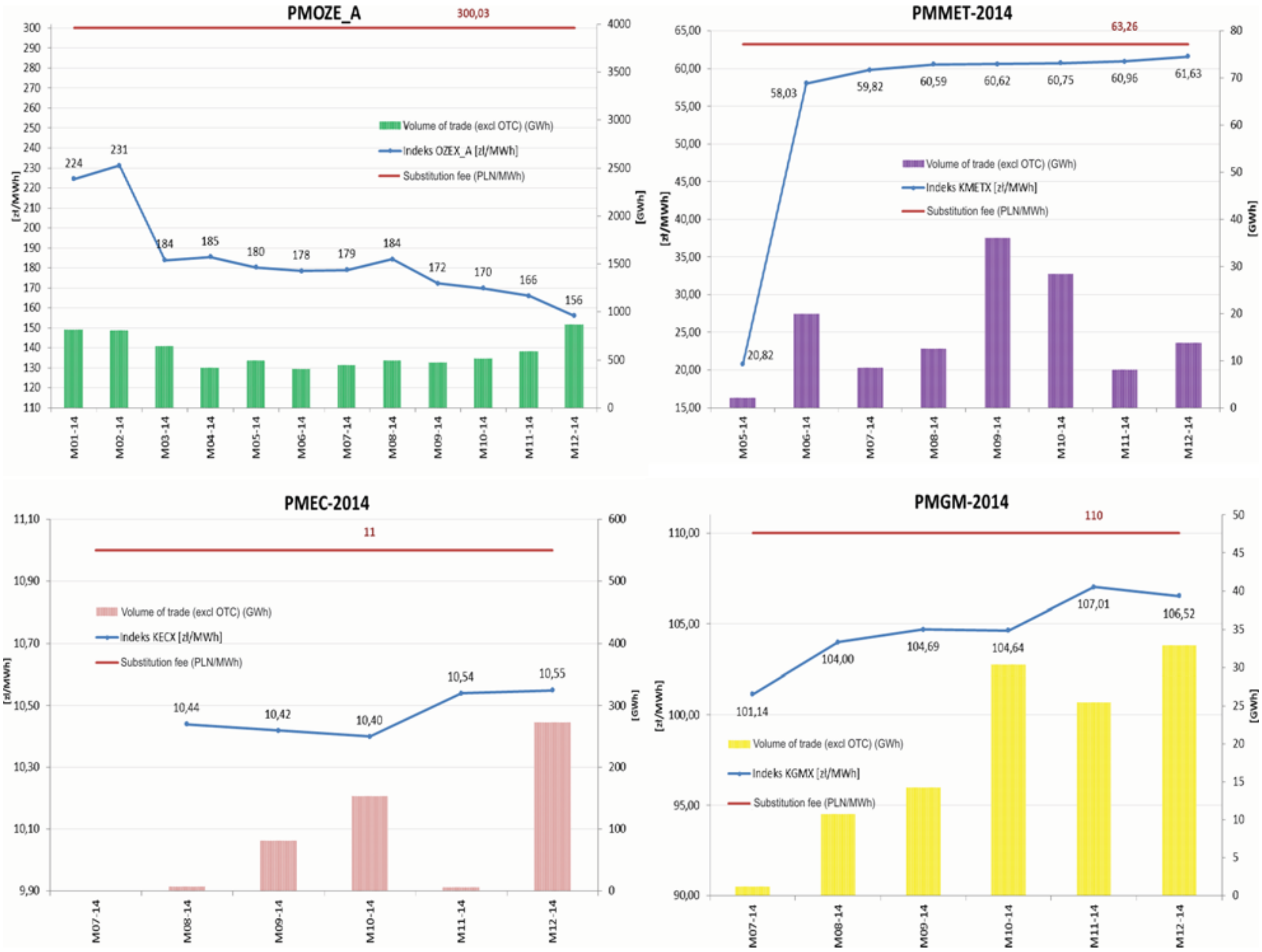
2014 brought significant changes in the market of property rights, associated mainly with the amendments to the legal regulations for the co-generation units. In the first two months of 2014, prices of the OZEX_A index increased from PLN 192.49 to 250.47/MWh, and the balance of the register from January 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. 11. 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.

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 (over the counter) market.

2.3. Timeline of key events

The following table presents the timeline of selected key events associated with the operations of the Company which took place in 2014.

Figure no. 12. Timeline of key events

EVENTS IN TAURON IN 2014	
JANUARY FEBRUARY	1. Appointment of Aleksander Grad as the member of the TAURON Supervisory Board of 3rd term by the Extraordinary GM of the Company. 2. Registration of the amendment to the Company Articles of Association. 3. 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. 4. Dismissal of Rafał Wardziński from the Company Supervisory Board by the Minister of Treasury and appointment of Agnieszka Woś as the member of the Company Supervisory Board of 3rd common term. 5. Delegating Aleksander Grad, Member of the Supervisory Board to the temporary performance of activities of the Vice-President of the Company Management Board.
MARCH APRIL	1. Appointment of the Management Board of the Company of the 4th common term, consisting of: 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). 2. Signing of the Agreement by the Company and Polish Development Investments (Polskie Inwestycje Rozwojowe) concerning the financing of the power unit of 413 MW_e at Łagisza Power Plant in Będzin. 3. Concluding the agreement on extension of effectiveness of the letter of intent of 23 December 2013, concluded between the companies: TAURON, TAURON Wytwarzanie, TAURON Ciepło, ArcelorMittal and ArcelorMittal Ostrava a.s., concerning the partnership cooperation in the area of industrial power engineering. 4. Approval of the tariff for gas fuels by the ERO President.
MAY JUNE	1. Appointment of the following persons by the Minister of Treasury to the Supervisory Board of the Company of the 4th common term: Andrzej Gorgol, Michał Michalewski, Marek Ściążko, Antoni Tajduś and Agnieszka Woś and appointment of Jacek Szyke as the member of the Supervisory Board of the Company of the 4th common term. 2. 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. 3. Adoption of the updated Corporate Strategy of TAURON Group for 2014-2017 with an outlook until 2023. 4. Awarding TAURON with the distinction *Hero of the Capital Market* granted by the Association of Individual Investors. 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. 2. Confirmation of the long-term foreign and local currency ratings for the Company at “BBB” level, with stable outlooks by the Fitch Rating Agency. 3. 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. 4. Request of the shareholder, KGHM, concerning the convening of the Extraordinary TAURON GM and placing of the item concerning the supplementary election to the Supervisory Board of the Company on the agenda. 5. Acquisition of 100% share in TAURON Wytwarzanie share capital by TAURON. 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 implementation of the project in the scope of industrial power engineering.
SEPTEMBER OCTOBER	1. Appointment of the following persons by the Extraordinary GM of the Company to the Supervisory Board of the Company of the 4th common term, upon the request of the shareholder, KGHM: Maciej Koński, Leszek Koziorowski and Maciej Tybura. 2. 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. 3. Acquisition of 100% direct share in the share capital of TAURON Wydobycie and KW Czatkowice by TAURON. 4. Issuing of the approval of the OCCP President for the concentration based on implementation of the joint project in the scope of nuclear energy by PGE, TAURON, ENEA, KGHM within the PGE EJ1 company. 5. Confirmation of the international long-term foreign and local currency ratings for the Company at “BBB” level, with stable outlooks by the Fitch Rating Agency and granting ratings of the Fitch Agency. 6. Granting the main award to TAURON *The best annual report 2013*, for the best annual report of TAURON Capital Group for 2013.
NOVEMBER DECEMBER	1. Issuing of the approval of 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. 2. Issuance of five-year unsecured bonds with the value of PLN 1,750,000 thousand, by TAURON on the domestic market. 3. Concluding of the master agreement by TAURON with the Silesian University of Technology in Gliwice, on cooperation in the scope of educational, scientific, research and development and advisory activities. 4. Registration of the Tax Capital Group established for 2015–2017 by TAURON and the key companies of TAURON Capital Group. 5. Concluding of the consortium agreement by TAURON related to the project on *An Integrated Collaborative Platform for Managing the Product-Service Engineering Lifecycle (ICP4Life)*.

2.4. Basic products, goods, services

The table below shows the statement of comprehensive income for the financial year 2014, divided into basic segments of activities, as compared to 2013.

Table no. 4. Statement of comprehensive income for the financial year 2014, divided into segments of activities (data in PLN thousand)

Specification	Financial year ended 31 December 2014				Financial year ended 31 December 2013 *(data converted)*			
	Total activities	Sales	Holding activities	Unallocated items	Total activities	Sales	Holding activities	Unallocated items
Revenue								
Revenue on sales outside the Group	**2,767,694**	2,767,694	–	–	**2,980,734**	2,980,734	–	–
Revenue on sales in the Group	**5,922,105**	5,922,105	–	–	**7,929,026**	7,929,026	–	–
Total revenue of the segment	**8,689,799**	**8,689,799**	**–**	**–**	**10,909,760**	**10,909,760**	**–**	**–**
Profit/(loss) of the segment	**139,017**	**139,017**	**–**	**–**	**348,800**	**348,800**	**–**	**–**
Unallocated costs	**(80,365)**	–	–	(80,365)	**(81,998)**	–	–	(81,998)
EBIT	**58,652**	**139,017**	**–**	**(80,365)**	**266,802**	**348,800**	**–**	**(81,998)**
Net financial revenues (costs)	**1,113,875**	–	1,151,962	(38,087)	**1,429,720**	–	1,488,837	(59,117)
Profit/(loss) before tax	**1,172,527**	**139,017**	**1,151,962**	**(118,452)**	**1,696,522**	**348,800**	**1,488,837**	**(141,115)**
Income Tax	**(26,084)**	–	–	(26,084)	**(7,550)**	–	–	(7,550)
Net profit/(loss)	**1,146,443**	**139,017**	**1,151,962**	**(144,536)**	**1,688,972**	**348,800**	**1,488,837**	**(148,665)**
EBITDA	**78,086**	**158,451**	**–**	**(80,365)**	**290,034**	**372,032**	**–**	**(81,998)**

Activities of the Company are recognised in two segments: "Sales of electric energy and other products of the energy market" and "Holding operations".

The financial revenues and costs cover revenues due to dividend as well as net interest rate revenues and costs gained and incurred by Company due to operation of the central financing model in TAURON Capital Group. The unallocated items cover the overhead costs of the Company, as they are incurred for the benefit of the whole TAURON Capital Group, thus, they cannot be directly allocated to the operating segment.

As the parent entity TAURON fulfils the consolidating and governing function in TAURON Capital Group.

As a result of implementation of the business model and centralisation of functions, TAURON concentrated many competences related to the functioning of the TAURON Capital Group companies and currently it carries out operations, among others, in the following areas:

1) wholesale trading of electric energy and related products, in particular, in the scope of commercial service provided to companies, securing the needs in the area of fuels, CO_2 emission allowances and certificates of energy origin,
2) procurement management,
3) financial management,
4) management of IT model functioning,
5) advisory services in the scope of accounting and taxes,
6) legal service,
7) audit.

The above functions are gradually limited in the companies of TAURON Capital Group. Such centralisation is aimed at improvement of effectiveness in TAURON Capital Group.

The basic operations of the Company, besides managing TAURON Capital Group, include wholesale electric energy trading on the territory of the Republic of Poland, based on the concession on electric energy trading issued by the ERO President for the period from 1 June 2008 until 31 May 2018. The Company has focused on the purchase and sales of electric energy for the needs of securing the purchase and sales positions of entities included in TAURON Capital Group and on wholesale electricity trading. Sales of electric energy performed by the Company in the financial year 2014 was mainly addressed to the following companies: TAURON Sprzedaż and TAURON Sprzedaż GZE.

The competence of the Company also involves management of certificates of origin for the needs of the TAURON Capital Group, representing the confirmation of electric energy generation in renewable sources, in high-performance co-generation, in gas-fired co-generation, in mining methane-fired or biomass burning co-generation, from sources using agricultural biogas.

The Company also acts as the competence centre in the area of management and trade of CO_2 emission allowances for the companies of the TAURON Capital Group. Due to centralisation of emission trading, the synergy effect was obtained, consisting in optimisation of available resources of the entities included in TAURON Capital Group. Along the centralisation of this function in TAURON, the Company is responsible for settlements of CO_2 emission allowances, securing of emission demand of the subsidiaries, taking into consideration the allowances allocated and the support in the process of acquisition of allowances limits for the following periods. While implementing the aforementioned goals, the Company is the active participant of trade of CO_2 emission allowances.

An important element of activities involves sales to external end consumers, conducted both in TAURON Sprzedaż, in TAURON Sprzedaż GZE and in the Company. The Company manages sales to clients of strategic importance, demonstrating significant electricity consumption – above 40 GWh. Functions performed in sales area also include implementation of the marketing policy of the Company, research on product needs related to the energy trading market in order to improve the product offer of the Company as well as acquisition of information concerning operations of competition, events occurring in the Company environment, in order to predict potential future behaviours of competitors.

In addition, TAURON also acts as the Market Operator and the Entity responsible for trade balancing for companies of TAURON Capital Group and for external customers. The function of Market Operator and the Entity responsible for trade balancing is fulfilled on the basis of the transmission Agreement of 21 June 2012 concluded with the Transmission System Operator (TSO) – PSE. The Company currently holds exclusive trade and technical capacity in scheduling coordination, it is responsible for optimisation of generation, i.e. selection of generation units for maintenance as well as relevant distribution of loads in order to execute the contracts concluded, taking into consideration technical conditions of the generation units, network constraints and other factors, in various horizons. Within the services provided to the Generation Area, the Company participates in preparation of repair plans, plans of available capacity as well as production plans for generation units, in various time horizons, as well as in their settlement with the relevant grid operator.

In accordance with the adopted business model, TAURON fulfils governing functions in the scope of production fuel procurement management for the needs of the generating entities included in TAURON Capital Group. In addition, on 15 January 2014 the company launched commercial activities for the new product – Gasoil Futures contracts, based on the valuation of diesel oil. The product is available on the ICE Futures Europe platform TAURON has been the member of since 2012. Gasoil contracts may be used by market participants both as a hedging instrument and as a commercial tool. TAURON uses trading of Gasoil contracts as a commercial tool in order to accomplish additional margin mass. Gasoil products demonstrate high liquidity and prices of contracts refer to prices for all trade distillates in Europe and outside.

2.5. Potential markets and sources of supply

Wholesale trade

TAURON conducts wholesale electric energy and gas trading for the needs of securing the purchase and sales positions of entities from TAURON Capital Group. The Company also deals with *proprietary trading* activities, i.e. trading of electric energy, natural gas, CO_2 emission allowances and related products, with the purpose of generating profits on volatility of prices over time. The activities of the Company comprise wholesale markets both in the country and abroad, and they are conducted on the SPOT market and forward market in contracts with physical delivery and in financial contracts. In Poland, the Company is an active participant of TGE and OTC platforms conducted by the London energy brokers, such as Tradition Financial Services. TAURON actively participates in auctions of the cross-border exchange of energy transmission capacity on the Polish-Czech, Polish-German and Polish-Slovakian border, managed by the CAO auction office. The trade on the German market is mainly conducted through the EPEX Spot SE and EEX exchanges in the scope of trading of financial instruments of futures type, besides, transactions on the OTC market are also concluded. On the Czech and Slovakian market, through its subsidiary – TAURON Czech Energy, the Company operates on the Prague Power Exchange PXE a.s., covering the Czech, Slovakian and Hungarian markets, as well as on the OTE a.s. (Czech Republic) and OKTE a.s. (Slovakia) exchanges.

TAURON Company has been successively building its competence in the scope of gas fuel trading. On 3 May 2014 the 2nd TAURON Polska Energia Tariff for Gas Fuels entered into force. The Company gained the opportunity of parallel offering of electric energy and natural gas products to its business Clients. In the framework of the operations commenced on the gas market, the Company concluded three first gas contracts with clients outside TAURON Capital Group, for the total volume of approximately 171 GWh. In order to secure these contracts, daily, monthly, quarterly and annual gas products were purchased on the wholesale market. On the Polish market, the Company is an active participant of the SPOT (RDG) and forward (RTG) markets on the TGE exchange. It also concludes transactions with entities on the OTC market.

In addition, TAURON conducts the *proprietary trading* activities on the SPOT market of natural gas of the German EEX exchange. Through the TAURON Czech Energy company, trading in the Czech market is also carried out as well as interconnector gas exchange between Poland and Czech Republic. 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 customers in the scope of purchase / sale of gas on the Polish and German OTC market. Until mid-2014 TAURON also sold natural gas to end clients. As of July those functions were transferred to the TAURON Sprzedaż company for which TAURON conducts commercial operations associated with securing of positions on the exchange market.

As mentioned above, the competence of the Company also includes management of certificates of origin for the needs of TAURON Capital Group, constituting the confirmation of generation of electric energy in renewable sources, in high-performance co-generation, in gas fuel fired co-generation, in mining methane fired or biomass burning co-generation, from sources using agricultural biogas and certificates of energy effectiveness and guarantees of origin. This activity is based on active monitoring of demand for certificates of origin in companies of TAURON Capital Group and on the purchase and sales of such units, in relation to companies of Generation and Heat Area, as well as companies selling electric energy to end consumers, consequently, being subject to the redemption obligation of certificates of origin.

On 14 March 2014 the amendment to the act of 10 April 1997 on *Energy Law* was adopted, resuming the redemption obligations of property rights confirming electric energy production in high-performance gas and coal-fired co-generation, i.e. the so-called “yellow” and “red” certificates. The support for energy generation in co-generation was introduced from 2014 to 2018 inclusive, and the redemption of units is used until 30 June of the consecutive year, i.e. until mid-2019. The energy subject to the obligation shall be calculated as of the day of entry into force of the act, and the certificates confirming energy generation in co-generation, issued before the day of entry into force of the act, shall not be considered during the settlement of the obligation execution. In addition, the certificates issued for the production in a given year may be used for the performance of the obligation only for the year in which they have been generated.

The Company also acts as the competence centre in the area of CO_2 emission allowances for the companies of the TAURON Capital Group and the external customers. The management of CO_2 emission allowances is based on defining the demand for CO_2 emission allowances for facilities from TAURON Capital Group, defining the strategy of commercial activities in the procedure in case of deficit or surplus of allowances, implementation of EUA exchange to CER/ERU and active management of free allowances pool, in order to generate additional benefits. While fulfilling the role of administrator of facilities in TAURON Capital Group, the Company is also responsible for CO_2 emission settlements of individual facilities through the redemption of allowances in the European Register of Allowances. In the framework of the aforementioned activities, TAURON concludes sales agreements on behalf of TAURON Capital Group companies and administers the account in the European Register of Allowances. On behalf of TAURON Capital Group, TAURON actively participates in consultations of legal acts at the national and European level, as well as supports companies of the Generation and Heat Area in the process of acquiring free allowances for the third settlement period and in the process of acquiring units from projects reducing CO_2 emission. While implementing the above goals in the area of CO_2 emission allowances trading, the Company actively participates in trading on the European Climate Exchange (the ICE), the EEX exchange in Leipzig and the OTC market.

Electric energy – strategic Clients

Within the framework of its sales activity, in 2014 the Company continued the process of direct sales of electric energy to strategic clients. This segment demonstrates high demand for electric energy for the needs of own production or for coverage of balancing differences (in case of Distribution System Operators DSOs)). Among strategic clients, the metallurgical and mining sectors are most extensively represented.

The table below shows the volume of electric energy sales by TAURON.

Table no. 5. Volume of electric energy sales

No.	Specification	unit	2014	2013	2012	Dynamics (2014/2013)
1.	Total electric energy sales, including:	*TWh*	**47.1**	50.9	45.1	93%
2.	Wholesale	*TWh*	**34.4**	37.6	34.8	91%
3.	Retail sales, including:	*TWh*	**11.2**	11.6	8.7	97%
	sales to strategic clients outside TAURON Capital Group	*TWh*	**7.6**	*7.9*	*5.7*	*96%*
4.	Sales on the balancing market	*TWh*	**1.5**	1.7	1.6	88%

Fuels

With the purpose of implementing the tasks in the scope of fuel trading (biomass, coal and gas), in 2014 the Company continued fuel supplies for TAURON Wytwarzanie and TAURON Ciepło.

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 mining plants of TAURON Capital Group. The remaining part of the demand was covered from external sources.

Fuel purchases – coal

In 2014 the Company continued purchase of coal for the needs of TAURON Wytwarzanie and TAURON Ciepło under the master agreements:

1. multiannual agreements, concluded with:
   1) Kompania Węglowa,
   2) TAURON Wydobycie,
   3) Jastrzębska Spółka Węglowa S.A.
2. annual agreements, concluded with:
   1) Katowicki Holding Węglowy S.A.,
   2) KWK Kazimierz-Juliusz Sp. z o.o.,
   3) HALDEX S.A.,
   4) PPUH B.B.-Pol sp. z o.o.,
   5) HAWEX sp. z o.o.

The table below presents the quantity of coal purchased in 2014.

Table no. 6. Quantity of coal purchased in 2014

No.	Type of Supplier	unit	Coal quantity	Share (%)
1.	Suppliers outside TAURON Capital Group	*Mg*	4,566,530	58
2.	Supplier from TAURON Capital Group	*Mg*	3,287,023	42
	Total	*Mg*	**7,853,553**	**100**

Fuel purchases – 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.

Fuel purchases – Gas

In 2014 TAURON continued the supplies of high-methane gas to Elektrownia Stalowa Wola (TAURON Wytwarzanie) and to Zespół Elektrociepłowni Bielsko-Biała EC 1 (TAURON Ciepło). The gas supplied by the Company was purchased under the complex agreement on gas fuel supply and the Memorandum of Understanding concluded with Polskie Górnictwo Naftowe i Gazownictwo S.A.

In 2014 the Company also supplied coke-oven gas to Elektrownia Blachownia (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 within the agreement for 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 conducted 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.

In connection with the separation of Blachownia Power Plant from TAURON Wytwarzanie to TAMEH POLSKA, as of 10 December 2014 supplies of coke-oven gas to Blachownia Power Plant were performed directly by ArcelorMittal.

The table below presents the level of fuel supplies executed by TAURON in 2014 to entities of TAURON Capital Group.

Table no. 7. Fuel supplies executed by TAURON 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	

2.6. Material events and achievements of the Company with significant impact on its operations

The most important events with significant impact on operations of the Company, which occurred in the financial year 2014, as well as those that occurred until the day of this report, included:

Important 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.

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 1.3.4 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.

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 pay-out

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.

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.

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.

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 1.3.1 hereof.

The Company informed of this event in the current report no. 28/2014 of 2 June 2014.

Agreement of Understanding of Polish energy groups related to innovation

On 26 June 2014, four biggest Polish energy enterprises: ENEA, ENERGA S.A. (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. Effective management of the implementation of research and development works in TAURON Capital Group companies is aimed at intensification of innovative activities and maximising the benefits arising from the access to knowledge and experience gained during implementation of such projects. 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.

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 issue of the current report no. 42/2013, the net 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.

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.

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. Fitch rating agency also assigned TAURON Polska Energia S.A. 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.

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.

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 activities undertaken in the aforementioned scope is included in item 1.3.4 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., 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.

Disposal of shares of the company Przedsiębiorstwo Energetyki Cieplnej sp. z o.o.

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 concerning 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.

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 Spółka Restrukturyzacji Kopalń S.A. or from Kompania Węglowa, including indication of effects for both variants. Possibilities 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.

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 2.7.1 of this report, should be also considered as important events with material impact on operations of the Company in the financial year 2014.

2.7. Information on agreements concluded by the Company

2.7.1. Agreements significant for operations of the Company

In the financial year 2014 the Company concluded the following agreements significant for operations of the Company:

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.

On 24 November 2014 the OCCP President issued the approval for the performance of concentration based on establishment of a joint entrepreneur, TAMEH HOLDING.

Detailed information concerning establishing of the joint entity for the implementation of the aforementioned tasks is included in item 1.3.4 hereof.

Shareholders' Agreement signed as part of nuclear power plant preparation and construction project

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 3,000 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 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.

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.

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.

2.7.2. 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 44 to the financial statement for the year ended on 31 December 2014.

2.7.3. Information on agreements on credits and loans raised and terminated

Working capital facilities, short-term loans

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 the Company 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 with the aforementioned bank on 18 December 2014, with the effective period until 17 December 2017.

The Company 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 loans effective in the Company in 2014.

Table no. 8. Specification of agreements for working capital loans effective in the Company (started and continued 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 of 31 December 2014.

Table no. 9. Balance of loans granted to the Company by subsidiaries under 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.

Credit and loans of investment nature

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 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.

On 1 December 2014 the Company signed a loan agreement with the subsidiary, TAURON Sweden Energy. The loan was granted, i.e. funds were transferred to TAURON, on 3 December 2014. The amount of the loan is EUR 166,572 thousand and it shall be repaid as a one-off operation in November 2029. The Company may use funds acquired from this loan for the general economic purposes.

In the financial year 2014 the Company did not terminate any credit and loan agreements.

2.7.4. 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 2.7.3. 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, Polskie Górnictwo Naftowe i Gazownictwo S.A. 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 MWe and 240 MWt.

The table below presents the disbursements and repayments of the VAT loan performed in 2014.

Table no. 10. 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. 11. 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	1 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	3 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

The Company has also concluded the following agreements concerning the issuance of bank guarantees:

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 100,000,000 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).

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. 12. Specification of bank guaranties granted under the agreements effective as at 31 December 2014

No.	Bank	The 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

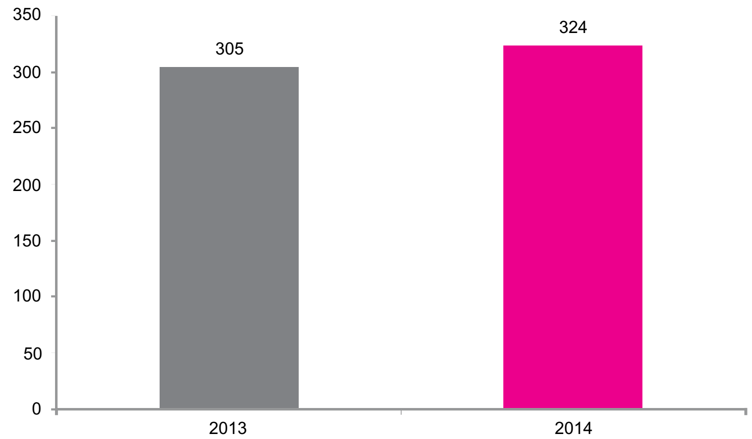
At the same time, within TAURON Capital Group, in order to secure the transactions executed by the Company at TGE in electric energy markets and participation in the system of securing the liquidity of transaction settlement, in 2014 the following agreements were effective, based on which TAURON Wytwarzanie granted the surety to the Company in favour of the IRGIT, on account of 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.

2.8. Information concerning employment

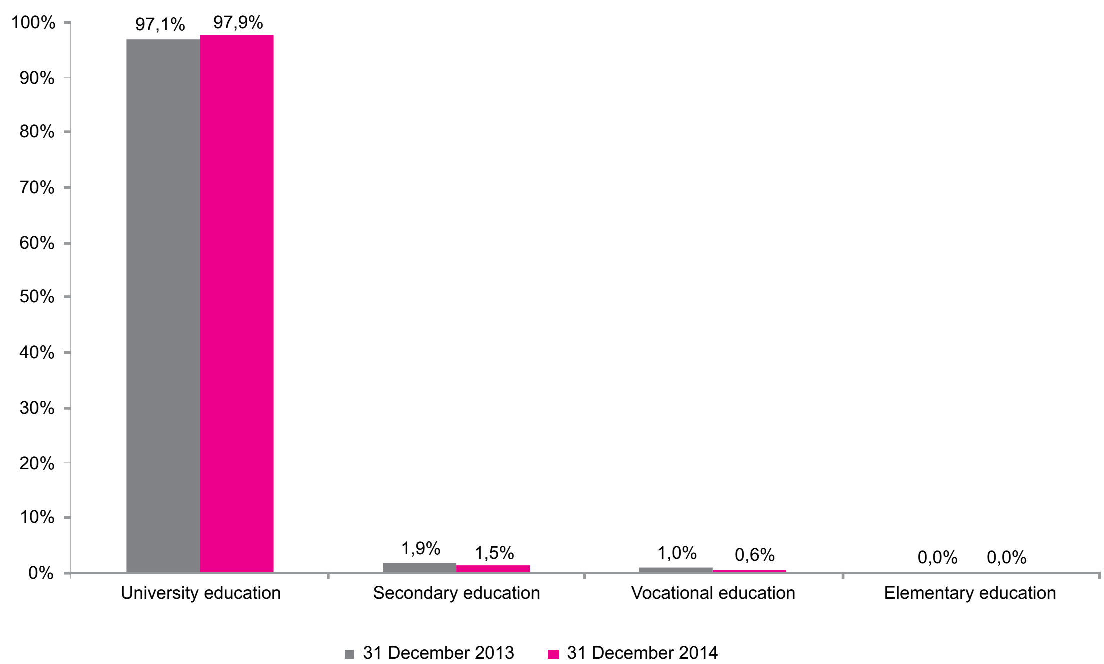
The figure below shows the levels of employment in the Company in FTEs (rounded up to a full FTE), in the years 2013–2014.

Figure no. 13. Employment the Company in 2013 and 2014 in FTEs.



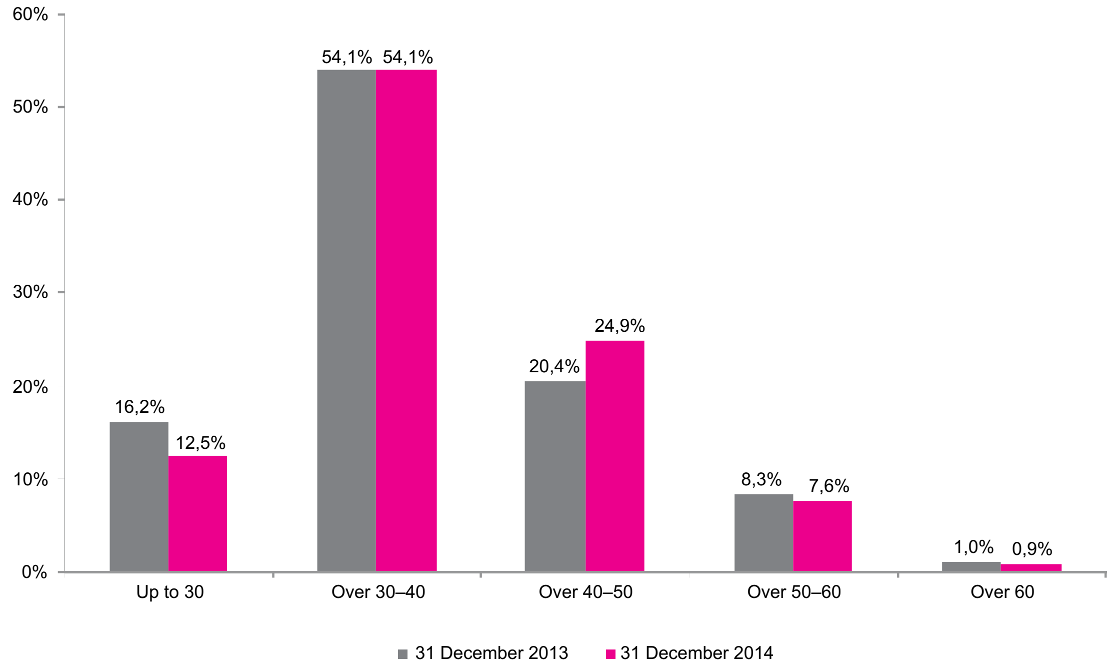
The figure below presents the structure of employment in the Company according to education as at 31 December 2013 and 31 December 2014.

Figure no. 14. Employment structure in the Company according to education as at 31 December 2013 and 2014



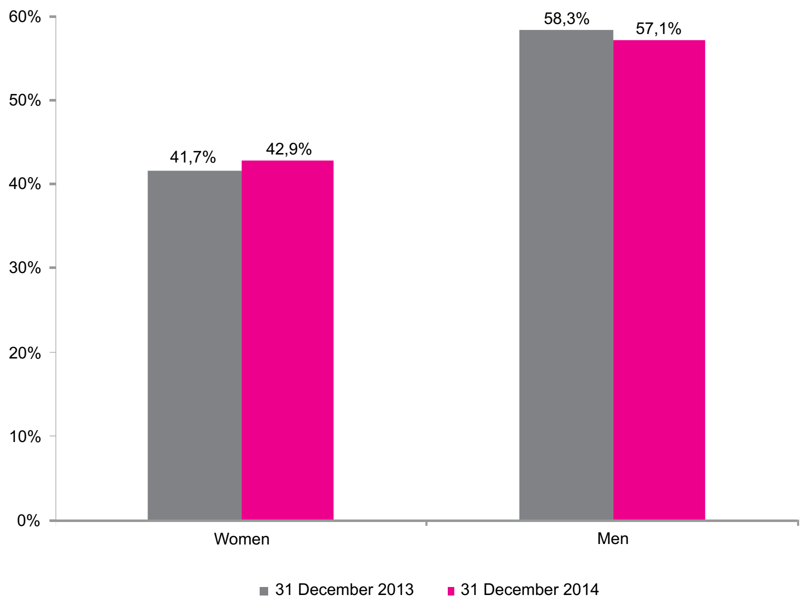
The figure below presents the structure of employment in the Company according to age as at 31 December 2013 and 31 December 2014.

Figure no. 15. Employment structure in the Company according to age as at 31 December 2013 and 2014



The figure below presents the structure of employment in the Company according to gender as at 31 December 2013 and 31 December 2014.

Figure no. 16. Employment structure in the Company according to gender as at 31 December 2013 and 2014



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 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.

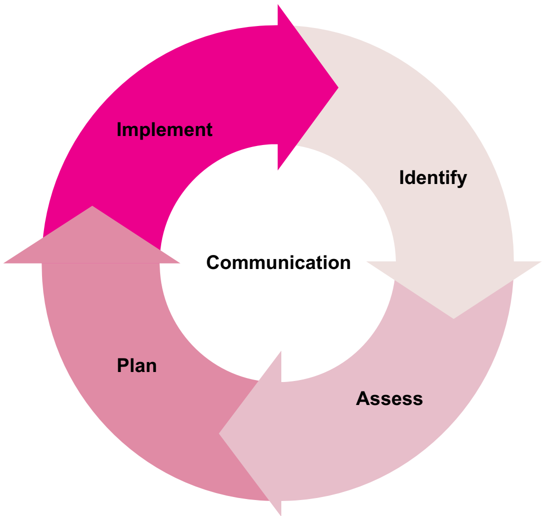
Enterprise risk management

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 Company 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. 17. 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. 13. 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, 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, 2) recommends and provides opinions for the Management Board concerning the form of individual elements of risk management infrastructure, 3) defines maximum risk tolerance on TAURON Capital Group and global limit for risks, applies to the Management Board for their approval and change, 4) approves strategies, methods and plans for securing the position on the market of energy and associated products, comprising individual areas of activities, 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, 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, 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, 2) coordinates risk management within the scope of its responsibility, 3) co-participates in the reporting process, is responsible for the effectiveness of risk communication in the area it is responsible for, 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, 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, 2) supports the harmonisation of procedures in the scope of risk identification, measurement and reporting, 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, 2) reports risk in accordance with the defined reporting rules, 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 4.6.2. hereof.

Specification of the most significant risks associated with the performance of the Company

The description of risks presented below represents, according to the opinion of the Company, the specification of the most essential current risks associated with the performance of the Company. The sequence of presentation of individual risks does not reflect the scale of their impact on the implementation of TAURON's strategic goals.

Table no. 14. Description of risk factors

No.	Types of risk	Risk description
I.	**Strategic risks**	
1.	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.
2.	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.

No.	Types of risk	Risk description
2.	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.
3.	Risk of loss of the Tax Capital Group/PGK status	Risk associated with a possibility to lose the status by the Tax Capital Group 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.
4.	Risk of non-compliance with the requirements of ERO/OCCP/Instruction of Transmission Grid Operating and Maintenance (IRIESD)	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.
5.	Risk connected with the strategic investment process	Risk associated with the ineffective process of strategic investments comprising the planning, implementation, monitoring and closing, arising from the inappropriate selection of investment for the investment portfolio, lack of sufficient investment diversification, adopting incorrect assumptions, underestimation of expenditures, lack of possibility to provide own funding, difficult access to external financing. The indicated risk factors may cause financial losses, possible loss of liquidity, increase in costs of investments or lower benefits than assumed, extended period of return from investment, loss of investment profitability, delay in implementation schedule, exceeding of the budget, necessity to incur additional expenditures, reduction of profitability or interruption of the project.
6.	Risk of TAURON Capital Group organisation and corporate governance	Risk associated with ineffective cooperation among TAURON Capital Group companies in the scope of governance processes, reporting and information management. The risk factors many have adverse effect on TAURON Capital Group operations, its financial situation or results of its activities by incomplete implementation of TAURON Capital Group strategic objectives or the extended period of their accomplishment, delays in decision making or taking wrong decisions.
II.	**Operational risks**	
1.	Commercial 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.
2.	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 inaccurate redemption.
3.	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.

No.	Types of risk	Risk description
4.	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.
5.	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.
6.	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 requirement to incur significant costs of compliance, pay damages, or the potential threat to the implementation of production tasks.
7.	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.
8.	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).
9.	Risk of implementation of agreements on electric energy sales, including the comprehensive agreements	Risk associated with provisions in electric energy sales agreements, unfavourable for TAURON Capital Group, including the comprehensive agreements for energy consumers, ineffective service of electric energy sales agreements, including the comprehensive agreements. In case of failure to comply with the qualitative standards of customer service and qualitative parameters of electric energy supply, arising from the processes of sales and customer service, or the extended time of implementation of activities in the scope indicated in the master agreement for electric energy sales and provision of distribution services, may lead to the increased quantity of granted discounts and imposed fines, increased complaint rate, increased number of proceedings conducted by ERO or OCCP, loss of the Company's good image.
10.	Risk of metering and settlement data	Risk associated with incorrect or delayed settlement of electric energy distribution services by the DSO, arising from the inaccurate reading or lack of reading of the metering and settlement systems, incorrectly fixed metering and settlement systems, inaccurate entry of data to the settlement system, untimely transmission of metering data to the billing systems, which may result in issuing incorrect invoices and incorrect values of sales, lack of possibility to issue invoices, deviations against the assumed level of revenues and costs, problems with the correct settlement of taxes, clients' complaints.
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 impact, in particular, on the financial result of TAURON.

4. ANALYSIS OF THE FINANCIAL AND ECONOMIC SITUATION OF TAURON POLSKA ENERGIA S.A.

4.1. Principles of the annual financial statement preparation

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.

The financial statement was generated with the assumption that the Company would continue its business operations within the foreseeable future. As at the date of approval of the consolidated financial statement for publication, no circumstances are recognised, indicating any risk for business continuity of the Company.

The accounting principles (policy) adopted for drawing up of the consolidated financial statement are provided in note 9 of the Financial statement for the year ended on 31 December 2014.

4.2. Overview of economic and financial values disclosed in the annual financial statement

Statement of comprehensive income

The table below presents the annual separate statement of comprehensive income.

Table no. 15. Annual separate statement of comprehensive income in 2014–2012

Statement of comprehensive income prepared in accordance with the IFRS (PLN thousand)	2014	2013	2012	Dynamics (2014/2013)
Continued operations				
Revenue on sales	8,689,799	10,909,760	9,889,872	80%
Own cost of goods, materials and services sold	(8,526,855)	(10,523,336)	(9,710,955)	81%
Gross profit on sales	**162,944**	**386,424**	**178,917**	42%
Other operating revenues	2,821	3,675	1,979	77%
Costs of sales	(25,286)	(39,498)	(27,142)	64%
Overheads	(80,365)	(81,998)	(104,439)	98%
Other operating expenses	(1,462)	(1,801)	(2,205)	81%
Operating profit	**58,652**	**266,802**	**47,110**	22%
Operating profit margin (%)	*0.67%*	*2.45%*	*0.48%*	28%
Financial revenues	1,511,327	1,776,526	1,764,978	85%
Financial expenses	(397,452)	(346,806)	(332,132)	115%
Gross profit	**1,172,527**	**1,696,522**	**1,479,956**	69%
Gross profit margin (%)	*13.5%*	*15.6%*	*15.0%*	87%
Income Tax	(26,084)	(7,550)	(44,768)	345%
Net profit on continuing operations	**1,146,443**	**1,688,972**	**1,435,188**	68%
Net profit margin (%)	*13.2%*	*15.5%*	*14.5%*	85%
Other total income	**(17,054)**	**63,336**	**(189,969)**	–
Total revenue for the period	**1,129,389**	**1,752,308**	**1,245,219**	64%
EBITDA	**78,086**	**290,034**	**61,193**	27%
EBITDA Margin (%)	*0.90%*	*2.66%*	*0.62%*	34%

In 2014 the Company recorded operating profit at a level of 22% in relation to 2013, which results from the lower margin on commercial activities of the Company in connection with the more limited volume of electric energy sales. Gaining of such a high result in 2013 was associated with the use of changes in market prices of electric energy and property rights, fostering better results, which did not happen in 2014.

The decline in costs of the Company operations is associated mainly with the decrease in electric energy purchase volume by about 3.8 TWh (7%) YoY.

In 2014, the process of centralisation of functions and taking over the competence of companies of TAURON Capital Group was continued, aimed at improvement of effectiveness in TAURON Capital Group.

In 2014 the net profit of the Company was lower by approximately 32% in relation to the profit gained in 2013. The net profit margin of the Company (relation of net profit to revenues on sales) amounted to 13.2% in relation to 15.5% reached in 2013.

Revenue

The table below presents the level of revenue on sales of the Company in the years 2014–2012.

Table no. 16. Revenues on sales of the Company

Specification (PLN thous.)	2014	2013	2012	Dynamics (2014/2013)
Revenue on sales	**8,689,799**	**10,909,760**	**9,889,872**	**80%**
Revenue on sales of goods and materials	**8,564,045**	**10,790,134**	**9,820,219**	**79%**
including: Sales of electric energy (without excluding excise duty)	7,925,020	9,877,998	9,298,615	80%
Revenue on sales of services	**125,754**	**119,626**	**69,653**	**105%**
including: Sales of commercial services	57,641	61,861	51,993	93%
Revenue on other operating activity	**2,821**	**3,675**	**1,979**	**77%**
Revenue on financial activity	**1,511,327**	**1,776,526**	**1,764,978**	**85%**

The decline in the revenue on sales in 2014, as compared to 2013, is associated with the decreased volume of electric energy sales by about 3.8 TWh (7%). In 2014 the Company continued its activities as the intermediary in transactions of biomass and coal purchase for companies of the Generation and Heat Segments. The Company purchases raw materials from TAURON Wydobycie and from entities outside TAURON Capital Group, whereas the whole sales is performed to companies of TAURON Capital Group. The Company recognises revenues due to intermediary services – organisation of supplies, exclusively.

Lower revenues on financial activities gained in 2014, as compared to 2013, result mainly from the lower level of dividends from subsidiaries.

The table below presents the level of revenues on sales of the Company in the years 2014–2012, divided into products.

Table no. 17. Revenues on sales of the Company, divided into products

Specification (PLN thous.)	2014	2013	2012	Dynamics (2014/2013)
Electric energy	7,925,020	9,877,998	9,298,615	80%
Gas	76,970	72,424	6,934	106%
Property rights of energy origin	378,235	471,420	127,579	80%
CO_2 emission allowances	183,451	367,103	376,240	50%
Other	369	1,189	10,851	31%
Total revenues on sales of goods and materials	**8,564,045**	**10,790,134**	**9,820,219**	**79%**
Commercial services	57,641	61,861	51,993	93%
Other	68,113	57,765	17,660	118%
Total revenues on sales of services	**125,754**	**119,626**	**69,653**	**105%**
Total revenues on sales	**8,689,799**	**10,909,760**	**9,889,872**	**80%**

The decline in revenues on electric energy sales in 2014, as compared to 2013, is associated with the decrease in the volume of electric energy sales and the lower average price of energy sales by approximately 13% YoY.

Lower revenues in trading of CO_2 emission allowances result from the purchase of allowances in 2013 due to the risk of delay in allocation of free allowances in Q1 2014.

The Company continued to act as an intermediary in transactions of biomass and coal purchase for the TAURON Capital Group companies. In the year ended on 31 December 2014 the value of raw materials purchased and simultaneously resold as a result of the above transactions amounted to PLN 1,971,358 thousand whereas the Company recognised revenues due to the intermediary services in the amount of approximately 38,998 thousand.

The activity of the Company is mostly carried out on the territory of Poland. Sales to foreign clients in years ended on 31 December 2014 and 31 December 2013 reached PLN 422,261 thousand and PLN 478,682 thousand, respectively.

Costs

The table below presents the level and structure of costs incurred by the Company in the years 2014–2012.

Table no. 18. Level and structure of costs

Specification (PLN thous.)	2014	2013	2012	Dynamics (2014/2013)
Total costs	**9,031,420**	**10,993,439**	**10,176,873**	**82%**
Cost of goods, materials and services sold	8,526,855	10,523,336	9,710,955	81%
Costs of sales and overheads	105,651	121,496	131,581	87%
Costs of other operating activities	1,462	1,801	2,205	81%
Costs of financial activities	397,452	346,806	332,132	115%

In 2014 total costs of the Company operations are lower by 18% than in the previous year. Costs of goods, materials and services sold in 2014 is lower by approximately 19% as compared to 2013, which was mostly affected by the decline in the energy purchase costs arising from the decreased electric energy purchase volume and the lower average purchase price YoY.

In relation to the previous year, costs of sales and overheads were lower by approximately 13%. The decline in costs YoY referred to:

1) depreciation costs, which mainly results from the sales of computer software and licence to the company TAURON Obsługa Klienta during 2014,
2) costs of taxes and fees, arising from the decline in costs incurred due to transmission fees associated with electric energy trading.

Other operating expenses include mainly the fees in favour of external organisations and donations.

The growth in financial expenses in 2014, as compared to 2013, was mainly affected by higher interest rate costs and expenses due to valuation of derivatives, associated with the negative valuation of the interest rate swap (IRS). In connection with closing of the hedged position, IRS ceased to undergo hedge accounting and its balance sheet valuation at a level of PLN 13,380 thousand was adequately recognised in the financial result.

Financial end economic standing of the Company

The table below presents the separate annual statement of financial situation of the Company.

Table no. 19. Annual separate statement of financial standing

Statement of financial standing prepared in accordance with the IFRS (PLN thousand)	Status as at 31 December 2014	Status as at 31 December 2013	Status as at 31 December 2012	Dynamics (2014/2013)
ASSETS				
Fixed Assets	**26,617,011**	**25,968,345**	**22,997,644**	**102%**
Tangible fixed assets	5,263	9,189	20,786	57%
Investment real estate	32,552	36,169	–	90%
Intangible assets	8,278	56,973	53,053	15%
Stocks and shares	20,809,799	20,221,322	20,184,404	103%
Bonds	5,522,725	5,165,000	2,615,000	107%

Statement of financial standing prepared in accordance with the IFRS (PLN thousand)	Status as at 31 December 2014	Status as at 31 December 2013	Status as at 31 December 2012	Dynamics (2014/2013)
Loans granted	198,331	189,310	117,802	105%
Other financial assets	5,286	237,739	–	2%
Other non-financial assets	3,636	7,059	6,599	52%
Assets due to deferred tax	31,141	45,584	–	68%
Current assets	**3,723,519**	**1,993,786**	**2,760,425**	**187%**
Intangible assets	20,215	98,149	113,302	21%
Inventory	177,272	149,317	176,172	119%
Receivables due to income tax	8,384	28,527	–	29%
Trade receivables and other receivables	988,949	1,134,856	1,460,484	87%
Bonds	1,276,001	52,830	40,261	2,415%
Derivatives	1,811	34	466	5,326%
Cash and equivalents	1,228,880	507,127	910,421	242%
Other short-term non-financial assets	22,007	22,946	59,319	96%
TOTAL ASSETS	**30,340,530**	**27,962,131**	**25,758,069**	**109%**
LIABILITIES				
Equity	**20,239,567**	**19,443,162**	**18,042,008**	**104%**
Share capital	8,762,747	8,762,747	8,762,747	100%
Supplementary capital	10,393,686	9,037,699	7,953,021	115%
Hedging instruments revaluation reserve	(143,019)	(126,651)	(189,756)	113%
Retained profits/Uncovered losses	1,226,153	1,769,367	1,515,996	69%
Long-term liabilities	**7,511,096**	**5,576,565**	**5,280,856**	**135%**
Loans, credits and debt securities	7,374,836	5,445,279	5,125,082	135%
Liabilities due to financial leasing	30,169	33,159	480	91%
Other financial liabilities	5,239	5,239	–	100%
Derivatives	93,501	87,573	150,594	107%
Provisions for employee benefits	7,351	5,267	4,605	140%
Accruals and governmental subsidies	–	48	95	–
Short-term liabilities	**2,589,867**	**2,942,404**	**2,435,205**	**88%**
Current portion of interest-bearing credits, loans and debt securities	1,800,265	1,858,032	1,392,660	97%
Current part of liabilities due to leasing agreements	2,990	3,266	510	92%
Trade liabilities and other liabilities	631,125	819,147	723,253	77%
Derivatives	102,615	73,358	40,624	140%
Short-term provisions for employee benefits and other provisions	34,854	111,096	120,204	31%
Accruals and governmental subsidies	13,185	11,475	10,532	115%
Liabilities due to income tax	–	–	54,057	–
Other non-financial liabilities	4,833	66,030	93,365	7%
TOTAL LIABILITIES	**30,340,530**	**27,962,131**	**25,758,069**	**109%**

The increase in assets at the end of 2013 in relation to 2013 arises mainly from the increase of item *Bonds*, comprising bonds purchased by the Company, issued by its subsidiaries.

Internal bonds issued by the subsidiaries, acquired by TAURON, with the total nominal value of PLN 5,522,030 thousand as at the balance sheet day, including bonds with the redemption term of up to one year, for the amount of PLN 2,050,000 thousand, were classified as long-term instruments. In short-term assets, bonds of subsidiaries with the total nominal value of PLN 1,158,490 thousand were recognised.

The item *Investment real estate* comprises buildings located in Katowice Szopienice at ul. Lwowska 23, with the gross value of PLN 36,169 thousand and the depreciation so far amounting to PLN 3,617 thousand, constituting the subject of the financial leasing agreement with PKO Bankowy Leasing sp. z o.o.

According to the status as at 31 December 2014 and 31 December 2013, the equity amounted, respectively, to 67% and 70% of the total value of liabilities.

In the financial year ended on 31 December 2014, the supplementary capital was increased by PLN 1,355,987 thousand, in connection with the allocation of a part of the profit for 2013 for supplementary capital.

The liabilities of the Company due to loans and credits received and due to bonds as at 31 December 2014, referred to bonds issued under the bonds issue programme at the level of PLN 6,094,022 thousand, loans from subsidiaries drawn under the *Agreement on cash pool services,* in the amount of PLN 1,180,815 thousand, credits received from EIB in the amount of PLN 1,153,996 thousand, the loan from the subsidiary in the amount of PLN 711,326 thousand and the overdraft in the amount of PLN 11,918 thousand, drawn in order to finance hedging deposits and transactions for pollution emission allowances.

Change in the item: *short-term provisions* is associated with the sales of electric energy to end consumers and the obligation of redemption of the specific number of certificates of electric energy origin. In order to fulfil the obligation to present certificates of electric energy origin for redemption for 2014, the Company created the provision for redemption of the certificates in the amount of PLN 34,189 thousand.

Statement of Cash Flows

The table below presents the statement of cash flows prepared according to the IFRS.

Table no. 20. Statement of Cash Flows

Statement of Cash Flows prepared in accordance with the IFRS (PLN thousand)	2014	2013	2012	Dynamics (2014/2013)
Cash flows from operating activities				
Gross profit/(loss)	1,172,527	1,696,522	1,479,956	69%
Adjustments	(1,168,064)	(1,162,336)	(1,895,316)	100%
Net cash from operating activities	**4,463**	**534,186**	**(415,360)**	**1%**
Cash flows from investment activities				
Sales of tangible fixed assets and intangible assets	26,568	22,396	191	119%
Purchase of tangible fixed assets and intangible assets	(7,133)	(35,558)	(46,503)	20%
Sales of stocks and shares	1,856	–	–	–
Purchase of stocks and shares	(98,625)	(270,791)	(262,131)	36%
Purchase of bonds	(3,745,520)	(6,130,000)	(2,922,999)	61%
Redemption of bonds	2,004,067	3,580,000	1,455,041	56%
Repayment of loans granted	11,700	161,390	416,512	7%
Loans granted	(18,050)	(108,800)	(396,093)	17%
Dividends received	1,076,835	1,500,627	1,550,613	72%
Interest received	310,066	220,678	118,261	141%
Other	–	148	(946)	–
Net cash from investment activities	**(438,236)**	**(1,059,910)**	**(88,054)**	**41%**
Cash flows from financial activities				
Repayment of liabilities due to financial leasing	(3,230)	(734)	(597)	440%
Issue of debt securities	2,950,000	–	150,000	–
Redemption of debt securities	(1,148,200)	–	–	–

Statement of Cash Flows prepared in accordance with the IFRS (PLN thousand)	2014	2013	2012	Dynamics (2014/2013)
Credits/loans drawn	693,273	450,000	960,000	154%
Credits/loans repayment	(132,818)	(71,455)	(51,000)	186%
Dividends paid	(332,984)	(350,510)	(543,290)	95%
Interest paid	(314,904)	(296,384)	(279,378)	106%
Other	(10,008)	(10,094)	(10,793)	99%
Net cash from financial activities	**1,701,129**	**(279,177)**	**224,942**	**–**
Increase/(decrease) in net cash and equivalents	**1,267,356**	**(804,901)**	**(278,472)**	**–**
Net exchange differences	(186)	(1,869)	(1,435)	10%
Cash opening balance	**(1,198,421)**	**(393,520)**	**(115,048)**	**305%**
Cash closing balance	**68,935**	**(1,198,421)**	**(393,520)**	**–**

The status of cash received from operating, investment and financial activities of the Company for 2014, including the opening balance of cash flows, amounted to PLN 68,935 thousand. The level of cash closing balance results from the adjustment of cash and pecuniary assets, consisting of balances of loans granted and received, implemented under cash pooling transactions, due to the fact that they do not constitute cash flows from investment or financial activities, therefore, being used mainly for management of current cash flows.

4.3. Differences between the financial results recognised in the annual report and the forecasts of results for the year as published earlier

The Management Board did not publish any forecasts of financial results TAURON for 2014. This decision resulted from considerable volatility of the market and substantial number of variables affecting its predictability.

4.4. Basic financial and non-financial ratios

Financial ratios

The table below presents the basic financial ratios of the Company.

Table no. 21. Basic financial indicators of the Company

No.	Specification	2014	2013	2012	Dynamics (2014/2013)
1.	**Gross Profitability** (gross result / revenue on sales)	13.5%	15.6%	15.0%	87%
2.	**Net Profitability** (net result / revenue on sales)	13.2%	15.5%	14.5%	85%
3.	**Return on equity** (gross result / equity)	5.8%	8.7%	8.2%	67%
4.	**Return on assets** (net result / total assets)	3.8%	6.0%	5.7%	63%
5.	**EBIT (PLN thous)** (result on operating activities)	58,652	266,802	47,110	22%
6.	**EBIT Margin** (EBIT / revenue on sales)	0.67%	2.45%	0.48%	27%
7.	**EBITDA (PLN thous)** (result on operating activities before depreciation)	78,086	290,034	61,193	27%
8.	**EBITDA Margin** (EBITDA / revenue on sales)	0.90%	2.66%	0.62%	34%
9.	**Current liquidity ratio** (current assets / short-term liabilities)	1.44	0.68	1.13	212%

In 2014, the gross and net profitability ratios and the return on assets ratio, are lower as compared to the previous year. The level of the operating result is typical for a company conducting activities associated with the management of a holding (costs related to management of TAURON Capital Group are included in operating activities while revenues gained from dividends are recognised under financial activities). The significant decrease in operating profit level YoY was influenced by the reduced margin on commercial activities.

The ability of the Company to settle its liabilities was not threatened in 2014.

Non-financial ratios

The non-financial ratios in the Company are closely related to 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 of 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.

4.5. Income from the bonds issue programme

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 Śląski S.A., 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 Bank Gospodarstwa Krajowego, 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. 22. 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.

4.6. Financial instruments

4.6.1. 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 the Company hedged the risk of cash flow volatility resulting from the indebtedness held, based on WIBOR reference rate, by its partial mitigation through concluding the interest rate swap transactions (IRS). Moreover, in 2014, the Company, within the policy of financial risk management, hedged the currency exposure arising within the commercial activities (mainly due to the CO_2 emission allowances trading), by concluding forward contracts. The aim of these transactions was to hedge the Company against the risk of cash flow volatility resulting from currency exchange rate fluctuations. In addition, in December 2014 the Company 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 loan in EUR throughout its entire effective period.

The table below presents active forward derivative transactions according to the status as at 31 December 2014 (due to the adopted centralised model of financial risk management, the data refer only to the Company).

Table no. 23. 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

4.6.2. Goals and methods of financial risk management

The Company manages financial risk, understood as currency risk and interest rate risk in accordance with the prepared *Policy of risk management specific for the financial area in TAURON Group*, adopted for application, 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 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.

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. In accordance with the above mentioned policy, the Company applies the derivatives the characteristics of which allows for application of hedge accounting.

4.7. Current and forecast financial situation

The financial situation of the Company is stable and no adverse events occurred which would cause risk for its business continuity or significant deterioration of its financial standing. Considering the current market situation, it is expected that the results of TAURON Capital Group in 2015 will be affected both by internal factors and by external factors which occurred in 2014.

4.8. 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 implemented a 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, the Company demonstrated full capacity to settle its liabilities on their maturity date.

4.9. Information concerning the entity authorised to examine financial statements

On 7 May 2013 TAURON concluded the agreement with Deloitte Polska Sp. z o.o. Spółka komandytowa (Deloitte Polska) for conducting the examination of:

1) financial statements of the Company for 2013–2015, prepared in accordance with the requirements of the IFRS,
2) financial statements of selected companies of TAURON Capital Group for 2013–2015 prepared in accordance with the IFRS,
3) consolidated financial statements of the Company for 2013–2015, prepared in accordance with the requirements of the IFRS.

The Agreement also covers conducting of the interim reviews of semi-annual financial statements of the Company and consolidated financial statements of TAURON Capital Group, prepared in accordance with the IFRS for periods ending on 30 June 2013, 30 June 2014 and 30 June 2015.

The table below presents the level of remuneration of the independent auditor due to the services provided for the Company.

Table no. 24. Level of remuneration of the independent auditor due to the services provided for the Company (data in PLN thousand)

No.		Year ended 31 December 2014	Year ended 31 December 2013
1.	Mandatory audit	105	105
2.	Other certifying services, including the review of financial statements	94	102
3.	Tax-related advisory services	0	0
4.	Other services (including training)	0	0
	Total	**199**	**207**

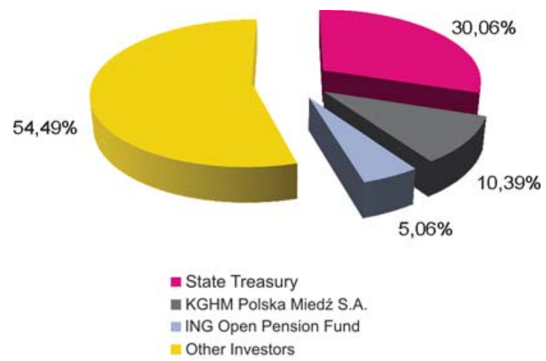
5. SHARES AND SHAREHOLDERS

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. 18. 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. 25. 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	30.06.2011	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. 26. 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 ORM.

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. 27. 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 dividend, and assuming that the additional income gained is reinvested. Methodology compliant with the GPW Statistical Bulletin.*
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. 19. Graph of TAURON share price and value of trade in 2014

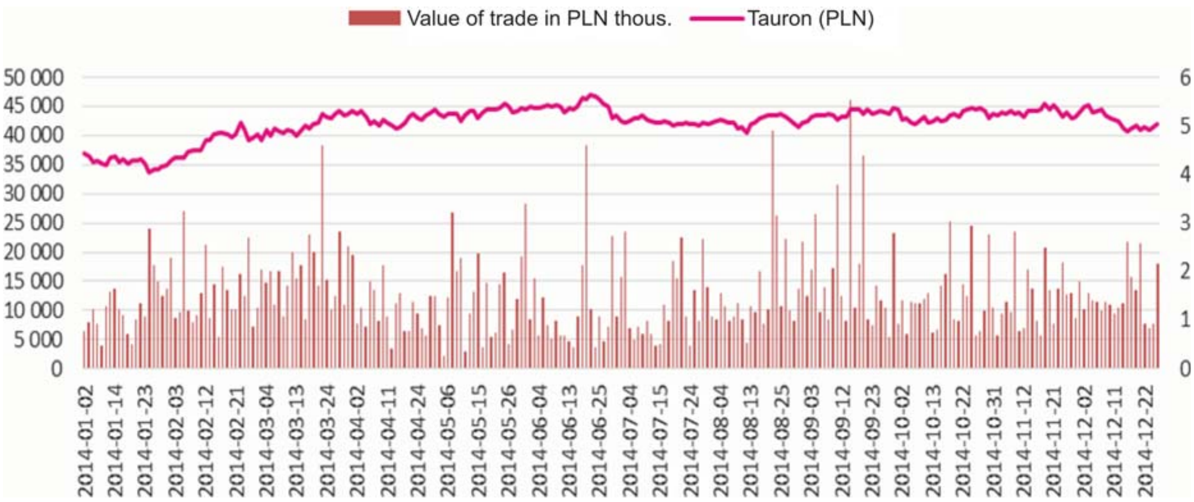


Figure no. 20. Graph of TAURON share price and value of trade from the exchange debut until 31 December 2014

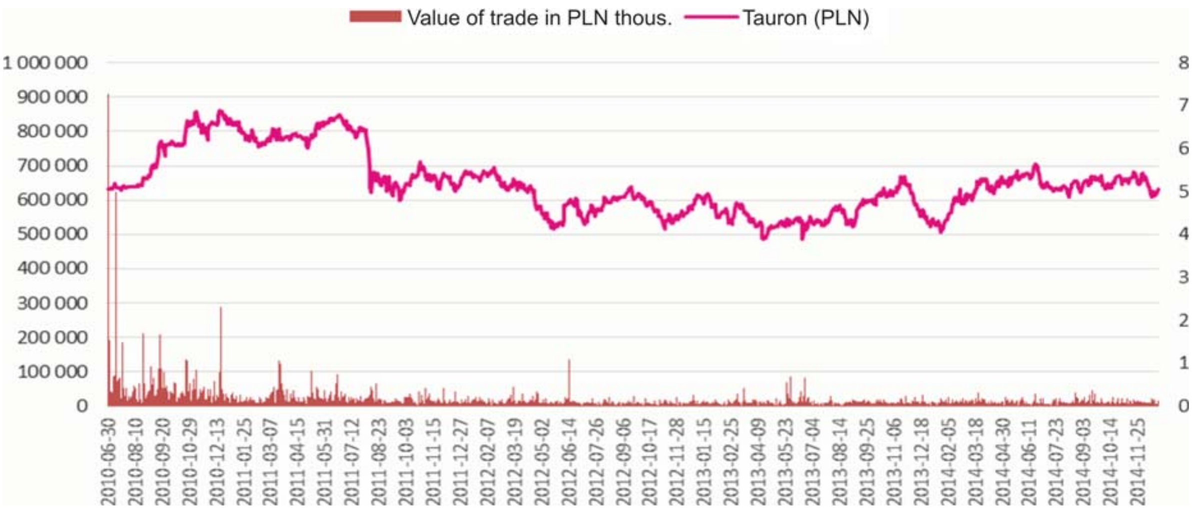


Figure no. 21. Graph of TAURON share price compared to WIG20 and WIG-Energia indices in 2014

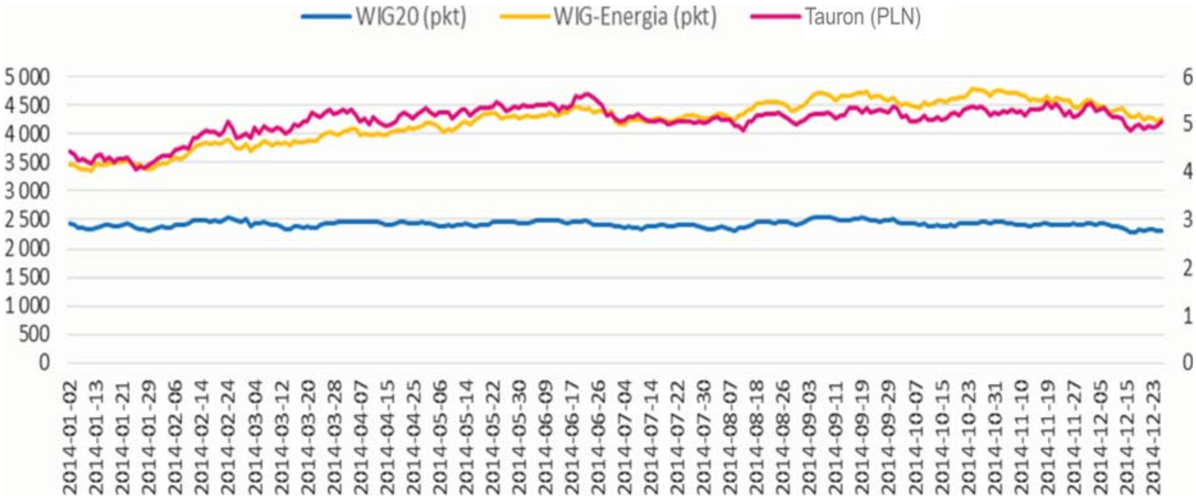
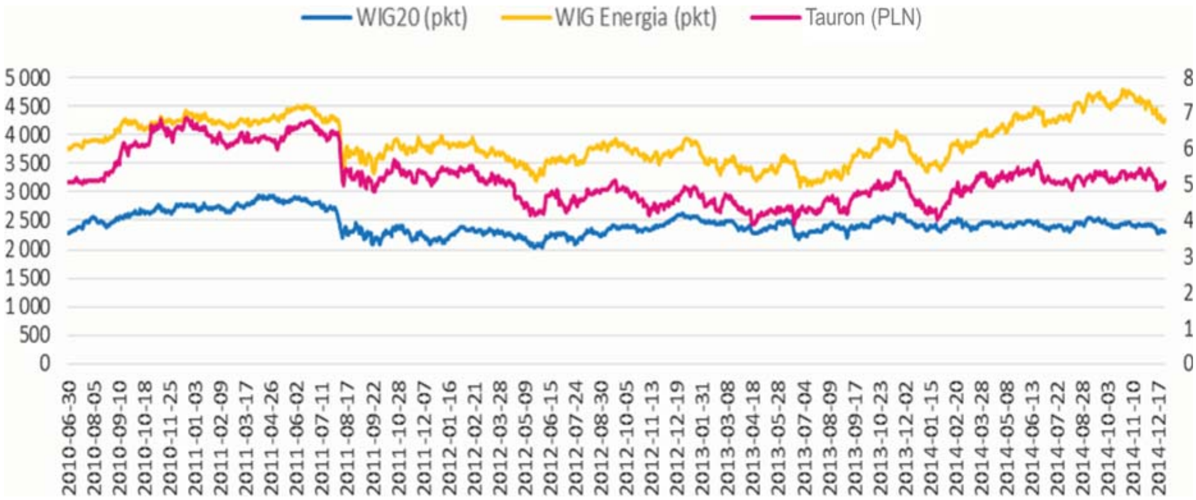


Figure no. 22. TAURON share price as compared to WIG20 and WIG-Energia indices from the exchange debut until 31 December 2014



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. 28. 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.	7 February 2014	Keep / PLN 4.60	Citi
4.	7 February 2014	Buy / PLN 5.00	Societe Generale

No.	Date of recommendation	Recommendation/target price	Recommending institution
5.	7 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.	5 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.	8 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.	5 November 2014	Keep / PLN 5.00	Espirito Santo
29.	5 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.	5 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. 29. 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. 30. 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,

Issues requiring the Resolution of the Management Board
as at 31 December 2014 and as at the day of this report
6. adopting the annual material and financial plans of the Company and the Capital Group, and the Corporate Strategy of the Capital Group,
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 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. 31. 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: a) disposal of shares which are traded on the regulated market, b) disposal of stocks or shares that the Company holds in the amount not exceeding 10% share in the initial capital of particular companies. 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: 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, 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. Operation of the General Meeting, its fundamental authorities and description of shareholders' rights and mode of their performance

The operating procedures 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. 32. 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 methods 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. 33. 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 website http://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 1.4.2 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 assigning the member of the Supervisory Board, Aleksander Grad to the temporary performance of the duties of Vice President of the Management Board of TAURON 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 Chairperson 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 Enterprise 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 website http://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 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,
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. 34. 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. 35. 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. 36. 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 37. 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	1 January 2014 – 31 December 2014	1,044	657	211	1,912
2.	Aleksander Grad	11 February 2014 – 16 March 2014** 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	1 January 2014 – 31 December 2014	924	507	140	1,571
6.	Joanna Schmid	1 January 2014 – 17 March 2014	189	203	64	456
7.	Dariusz Stolarczyk	1 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 38. Remuneration of members of the Supervisory Board of the Company for 2014 (in thousand PLN)

No.	Surname and name	Period of holding the function in 2014	Payroll and awards
1.	Antoni Tajduś	1 January 2014 – 31 December 2014	143
2.	Agnieszka Woś	22 January 2014 – 31 December 2014	122
3.	Jacek Szyke	1 January 2014 – 31 December 2014	115
4.	Andrzej Gorgol	15 May 2014 – 31 December 2014	68
5.	Maciej Koński	1 September 2014 – 31 December 2014	36
6.	Leszek Koziorowski	1 January 2014 – 15 May 2014 1 September 2014 – 31 December 2014	81
7.	Michał Michalewski	15 May 2014 – 31 December 2014	68
8.	Marek Ściążko	1 January 2014 – 31 December 2014	108
9.	Maciej Tybura	1 September 2014 – 31 December 2014	36
10.	Aleksander Grad*	1 February 2014 – 16 March 2014	3
11.	Jacek Kuciński	1 January 2014 – 15 May 2014	40
12.	Marcin Majeranowski	1 January 2014 – 15 May 2014	40
13.	Agnieszka Trzaskalska	1 January 2014 – 15 May 2014	40
14.	Rafał Wardziński	1 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 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.

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 the Company continued its activities implemented under KIC InnoEnergy, in particular, the Polish node of CC Poland Plus sp. z o.o. with its seat in Kraków (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., 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.

In 2014 activities were also continued, associated with the research tasks implemented under the strategic programme of research and development entitled “Advanced technologies of energy acquisition”, co-financed by the NCBiR. The Company, as the member of two winning consortia, participated in the implementation of two research tasks of the programme:

– the first task – *Development of technologies for high-performing “zero-emission” coal units integrated with CO_2 capturing from flue gas,*

– the third task – *Development of coal gasification technology for highly effective production of fuels and electric energy*.

Within implementation of the first task, activities are continued aimed at using the mobile pilot installation for CO_2 capturing, constructed in the previous year. In 2014 the installation was transported and installed at 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.

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.

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 Company does not conduct any business activities which would result in infringement of the environmental protection requirements, causing the obligation to pay the fees for economic use of the environment. As a user of company vehicles, the Company is subject to the provisions of the Act of 27 April 2001 *Environmental Protection Law in the* scope of calculating the fee for using the environment due to emission of gases or particulate matter to ambient air. However, due to the level of the fee calculated, the Company was not bound to pay it in 2014.

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 *Football 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 received the following awards and distinctions.

Figure no. 23. Awards and distinctions

AWARDS AND DISTINCTIONS GRANTED TO TAURON 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. Taking 7th position by TAURON in the 16th issue of the List of top 500 published by *Rzeczpospolita*, as 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.
MAY	Taking the 6th position by TAURON 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. 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".

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 in the list of top 500 comprising the biggest companies from Central and Eastern Europe, developed by "Rzeczpospolita" daily and Delloite. 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. 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.

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 "Wall Street" 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. 39. The timeline of events and activities carried out within investor relations in 2014

No.	Date	Event
1.	7 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
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.	7 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.	04 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.	4 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

No.	Date	Event
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

The table below presents explanations of abbreviations and trade terms most commonly used in the text of this report.

Table no. 40. Explanation of abbreviations and trade terms applied in the text of the report

No.	Abbreviation and trade term	Full name/explanation
1.	ArcelorMittal	ArcelorMittal Poland S.A. with its seat in Dąbrowa Górnicza
2.	Biomasa GT	Biomasa Grupa TAURON sp. z o.o. with its seat in Stalowa Wola (formerly: “BUDO-TRANS” limited liability company)
3.	BZ WBK	Bank Zachodni WBK S.A. with the seat in Wrocław
4.	CAO	Central Allocation Office GmbH with the seat in Freising, Germany
5.	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.
6.	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
7.	CER	(Certified Emission Reduction) – a unit of confirmed emission reduction – reduced emission of greenhouse gases or avoided emission of greenhouse gases, expressed as equivalent, obtained as a result of the project on mechanism of clean development
8.	Colour certificates	Property rights resulting from certificates of origin of energy generated in the way subject to support, the so-called colour certificates: – **green** – certificates of origin of electric energy from renewable energy sources, – **red** – certificates of origin of electric energy from co-generation (CHP certificates – Combined Heat and Power), – **yellow** – certificates of origin of electric energy generated in cogeneration from sources of total installed capacity below 1 MW or gas-burning, – **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.
9.	CIRS	(Currency Interest Rate Swap) – transaction of interest rate exchange
10.	CSR	(Corporate Social Responsibility) – social responsibility of business
11.	CUW	Centre of Common Services, CUW IT – IT services, CUW R – services in the area of accounting
12.	Deloitte Polska	Deloitte Polska Sp. z o.o. Spółka Komandytowa with its seat in Warsaw
13.	Good Practices	Good Practices of Companies Listed at GPW
14.	DM	Brokerage House
15.	EIB	The European Investment Bank with the seat in Luxemburg
16.	EBIT	(Earnings Before Interest and Taxes) result on operating activity before taxing
17.	EBITDA	(Earnings before Interest, Taxes, Depreciation and Amortization) result on operating activity before taxing, increased by amortization and depreciation
18.	EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. with the seat in Stalowa Wola
19.	EEX	(European Energy Exchange) European Energy Exchange with the seat in Leipzig
20.	Elektrownia Blachownia Nowa	Elektrownia Blachownia Nowa sp. z o.o. with its seat in Kędzierzyn Koźle.
21.	ENEA	ENEA S.A. with the seat in Poznań
22.	ENERGA	ENERGA S.A. with the seat in Gdańsk

No.	Abbreviation and trade term	Full name/explanation
23.	Enpower service	Enpower Service sp. z o.o. with the seat in Katowice
24.	ERM	Complex System of Enterprise Risk Management
25.	ERU	(Emission Reduction Unit) – unit of emission reduction – reduced emission of greenhouse gases or avoided emission of greenhouse gases, expressed as equivalent, or one mega gram (1 Mg) of absorbed carbon dioxide (CO_2), obtained as a result of the execution of the joint implementation project
26.	EU ETS	(European Union Emission Trading System) the European system of CO_2 emission allowances trading
27.	EUA	(European Union Allowances) authorisation to introduce the equivalent to the air, within the meaning of art. 2 item 4 of the Act of 17 July 2009 on the system of management 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 specified in the Act of 28 April 2011 on the system of greenhouse gases emission allowances trading (Journal of Laws No. 122, item 695).
28.	EUR	Euro – a common European currency introduced in some EU Member States
29.	FITCH	FITCH rating agency
30.	GPW	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) with the seat in Warsaw
31.	GRI	Global Reporting Initiative
32.	TAURON Capital Group	TAURON Polska Energia S.A. Capital Group
33.	“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.
34.	GUS	Central Statistical Office (Główny Urząd Statystyczny)
35.	GZE	Górnośląski Zakład Elektroenergetyczny
36.	IRGIT	Izba Rozliczeniowa Giełd Towarowych S.A. (Commodity Exchange Clearing House) with the seat in Warsaw
37.	IRS	(Interest Rate Swap) contract on the exchange of interest rate payments, one of the basic derivatives subject to trade at the interbank market
38.	EC	European Commission
39.	KGHM	KGHM Polska Miedź S.A. with the seat in Lubin
40.	KIC InnoEnergy	Community of Knowledge and Innovation – KIC InnoEnergy, with its seat in Kraków
41.	Code of TAURON Group	The document entitled Code of TAURON Group, adopted by the Management Board of the Company
42.	Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.
43.	Nominations and Remuneration Committee	Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A.
44.	Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
45.	Kompania Węglowa	Kompania Węglowa S.A. with the seat in Katowice
46.	Ksh	Code of Commercial Companies
47.	KSE	National Power System
48.	KW Czatkowice	Kopalnia Wapienia Czatkowice sp. z o.o. with the seat in Krzeszowice
49.	KWK Brzeszcze	“Brzeszcze” Coal Mine with its seat in Brzeszcze
50.	Marselwind	Marselwind sp. z o.o. with the seat in Katowice
51.	IMF	International Monetary Fund
52.	Mg	Megagram – million gram (1,000,000 g) i.e. 1 t

No.	Abbreviation and trade term	Full name/explanation
53.	MSR	(Market Stability Reserve) stabilisation reserve on the market of allowances
54.	IFRS	International Financial Reporting Standards
55.	NCBiR	National Centre for Research and Development
56.	Business Area	Area of operations of subsidiaries included in TAURON Group, determined by the Company, constituting the business segment of TAURON Group
57.	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
58.	DSO	Distribution System Operator
59.	TSO	Transmission System Operator
60.	OTC	(over the counter) – the market operating outside the regulated exchange market
61.	RES	Renewable Energy Sources
62.	PGE	PGE Polska Grupa Energetyczna S.A. with the seat in Warsaw
63.	PGE EJ1	PGE EJ1 sp. z o.o. with the seat in Warsaw
64.	PGK	Tax Capital Group
65.	GDP	Gross Domestic Product
66.	PKO BP	Powszechna Kasa Oszczędności Bank Polski S.A.
67.	PLN	The symbol of Polish currency – Polish Zloty
68.	PMEC	Property rights for certificates of origin confirming generation of electricity in other co-generation sources
69.	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
70.	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.
71.	PSE	Polskie Sieci Elektroenergetyczne S.A. with the seat in Konstancin-Jeziorna
72.	RB	Balancing Market
73.	Organisational Regulations/Bylaws	Document entitled Organisational Regulations of TAURON Polska Energia S.A.
74.	ROIC	Return On Invested Capital
75.	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
76.	Company	TAURON Polska Energia S.A. with its seat in Katowice
77.	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 2011–2015 with estimates until the year 2020.
78.	TAMEH HOLDING	TAMEH HOLDING sp. z o.o. with its seat in Dąbrowa Górnicza
79.	TAMEH POLSKA	TAMEH POLSKA sp. z o.o. with its seat in Dąbrowa Górnicza
80.	TAURON	TAURON Polska Energia S.A. with its seat in Katowice
81.	TAURON Ciepło	TAURON Ciepło sp. z o.o. with its seat in Katowice (formerly: Enpower service sp. z o.o.)
82.	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

No.	Abbreviation and trade term	Full name/explanation
83.	TAURON Czech Energy	TAURON Czech Energy s.r.o. with its seat in Ostrava, Czech Republic
84.	TAURON Dystrybucja	TAURON Dystrybucja S.A. with its seat in Kraków
85.	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. with the seat in Tarnów
86.	TAURON Dystrybucja Serwis	TAURON Dystrybucja Serwis S.A. with the seat in Wrocław
87.	TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with its seat in Jelenia Góra
88.	TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with the seat in Wrocław
89.	TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with its seat in Kraków
90.	TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. with the seat in Gliwice
91.	TAURON Sweden Energy	TAURON Sweden Energy AB (publ) with its seat in Stockholm, Sweden
92.	TAURON Ubezpieczenia	TAURON Ubezpieczenia sp. z o.o. with the seat in Katowice
93.	TAURON Wydobycie	TAURON Wydobycie S.A. with the seat in Jaworzno (formerly: Południowy Koncern Węglowy S.A.)
94.	TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with the seat in Katowice
95.	TAURON Wytwarzanie GZE	TAURON Wytwarzanie GZE sp. z o.o. with the seat in Gliwice
96.	TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange) with the seat in Warsaw
97.	EU	the European Union
98.	OCCP	Office for Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
99.	USD	(United States Dollar) international abbreviation of American dollar
100.	ERO	Energy Regulatory Office
101.	WFOŚiGW Katowice	Regional Fund of Environmental Protection and Water Management in Katowice
102.	WFOŚiGW Kraków	Regional Fund of Environmental Protection and Water Management in Kraków
103.	GM/SM	General Meeting/Shareholders' Meeting
104.	ZW Nowa	Zakład Wytwarzania Nowa in Dąbrowa Górnicza (formerly: Elektrociepłownia EC Nowa sp. z o.o.)
105.	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.

TAURON
POLSKA ENERGIA

S T A T E M E N T

**of the Management Board of TAURON Polska Energia S.A.
on the compliance of the Financial statements of TAURON Polska Energia S.A.
and the Management Board's report on the operations
of TAURON Polska Energia S.A.**

I, the undersigned, represent that, to my best knowledge, the Financial statements of TAURON Polska Energia S.A. 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 Polska Energia S.A.

I also certify that the Management Board's report on the operation of TAURON Polska Energia S.A. gives the true picture of the development, achievements and situation of TAURON Polska Energia S.A., 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

TAURON POLSKA ENERGIA

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
(Financial statements of TAURON Polska Energia S.A.)

I, the undersigned, represent that the entity authorized to audit financial statements and examining the financial statements of TAURON Polska Energia S.A. 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