TAURON POLSKA ENERGIA

Consolidated annual report of TAURON Polska Energia S.A. Capital Group for the year 2015

9 March 2016

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

Ladies and Gentlemen,

On behalf of the Management Board of TAURON Polska Energia S.A., I hereby provide you with the Annual Report of TAURON Group, in which we have included a review if the most important events and the financial results achieved in 2015.

For the Polish capital market and the energy industry, the past year will be recorded as the period of uncertainty, changes and numerous concepts related to restructuring of hard coal mining sector. The sentiment towards investing in the equity market became significantly weaker – key indices of the Warsaw stock exchange recorded a sharp downturn whereas the energy sector lost approximately 30 per cent of its capitalisation. However, it is worth mentioning that European energy companies also operated in the same turbulent environment, some of them having recorded multiannual, historical lows of their share prices. It is undeniable that power industry faces huge challenges of structural nature, arising, in particular, from the increasingly restrictive climate policy which, in turn, translates into sentiment in equity markets.

In 2015 in Poland, we observed both a growth in electricity demand (by 1.7 per cent in relation to 2014) and a rise in electricity production (by 3.3 per cent). The growth in energy generated in wind farms demonstrated the highest, approximately 40 per cent dynamics. In August, as a result of persisting very high temperatures and problems with cooling of the blocks, the national power system had recorded deficits in available capacity which directly led to introduction of curtailments in energy uptake by clients. This event confirms the opinion common in the sector that construction of new effective generating units and modernisation of the power grid is necessary.

Stable financial results achieved in the difficult regulatory and market environment are worth attention. Revenues on sales of TAURON Group in 2015 amounted to approx. PLN 18.4 billion while EBITDA reached the level of PLN 3.5. billion. However, the Company recorded loss on net level resulting from recognising of impairment write-offs for shares and stocks in companies of the Generation segment.

Significant events positively influencing the results obtained include, in particular: a high volume of distributed energy, the effective trade strategy in the Generation segment and savings gained due to implementation of the effectiveness improvement programme. On the other hand, factors reducing the financial result included mainly the impairment write-offs, costs associated with the deficit of CO_2 emission allowances as well as the difficult situation in the hard coal market.

I would also like to emphasise that 2015 was the year of intensified investment works with the total value reaching almost PLN 4.2 billion. We continued works at our largest investment – the construction of a coal-fired unit with the capacity of 910 MW at Elektrownia Jaworzno III, we are completing the construction of a high efficiency cogeneration unit at Zakład Wytwarzania in Tychy. Traditionally, expenditure associated with modernisation of the distribution grid and connecting of new clients constituted a considerable part of Capex. In December last year we also accomplished the acquisition of a part of KWK Brzeszcze assets, which will increase the level of fuel security of the Group and ensure new high quality coal resources.

For the needs of implementation of the investment programme of TAURON Group we acquired bank financing in the form of corporate bonds worth over PLN 6 billion. Importantly, in the new programme, the permissible net debt/EBITDA ratio was increased to 3.5x, which will improve financial security of the Group in the period of peak capital expenditure to fall in the years 2016–2018.

In the previous year, under the effectiveness improvement programme covering years 2013–2015, we continued the activities oriented towards the improvement of effectiveness and activity cost reduction. Over the last three years, TAURON Group gained the overall savings of PLN 1.2 billion. I would like to assure you that one of the priorities of the Management Board whose work I am pleased to lead, will be the continued systematic improvement in effectiveness, which will be reflected in determining further ambitious goals in this area.

In 2016 we will mainly focus on updating of our business strategy. It is extremely important, particularly, if the demanding environment is taken into consideration, inter alia, the EU climate policy, the legal and regulatory environment or the low level of wholesale energy prices. We will analyse all conducted and planned investment projects in detail. Our goal is to develop the optimum development path which will reflect the energy policy of Poland, but which will primarily generate benefits for the company and its shareholders. We will also focus on finalising the purchase of a part of the mining plant in Brzeszcze and its full integration within the Mining segment as well as on implementation of best practice in the coal mine, which is already applied in Janina and Sobieski coal mines belonging to TAURON.

On behalf of the Management Board, I would like to express our gratitude to our shareholders, the Supervisory Board and our Employees for their commitment and work for building TAURON Group's value.

Yours faithfully,

Remigiusz Nowakowski

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

Selected figures	in thousands PLN		in thousands EUR	
	2015 period from 01.01.2015 to 31.12.2015	2014 period from 01.01.2014 to 31.12.2014 *(adjusted figures)*	2015 period from 01.01.2015 to 31.12.2015	2014 period from 01.01.2014 to 31.12.2014 *(adjusted figures)*
Selected consolidated figures of TAURON Polska Energia S.A. Capital Group				
Sales revenue	18 375 224	18 577 479	4 390 944	4 434 507
Operating profit (loss)	(1 901 141)	1 830 113	(454 297)	436 854
Profit (loss) before tax	(2 187 771)	1 498 215	(522 790)	357 629
Net profit (loss)	(1 804 215)	1 185 560	(431 135)	282 997
Net profit (loss) attributable to shareholders of the parent company	(1 807 317)	1 180 893	(431 876)	281 883
Net profit (loss) attributable to non-controlling interests	3 102	4 667	741	1 114
Other comprehensive income	122 076	(290 384)	29 171	(69 316)
Total comprehensive income	(1 682 139)	895 176	(401 964)	213 681
Total comprehensive income attributable to shareholders of the parent company	(1 685 301)	890 879	(402 720)	212 656
Total comprehensive income attributable to non-controlling interests	3 162	4 297	756	1 025
Earnings (loss) per share (in PLN/EUR) (basic and diluted)	(1,03)	0,67	(0,25)	0,16
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	3 387 458	2 617 907	809 467	624 903
Cash flows from investing activities	(3 942 122)	(3 386 733)	(942 010)	(808 425)
Cash flows from financing activities	(525 692)	1 635 749	(125 619)	390 459
Net increase (decrease) in cash and cash equivalents	(1 080 356)	866 923	(258 162)	206 937
	As of 31.12.2015	**As of 31.12.2014**	**As of 31.12.2015**	**As of 31.12.2014**
Non-current assets	28 124 185	28 162 749	6 599 598	6 607 407
Current assets	3 947 248	6 396 444	926 258	1 500 702
Total assets	32 071 433	34 559 193	7 525 856	8 108 109
Issued capital	8 762 747	8 762 747	2 056 259	2 055 873
Equity attributable to shareholders of the parent company	16 018 328	17 966 448	3 758 847	4 215 200
Equity attributable to non-controlling interests	29 829	30 116	7 000	7 066
Total equity	16 048 157	17 996 564	3 765 847	4 222 266
Long-term liabilities	8 583 950	11 744 092	2 014 302	2 755 341
Short-term liabilities	7 439 326	4 818 537	1 745 706	1 130 502
Total liabilities	16 023 276	16 562 629	3 760 008	3 885 843

The aforementioned financial information for Q4 2015 and 2014 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 2015 – 4.2615 PLN/EUR (as of 31 December 2014 – 4.2623 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 period from 1 January 2015 to 31 December 2015 – 4.1848 PLN/EUR (for the period from 1 January 2014 to 31 December 2014 – 4.1893 PLN/EUR).

TAURON
POLSKA ENERGIA

CAPITAL GROUP TAURON POLSKA ENERGIA S.A.

INDEPENDENT AUDITOR'S OPINION
AND REPORT ON THE AUDIT OF
THE CONSOLIDATED FINANCIAL STATEMENTS OF
THE TAURON POLSKA ENERGIA S.A. CAPITAL GROUP
FOR THE YEAR 2015

TAURON POLSKA ENERGIA S.A. CAPITAL GROUP
KATOWICE, UL. KS. PIOTRA ŚCIEGIENNEGO 3

CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2015 FINANCIAL YEAR

WITH
AUDITOR'S OPINION
AND
AUDIT REPORT

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Deloitte.

Deloitte Polska
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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 consolidated financial statements of the TAURON Polska Energia S.A. Capital Group (hereinafter: the "Capital Group"), for which TAURON Polska Energia S.A. (hereinafter: the "Parent Company"), with its registered office in Katowice, at ul. ks. Piotra Ściegiennego 3, is the Parent Company. Those financial statements include: consolidated statement of financial position prepared as at 31 December 2015, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement for the financial year from 1 January 2015 to 31 December 2015 and notes comprising a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

We have planned and performed our audit of the consolidated financial statements in such a way as to obtain reasonable assurance to express an opinion on the financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) applied by the Parent Company and the subsidiaries, verification - largely on a test basis - of the basis for the amounts and disclosures in the consolidated financial statements, as well as overall evaluation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Deloitte.

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

- give a true and fair view of the information material to evaluation of the economic and financial position of the Capital Group as at 31 December 2015 as well as its financial performance in the financial year from 1 January 2015 to 31 December 2015;
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and its executory provisions;
- comply with the provisions of law applicable to the Parent Company and Capital Group entities which affect the contents of the consolidated financial statements.

The report on the activities of the Capital Group for the 2015 financial year is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (*Journal of Laws* of 2014 item 133) and consistent with underlying information disclosed in the audited consolidated financial statements.

....

Artur Maziarka
Key certified auditor
conducting the audit
No. 90108

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

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

Warsaw, 8 March 2016

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS OF THE TAURON POLSKA ENERGIA S.A. CAPITAL GROUP FOR THE 2015 FINANCIAL YEAR

I. GENERAL INFORMATION

1. Details of the audited Parent Company

The Parent Company of the Capital Group operates under the business name TAURON Polska Energia S.A. (hereinafter: the "Parent Company"). The Parent Company's registered office is in Katowice, ul. ks. Piotra Ściegiennego 3.

The Parent Company operates as a joint stock company. At present the Parent Company is recorded in the Register of Entrepreneurs kept by the District Court for Katowice-Wschód, VIII Business Division of the National Court Register in Lublin, under number 0000271562.

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

As at 31 December 2015, the share capital of the Parent Company equalled PLN 8,762,747 thousand and was divided into 1,752,549,394 shares with a face value of PLN 5 each.

Composition of the Management Board of the Parent Company as at the date of the opinion:
- Remigiusz Nowakowski – Chairman of the Management Board;
- Jarosław Broda – Vice Chairman of the Management Board;
- Kamil Kamiński – Vice Chairman of the Management Board;
- Marek Wadowski – Vice Chairman of the Management Board;
- Piotr Zawistowski – Vice Chairman of the Management Board.

Changes in the composition of the Management Board of the Parent Company during the audited period and until the date of the opinion:
- on 1 October 2015, Mr. Dariusz Lubera was dismissed from the position of Chairman of the Management Board, and Mr. Aleksander Grad and Ms. Katarzyna Rozenfeld were dismissed from the positions of Deputies and their office was revoked on the same day;
- on 1 October 2015, the Supervisory Board appointed Mr. Jerzy Kurella for the position of Chairman of the Management Board, and appointed Mr. Michał Gramatyka and Mr. Henryk Borczyk for the positions of Deputy Chairmen of the Management Board;
- on 1 October 2015, Mr. Stanisław Tokarski and Mr. Krzysztof Zawadzki filed their resignation from the positions of Deputy Chairmen of the Management Board;
- on 10 October 2015, the Supervisory Board appointed Ms. Anna Striżyk and Mr. Piotr Kołodziej for the positions of Deputies;
- on 8 December 2015, Mr. Jerzy Kurella was dismissed from the position of Chairman of the Management Board, and Ms. Anna Striżyk and Mr. Piotr Kołodziej were dismissed from the positions of Deputies;
- on 8 December 2015, the Supervisory Board appointed Mr. Remigiusz Nowakowski for the position of Chairman of the Management Board, and appointed Mr. Jarosław Broda, Mr. Piotr Zawistowski and Mr. Kamil Kamiński for the positions of Deputy Chairmen of the Management Board;
- on 8 January 2016, Ms. Anna Striżyk was dismissed from the position of Deputy Chairperson of the Management Board;
- on 29 January 2016, the Supervisory Board appointed Mr. Marek Wadowski for the position of Deputy Chairman of the Management Board.

2. Structure of the Capital Group

The consolidated financial statements as at 31 December 2015 cover the following entities:

a) The Parent – TAURON Polska Energia S.A.

We have audited the financial statements of the Parent Company for the period from 1 January to 31 December 2015. As a result of our audit, we issued an unqualified opinion on 8 March 2016.

b) Companies subject to full consolidation:

Company	Interest in the share capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity
TAURON Wytwarzanie S.A	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Ekoenergia Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Dystrybucja S.A.	99.72%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Sprzedaż Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Czech Energy s.r.o.	100%	An opinion on the audit of the Entity had not been issued by the date of this report.	31 December 2015
TAURON Sprzedaż GZE Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Ciepło Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Obsługa Klienta Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
Polska Energia Pierwsza Kompania Handlowa Sp. z o.o., in liquidation	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – qualified opinion	31 December 2015
TAURON Wydobycie S.A.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAURON Sweden Energy AB (publ)	100%	An opinion on the audit of the Entity had not been issued by the date of this report.	31 December 2015
TAURON Dystrybucja Pomiary Sp. z o.o.	99,72%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – opinion with an emphasis of matter	31 December 2015
TAURON Dystrybucja Serwis S.A.	99,72%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015

Kopalnia Wapienia Czatkowice Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
Biomasa Grupa TAURON Sp. z o.o.	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – opinion with an emphasis of matter	31 December 2015

c) Companies subject to consolidation using the equity method:

Company	Interest in the share capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity
Elektrociepłownia Stalowa Wola S.A.	50%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – opinion with an emphasis of matter	31 December 2015
Elektrownia Blachownia Nowa Sp. z o.o.	50%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – opinion with an emphasis of matter	31 December 2015
TAMEH HOLDING Sp. z o.o.	50%	Not issued	31 March 2016
TAMEH POLSKA Sp. z o.o.	50%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – unqualified opinion	31 December 2015
TAMEH Czech s.r.o	50%	An opinion on the audit of the Entity had not been issued by the date of this report.	31 December 2015

In the audited financial year, the Parent Company included Biomasa Grupa TAURON Sp. z o.o. in the consolidation.

3. Information about the consolidated financial statements for the prior financial year

In 2014, the activities of the Capital Group resulted in a net profit of PLN 1,185,560 thousand. The consolidated financial statements of the Capital Group for 2014 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. The certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders' Meeting which approved the consolidated financial statements for the 2014 financial year was held on 23 April 2015.

The consolidated financial statements for the 2014 financial year were submitted to the National Court Register (KRS) on 29 April 2015.

4. 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 consolidated financial statements was performed based on the agreement of 7 May 2013 concluded between the Parent Company and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., with its 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 Parent Company from 15 to 19 February 2016 and outside its premises until the date of this opinion.

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

5. Availability of data and management's representations

The scope of our audit was not limited. During the audit, 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 Parent Company's Management Board of 8 March 2016.

II. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP

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

Main financial data from the consolidated statement of comprehensive income (PLN '000)	2015	2014
Sales revenue	18,375,224	18,557,479
Operating expenses	(20,248,603)	(16,862,130)
Operating profit (loss)	(1,901,141)	1,830,113
Net profit (loss)	(1,804,215)	1,185,560

Main financial data from consolidated statement of financial position (PLN '000)		
Inventory	433,279	527,596
Receivables from clients	1,830,033	1,917,060
Current assets	3,947,248*,	6,396,444*,
Total assets	32,071,433	34,559,193
Equity	16,048,157	17,996,564
Short-term liabilities (including short-term provisions and accruals)	7,439,326	4,818,537*
Liabilities to suppliers	790,706	916,744
Total liabilities and provisions for liabilities	16,023,276	16,562,629

Profitability and efficiency ratios	2015	2014
– return on sales	-10%	10%
– net return on equity	-10%	7%
– assets turnover ratio	0.57	0.53
– receivables turnover in days	37	38
– liabilities turnover in days	15	21
– inventory turnover in days	9	11

Liquidity/Net working capital		
– debt ratio	50%	48%
– equity to fixed assets ratio	50%	52%
– net working capital (PLN '000)	(3,492,078)	325,172
– current ratio	0.53	1.07
– quick ratio	0.47	0.96

* Current assets include non-current assets classified as held for sale
* Current liabilities include liabilities classified and liabilities held for sale

An analysis of the above figures and ratios indicated the following trends in 2015:

- A decrease in the net return on equity ratios;
- an increase in the assets turnover ratio;
- a decrease in the receivables, liabilities and inventory turnover ratios;
- an increase in the debt ratio and a decrease in the equity to fixed assets ratio;
- a decrease in the net working capital;
- a decrease in the liquidity ratios.

III. DETAILED INFORMATION

1. Information about the audited consolidated financial statements

The audited consolidated financial statements were prepared as at 31 December 2015 and include:

- the consolidated statement of financial position prepared as at 31 December 2015, showing total assets, equity and liabilities of PLN 32,071,433 thousand;
- the consolidated statement of comprehensive income for the period from 1 January 2015 to 31 December 2015, disclosing a net loss of PLN 1,804,215 thousand and a negative total comprehensive income of PLN 1,682,139 thousand;
- the consolidated statement of changes in equity for the period from 1 January 2015 to 31 December 2015, disclosing a decrease in equity of PLN 1,948,407 thousand;
- the consolidated cash flow statement for the period from 1 January 2015 to 31 December 2015, showing a cash outflow of PLN 1,080,356 thousand;
- notes, comprising a summary of significant accounting policies and other explanatory information.

The audit covered the period from 1 January 2015 to 31 December 2015 and focused mainly on:

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

2. Consolidation documentation

The Parent Company presented the consolidation documentation including:

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

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

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

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

The Parent Company confirmed the validity of the going concern basis in preparation of the consolidated financial statements. The notes and explanations to the consolidated financial statements give a description of measurement principles regarding assets, equity and liabilities, financial performance and principles of preparation of the consolidated financial statements.

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

The financial statements have been supplemented with the Parent Company's Management Board report on the activities of the Capital Group in the 2015 financial year. The report contains information required under 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). We have audited the report with respect to the disclosed information derived directly from the audited consolidated financial statements.

IV. FINAL NOTES

Management Board's Representations

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

....

Artur Maziarka
Key certified auditor
conducting the audit
No. 90108

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.
— General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 8 March 2016

TAURON POLSKA ENERGIA S.A. CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS
PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS,
AS ENDORSED BY THE EUROPEAN UNION
FOR THE YEAR ENDED 31 DECEMBER 2015

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(in PLN '000)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2015	Year ended 31 December 2014 (*adjusted figures*)
Sales revenue	**11**	18 375 224	18 577 479
Cost of sales, including:	**12**	(19 140 775)	(15 648 779)
Impairment of non-financial non-current assets	***12***	*(3 594 654)*	*(50 050)*
Profit (loss) on sale		**(765 551)**	**2 928 700**
Selling and distribution expenses	**12**	(488 859)	(549 164)
Administrative expenses	**12**	(618 969)	(664 187)
Other operating income and expenses	**13**	(27 762)	114 764
Operating profit (loss)		**(1 901 141)**	**1 830 113**
Share in profit/(loss) of joint ventures	**22**	7 933	(936)
Finance income	**14**	73 452	85 906
Interest expense on debt	**15**	(279 673)	(285 474)
Other finance costs	**15**	(88 342)	(131 394)
Profit (loss) before tax		**(2 187 771)**	**1 498 215**
Income tax expense	**16**	383 556	(312 655)
Net profit (loss)		**(1 804 215)**	**1 185 560**
Measurement of hedging instruments		85 932	(20 207)
Foreign exchange differences from translation of foreign entities		595	245
Income tax	**16**	(16 327)	3 839
Other comprehensive income subject to reclassification to profit or loss		**70 200**	**(16 123)**
Actuarial gains/(losses)		64 523	(338 594)
Income tax	**16**	(12 260)	64 333
Share in other comprehensive income of joint ventures		(387)	–
Other comprehensive income not subject to reclassification to profit or loss		**51 876**	**(274 261)**
Other comprehensive income, net of tax		**122 076**	**(290 384)**
Total comprehensive income		**(1 682 139)**	**895 176**
Net profit (loss):			
Attributable to equity holders of the parent		(1 807 317)	1 180 893
Attributable to non-controlling interests		3 102	4 667
Total comprehensive income:			
Attributable to equity holders of the parent		(1 685 301)	890 879
Attributable to non-controlling interests		3 162	4 297
Basic and diluted earnings (loss) per share (in PLN)	**17**	**(1.03)**	**0.67**

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

(in PLN '000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2015	As at 31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	**18**	24 882 817	24 850 942
Goodwill	**19**	92 059	195 155
Energy certificates and emission allowances for surrender	**20.1**	510 840	472 500
Other intangible assets	**21**	1 182 765	1 132 134
Investments in joint ventures	**22**	418 127	414 584
Loans granted to joint ventures	**23**	221 803	198 331
Other financial assets	**24**	211 215	179 052
Other non-financial assets	**25**	550 375	657 943
Deferred tax asset	**16.3**	54 184	62 108
		28 124 185	**28 162 749**
Current assets			
Energy certificates and emission allowances for surrender	**20.2**	805 388	733 048
Inventories	**26**	433 279	527 596
Receivables from clients	**27**	1 830 033	1 917 060
Receivables arising from taxes and charges	**28**	228 345	159 444
Other financial assets	**24**	34 334	79 648
Other non-financial assets	**25**	233 059	221 034
Cash and cash equivalents	**29**	364 912	1 420 909
Non-current assets and assets of a disposal group classified as held for sale	**30**	17 898	1 337 705
		3 947 248	**6 396 444**
TOTAL ASSETS		**32 071 433**	**34 559 193**

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

(in PLN '000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued

	Note	As at 31 December 2015	As at 31 December 2014
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	**31.1**	8 762 747	8 762 747
Reserve capital	**31.3**	11 277 247	10 393 686
Revaluation reserve from valuation of hedging instruments	**31.5**	(73 414)	(143 019)
Foreign exchange differences from translation of foreign entities		(791)	(1 386)
Retained earnings/(Accumulated losses)		(3 947 461)	(1 045 580)
		16 018 328	**17 966 448**
Non-controlling interests	31.6	**29 829**	**30 116**
Total equity		**16 048 157**	**17 996 564**
Non-current liabilities			
Debt liabilities	**33**	4 924 127	7 468 775
Derivative instruments	**34**	15 156	93 501
Provisions for employee benefits	**35**	1 735 206	1 948 323
Provisions for disassembly of fixed assets, land restoration and other provisions	**36**	377 372	165 278
Accruals, deferred income and government grants	**39**	650 364	662 072
Deferred tax liability	**16.3**	795 176	1 357 157
Other financial liabilities		86 549	48 986
		8 583 950	**11 744 092**
Current liabilities			
Debt liabilities	**33**	3 214 520	644 991
Derivative instruments	**34**	96 953	102 615
Liabilities to suppliers		790 706	916 744
Capital commitments		766 843	595 550
Provisions for employee benefits	**35**	172 505	158 954
Provisions for liabilities due to energy certificates and greenhouse gas emission allowances	**37**	1 018 134	923 056
Other provisions	**38**	178 044	158 359
Accruals, deferred income and government grants	**39**	254 337	245 520
Liabilities arising from taxes and charges	**40**	429 649	355 636
Other financial liabilities		243 713	354 571
Other non-financial liabilities	**41**	273 922	277 571
Liabilities of a disposal group classified as held for sale	**30**	–	84 970
		7 439 326	**4 818 537**
Total liabilities		**16 023 276**	**16 562 629**
TOTAL EQUITY AND LIABILITIES		**32 071 433**	**34 559 193**

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

(in PLN '000)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity attributable to the equity holders of the Parent						Non-controlling interests	Total equity
		Issued capital	Reserve capital	Revaluation reserve from valuation of hedging instruments	Foreign exchange differences from translation of foreign entities	Retained earnings/ (accumulated losses)	Total		
As at 1 January 2014		**8 762 747**	**9 037 699**	**(126 651)**	**(1 631)**	**(344 999)**	**17 327 165**	**466 334**	**17 793 499**
Dividends	**31.6, 32**	–	–	–	–	(332 984)	**(332 984)**	(1 163)	**(334 147)**
Acquisition of non-controlling interests	**31.6**	–	–	–	–	76 938	**76 938**	(407 596)	**(330 658)**
Other transactions with non-controlling shareholders	**31.6**	–	–	–	–	4 450	**4 450**	(31 756)	**(27 306)**
Distribution of prior year profits		–	1 355 987	–	–	(1 355 987)	**–**	–	**–**
Transactions with shareholders		**–**	**1 355 987**	**–**	**–**	**(1 607 583)**	**(251 596)**	**(440 515)**	**(692 111)**
Net profit		–	–	–	–	1 180 893	**1 180 893**	4 667	**1 185 560**
Other comprehensive income		–	–	(16 368)	245	(273 891)	**(290 014)**	(370)	**(290 384)**
Total comprehensive income		**–**	**–**	**(16 368)**	**245**	**907 002**	**890 879**	**4 297**	**895 176**
As at 31 December 2014		**8 762 747**	**10 393 686**	**(143 019)**	**(1 386)**	**(1 045 580)**	**17 966 448**	**30 116**	**17 996 564**
Dividends	**31.6, 32**	–	–	–	–	(262 882)	**(262 882)**	(2 787)	**(265 669)**
Other transactions with non-controlling shareholders	**31.6**	–	–	–	–	63	**63**	(662)	**(599)**
Distribution of prior year profits	**31.3**	–	883 561	–	–	(883 561)	**–**	–	**–**
Transactions with shareholders		**–**	**883 561**	**–**	**–**	**(1 146 380)**	**(262 819)**	**(3 449)**	**(266 268)**
Net profit (loss)		–	–	–	–	(1 807 317)	**(1 807 317)**	3 102	**(1 804 215)**
Other comprehensive income		–	–	69 605	595	51 816	**122 016**	60	**122 076**
Total comprehensive income		**–**	**–**	**69 605**	**595**	**(1 755 501)**	**(1 685 301)**	**3 162**	**(1 682 139)**
As at 31 December 2015		**8 762 747**	**11 277 247**	**(73 414)**	**(791)**	**(3 947 461)**	**16 018 328**	**29 829**	**16 048 157**

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

(in PLN '000)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Cash flows from operating activities			
Profit (loss) before taxation		**(2 187 771)**	**1 498 215**
Share in (profit)/loss of joint ventures		(7 933)	936
Depreciation and amortization		1 832 780	1 796 917
Impairment losses on property, plant and equipment, intangible assets and goodwill		3 595 895	51 036
Interest and commissions		273 502	286 733
Other adjustments of profit before tax		329	(166)
Change in working capital	**42.1**	(7 628)	(707 371)
Income tax paid		(111 716)	(308 393)
Net cash from operating activities		**3 387 458**	**2 617 907**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	**42.2**	(3 973 510)	(3 464 578)
Purchase of financial assets	**42.2**	(29 067)	(6 684)
Loans granted	**42.2**	(26 100)	(18 050)
Other payments		–	(184)
Total payments		**(4 028 677)**	**(3 489 496)**
Proceeds from sale of property, plant and equipment and intangible assets		36 554	47 800
Repayment of loans granted		14 500	11 700
Redemption of debt securities		21 732	–
Other proceeds		13 769	43 263
Total proceeds		**86 555**	**102 763**
Net cash used in investing activities		**(3 942 122)**	**(3 386 733)**
Cash flows from financing activities			
Redemption of debt securities	**42.3**	(450 000)	(1 148 200)
Repayment of loans and borrowings	**42.3**	(140 585)	(169 971)
Dividends paid to equity holders of the parent		(262 882)	(332 984)
Interest paid	**42.3**	(276 305)	(273 392)
Other payments		(44 059)	(156 077)
Total payments		**(1 173 831)**	**(2 080 624)**
Proceeds from loans and borrowings	**42.3**	295 000	–
Issue of debt securities	**42.3**	310 000	3 653 234
Subsidies received		43 139	63 139
Total proceeds		**648 139**	**3 716 373**
Net cash from (used in) financing activities		**(525 692)**	**1 635 749**
Net increase/(decrease) in cash and cash equivalents		**(1 080 356)**	**866 923**
Net foreign exchange difference		1 169	(177)
Cash and cash equivalents at the beginning of the period	**29**	**1 408 071**	**541 148**
Cash and cash equivalents at the end of the period, of which:	**29**	**327 715**	**1 408 071**
restricted cash	**29**	206 254	116 568

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

INTRODUCTION

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

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

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

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

The core business of the TAURON Group includes the following segments: Mining, Generation, Distribution, Sales and other operations, as discussed in detail in Note 10 to these consolidated financial statements.

The consolidated financial statements of the Group cover the financial year ended 31 December 2015 and include comparable data for the year ended 31 December 2014.

These consolidated financial statements were approved for publication by the Management Board on 8 March 2016.

Composition of the Management Board

As at 31 December 2015 the composition of the Management Board was as follows:

- Remigiusz Nowakowski – President of the Management Board;
- Jarosław Broda – Vice-President of the Management Board;
- Kamil Kamiński – Vice-President of the Management Board;
- Anna Striżyk – Vice-President of the Management Board;
- Piotr Zawistowski – Vice-President of the Management Board.

After the balance sheet date, on 8 January 2016 the Supervisory Board dismissed Anna Striżyk from the position of the Vice-President of the Management Board. On 29 January 2016 the Supervisory Board appointed Marek Wadowski to the position of the Vice-President of the Management Board of TAURON Polska Energia S.A.

As at the date of approval of these financial statements for publication the composition of the Management Board has not changed.

As at 31 December 2014 the composition of the 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.

Changes in the composition of the Management Board in the year ended 31 December 2015 have been presented in the Management Board's report on the activities of the TAURON Polska Energia S.A. Capital Group for the 2015 financial year (Section 6.11.1).

2. Composition of the TAURON Capital Group and joint ventures

As at 31 December 2015, TAURON Polska Energia S.A. held direct and indirect interest in the following key subsidiaries:

(in PLN '000)

Item	Company name	Registered office	Operating segment	Interest in the share capital and in the decision-making body held by TAURON Polska Energia S.A.
1	TAURON Wydobycie S.A.	Jaworzno	Mining	100.00%
2	TAURON Wytwarzanie S.A.	Jaworzno	Generation	100.00%
3	TAURON Ekoenergia Sp. z o.o.	Jelenia Góra	Generation	100.00%
4	TAURON Ciepło Sp. z o.o.	Katowice	Generation	100.00%
5	TAURON Dystrybucja S.A.	Kraków	Distribution	99.72%
6	TAURON Dystrybucja Serwis S.A.[1]	Wrocław	Distribution	99.72%
7	TAURON Dystrybucja Pomiary Sp. z o.o.[1]	Tarnów	Distribution	99.72%
8	TAURON Sprzedaż Sp. z o.o.	Kraków	Sales	100.00%
9	TAURON Sprzedaż GZE Sp. z o.o.	Gliwice	Sales	100.00%
10	TAURON Czech Energy s.r.o.	Ostrawa, Czech Republic	Sales	100.00%
11	TAURON Obsługa Klienta Sp. z o.o.	Wrocław	Other	100.00%
12	Kopalnia Wapienia Czatkowice Sp. z o.o.	Krzeszowice	Other	100.00%
13	Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation	Warszawa	Other	100.00%
14	TAURON Sweden Energy AB (publ)	Sztokholm, Sweden	Other	100.00%
15	Biomasa Grupa TAURON Sp. z o.o.[2]	Stalowa Wola	Other	100.00%

[1] *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.*

[2] *Business combination of Energopower Sp. z o.o. and Biomasa Grupa TAURON Sp. z o.o. was registered on 1 July 2015.*

Additionally, as at 31 December 2015, TAURON Polska Energia S.A. also held direct and indirect interest in the following key jointly-controlled entities:

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

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

[2] *The companies form a capital group. TAURON Polska Energia S.A. holds direct interest in the issued capital and the governing body of TAMEH HOLDING Sp. z o.o., which holds 100% interest in the issued capitals and the governing bodies of TAMEH POLSKA Sp. z o.o. and TAMEH Czech s.r.o.*

Acquisition of shares in Nowe Brzeszcze Grupa TAURON Sp. z o.o

On 5 August 2015 the District Court for Katowice-Wschód, VIII Business Division, registered RSG Sp. z o.o. (currently: Nowe Brzeszcze Grupa TAURON Sp. z o.o.). TAURON Polska Energia S.A. took up 100% of shares in the new company for the total acquisition price of PLN 102 thousand.

On 1 December 2015 the Extraordinary Shareholders' Meeting of Nowe Brzeszcze Grupa TAURON Sp. z o.o. decided to increase the issued capital of the entity up to PLN 2 100 thousand by way of issuing 20 000 shares with the par value of PLN 100 each and the total par value of PLN 2 000 thousand. All new shares were acquired by the Company for an acquisition price equal to the par value.

On 31 December 2015 Nowe Brzeszcze Grupa TAURON Sp. z o.o. and Spółka Restrukturyzacji Kopalń S.A. entered into an agreement for sale of a specified part of Zakład Górniczy w Brzeszczach, constituting an organized part of the enterprise, as described in details in Note 53 to these consolidated financial statements. As pursuant to the agreement in question all risks and benefits related to the organized part of the enterprise acquired have been transferred to Nowe Brzeszcze Grupa TAURON Sp. z o.o. on 1 January 2016, the data of Nowe Brzeszcze Grupa TAURON Sp. z o.o. will be included in the consolidated financial statements starting from 1 January 2016.

STATEMENT OF COMPLIANCE WITH IFRS

3. Statement of compliance

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

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

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

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

4. Going concern

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

5. Functional and presentation currency

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

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

(in PLN '000)

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 has been presented in notes to these consolidated financial statements, in line with the table below.

Items of the consolidated financial statements posing the risk of material adjustment of the carrying amount of assets and liabilities are presented below.

Item	Value of item to which the estimate figure in the consolidated financial statements applies		Accounting policy description	Details regarding assumptions made and calculation of significant estimates
	2015	2014		
Property, plant and equipment	24 882 817	24 850 942	note 9.2 note 9.6	• Impairment loss – property, plant and equipment in the amount of PLN 3 410 726 thousand. note 18 • Estimated periods of use (depreciation rates) – reduction of depreciation expenses of PLN 6 177 thousand as a result of verification of economic useful lives. note 12.3
Goodwill	92 059	195 155	note 9.3 note 9.6	• Impairment loss – goodwill in the amount of PLN 154 998 thousand. note 19
Provisions for employee benefits	1 907 711	2 107 277	note 9.19	• Description of actuarial assumptions made along with the sensitivity analysis. note 35
Provision for gas emission obligations	153 083	8 130	note 9.21	• Provision calculation. note 37
Provision for obligation to submit energy certificates	865 051	914 926	note 9.21	• Provision calculation. note 37
Provision for mine decommissioning costs	111 675	120 704	note 9.20	• Provision calculation. note 36
Provision for restoration of land and dismantling and removal of fixed assets	101 244	42 774	note 9.20	• Provision calculation. note 36
Provision for onerous contracts	182 877	–	note 9.22	• Provision calculation. note 36
Accrued revenue from sales of electricity and distribution services in the Sales segment	16 284 291	16 319 893	note 9.26	• Additional assessment of revenue from sales of electricity and distribution services in the Sales segmentas at the end of the reporting period in the amount of PLN 248 098 thousand. note 11
Deferred tax assets	54 184	62 108	note 9.25	• Realisation of deferred tax assets. note 16.3
Derivative instruments: Assets Liabilities	 5 684 112 109	 1 811 196 116	note 9.17	• Fair value measurement. note 34
Receivables from clients	1 830 033	1 917 060	note 9.12	• Impairment loss – as at the end of the reporting period impairment losses on receivables from clients amounted to PLN 278 374 thousand. note 27, note 49.1.1

(in PLN '000)

7. New accounting standards and interpretations

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

- **Revised standards issued by the International Accounting Standards Board, which have been endorsed by the European Union and are not yet effective**

According to the Management Board the following revised standards will not materially impact the accounting policies applied.

Standard	Effective in the EU as of (*annual periods beginning on or after this date*)
Revised IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*	1 February 2015
Annual Improvements to *IFRS (Cycle 2010–2012)*	1 February 2015
Revised IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations*.	1 January 2016
Revised IAS 1 *Presentation of Financial Statements – Disclosure Initiative*	1 January 2016
Revised IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization*	1 January 2016
Revised IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture: Bearer Plants*	1 January 2016
Revised IAS 27 *Separate Financial Statements: Equity Method in Separate Financial Statements*	1 January 2016
Annual Improvements to *IFRS (Cycle 2012–2014)*	1 January 2016

- **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**

According to the Management Board the following new standards will or may materially impact the accounting policies applied:

Standard details	Estimated impact	Effective date specified in the Standard, not endorsed by the EU*
IFRS 9 *Financial Instruments* 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.	Preliminary analysis of IFRS 9's impact on the accounting policies applied indicates one change important for the Group, i.e. replacing the existing classification and measurement models under IAS 39 with a single classification model assuming two categories only, i.e. amortized cost or fair value. IFRS 9 classification complies with the business model applied to manage financial assets. Additionally, the standard introduces a new hedge accounting model which requires detailed risk management disclosures. Evaluation of effects of IFRS 9 on the consolidated financial statements is subject to further analyses due to the large scope of amendments.	1 January 2018

(in PLN '000)

Standard details	Estimated impact	Effective date specified in the Standard, not endorsed by the EU*
IFRS 15 <u>*Revenue from Contracts with Customers*</u>		
The Standard specifies how and when revenue is recognized and requires more informative, relevant disclosures. The Standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of interpretations concerning revenue recognition. On 11 September 2015 the IASB published an amendment to the standard introducing a new effective date – annual periods beginning on or after 1 January 2018. The original effective date was set at annual period beginning on or after 1 January 2017.	Preliminary analysis of the effects of IFRS 15 on the accounting policies applied has shown that the new standard changes the method of accounting for contracts with customers, in particular if services and goods are provided under a single contract, which may be particularly important for the Sales segment. The new guidelines of IFRS 15 may result in the need to change the systems, but before the standard enters into force the Group intends to carry out a five-step analysis of contracts with customers including contract (or contract group) identification, indication of individual liabilities, determining prices, assigning them to individual liabilities and revenue recognition. The new standard requires considerably more detailed disclosure of sales and revenue in financial statements. Evaluation of effects of IFRS 15 on the consolidated financial statements is subject to further analyses due to the large scope of amendments.	1 January 2018
IFRS 16 <u>*Leases*</u>		
Under IFRS 16 the lessee recognizes the right to use an asset and a lease liability. The right to use the asset is treated similarly to other non-financial assets and is depreciated. Lease liabilities are initially measured at the present value of future lease payments due in the lease period, discounted using the lease rate if its determination is not difficult. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. Leases are classified by lessors the same as in accordance with IAS 17 – as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset. Otherwise a lease is classified as an operating lease. In finance lease the lessor recognizes finance income over the lease term, based on pattern reflecting a constant periodic rate of return on the net investment. A lessor recognizes operating lease payments as income on a straight-line basis, or if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.	Preliminary analysis of IFRS 16's impact on the accounting policies applied indicates certain changes important for the Group, i.e. the need to recognize lease assets and lease liabilities for leases currently classified as operating leases in the financial statements and the change in the presentation method applied to finance lease assets, which are currently recognized in property plant and equipment or intangible assets. The Group intends to analyse all lease agreements concluded to identify leases which require recognition of assets and liabilities or presentational changes. As the effective date of IFRS 16 is still distant, and it has not yet been approved by the EU, as at the date of approving these financial statements for publication the Group had not carried out any analyses which would enable determining the impact of the planned changes on the financial statements. The analysis will be conducted in future.	1 January 2019

** Annual periods beginning on or after the date.*

(in PLN '000)

According to the Management Board the following standards and revised standards will not materially impact the accounting policies applied:

Standard	Effective date specified in the Standard, not endorsed by the EU (*annual periods beginning on or after the date provided*)
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016
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*	1 January 2016
Revised IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*	1 January 2016
Revised IAS 12 *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses* – explains the method of recognition of a deferred tax asset that is related to a debt instrument measured at fair value.	1 January 2017

Hedge accounting for financial assets and liabilities portfolio is still beyond the scope of IFRS as its principles have not been endorsed by the EU.

8. Changes to accounting policies and presentation changes

The accounting principles (policies) adopted for the preparation of these consolidated financial statements are consistent with those adopted for the preparation of the annual financial statements of the TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2014, except for the application of IFRIC 21 *Levies, applicable to annual periods beginning on or after 17 June 2014* and *Annual Improvements to IFRS (Cycle 2011–2013)*, applicable to annual periods beginning on or after 1 January 2015, whose application did not considerably affect the accounting policies applied according to the Management Board.

In 2015 the Company also decided to change the definition of EBITDA. EBITDA is the operating profit (loss) ("EBIT"), increased by amortization/depreciation and impairment of non-financial assets (before the change EBIT was increased by amortization/depreciation only). The change of the definition of EBITDA was discussed in detail in Note 10 to these consolidated financial statements. The comparable data have been appropriately restated, as presented below.

	Year ended 31 December 2014 (*approved figures*)	Including impairment losses on non-financial assets in the definition of EBITDA	Year ended 31 December 2014 (*adjusted figures*)
Operating profit (loss) – EBIT	1 830 113	–	1 830 113
Depreciation/amortization	(1 796 987)	–	(1 796 987)
Impairment	–	(67 444)	(67 444)
EBITDA	**3 627 100**	**67 444**	**3 694 544**

To increase the value of the financial statements to the readers, in the year ended 31 December 2015 the Group decided to change the method of presenting revenue and expenses related to certificates of energy generated using renewable sources in wind and water power plants held by the Group.

	Year ended 31 December 2014 (*approved figures*)	Change in presentation of income from generation of energy certificates	Year ended 31 December 2014 (*adjusted figures*)
Sales revenue	18 440 763	136 716	**18 577 479**
Cost of sales	(15 512 063)	(136 716)	**(15 648 779)**

9. Significant accounting policies

9.1. Consolidation principles and the methods accounting for business acquisitions (including jointly-controlled entities)

9.1.1. Consolidation

Subsidiaries are entities controlled by the Parent directly or indirectly through its subsidiaries.

Subsidiaries are consolidated from the date of assuming to the date of losing control. Financial statements of subsidiaries are prepared for the same reporting period as those of the Parent, using consistent accounting principles. Balances and transactions between the Group entities, including unrealized gains and losses (if not indicating impairment), which result from transactions within the Group are eliminated.

9.1.2. Business combinations

Taking control over an entity is accounted for using the acquisition method, The acquirer measures identifiable assets acquired and liabilities assumed at fair value as at the acquisition date.

Goodwill is measured as the excess of the aggregate of the consideration transferred to the acquisition, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured. The accounting policies on goodwill have been presented in Note 9.3.

9.1.3. Acquisition of businesses under common control of the State Treasury

Combinations of businesses under common control of the State Treasury (i.e. those which have remained under control of the State Treasury before and after the transaction) are accounted for using the pooling of interest method in accordance with the principles described below.

Following the business combination, the continuity of common control is presented in the financial statements, while the fair value remeasurement of net assets (or recognition of new assets) or measurement of goodwill 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.

For the purpose of settlement of the entities under common control of the State Treasury, the Company uses separate financial statements of an acquired entity in order to determine the value of its assets and liabilities. For the purpose of settlement of the entities under common control of the State Treasury within the TAURON Capital Group, the Company uses consolidated financial statements in order to determine the value of assets and liabilities of an acquired subsidiary.

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

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

9.2. Property, plant and equipment (Note 18)

Key fixed assets in individual segments:

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

Property, plant and equipment are carried at cost less accumulated depreciation charges and impairment losses.

The cost includes:

- acquisition price or manufacturing cost;
- costs directly attributable to the purchase and bringing the asset to the working condition;
- projected cost of disassembly of property, plant and equipment, their removal, and restoration of their current location to its initial condition (accounting policy on provisioning for these costs have been presented in Note 9.20);
- borrowing costs (accounting policy on capitalizing these costs has been presented in Note 9.7).

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

The Group recognizes specialized spare parts and service equipment as separate items of property, plant and equipment if their useful life exceeds one year.

Depreciation charges are calculated at cost of the given asset less its residual value. Depreciation is based on a depreciation plan determining the projected useful life of each asset. Property, plant and equipment (including components) are depreciated on a straight-line basis over the period of their economic useful lives, except for land and fixed assets under construction which are not depreciated. Specialized spare parts and service equipment are depreciated over the remaining useful life of the asset they refer to.

Depreciation principles applied to assets used under finance lease are consistent with those applied to depreciation 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 item is fully depreciated over the shorter of the lease term and its useful life.

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

Asset group	Average remaining depreciation period (number of years)
Buildings, premises, civil and water engineering structures	16 years
Plant and machinery	10 years
Other tangible fixed assets	4 years

Property, plant and equipment are tested for impairment if there is any indication of impairment. The impairment tests of property, plant and equipment are carried out in line with the accounting policy presented in Note 9.6.

9.3. Goodwill (Note 19)

Goodwill is carried at its gross value (determined in line with the accounting policies presented in Note 9.1.2) less any accumulated impairment losses. Goodwill is not amortized, but it is tested for impairment on an annual basis or more frequently, if any indications of impairment occur.

As at the acquisition date the goodwill acquired is allocated to each cash-generating unit (CGU) that derives benefits from synergy effects. Operating segment is the lowest level in the Group with attributable goodwill and with goodwill monitored for internal management purposes in the Group (except for the Generation segment). In the Generation segment, however, the lowest level units are CGU related to electricity generation from conventional sources, including cogeneration and co-firing of biomass and other thermal energy (TAURON Wytwarzanie S.A.), CGU related to generation to electricity from renewable sources (TAURON Ekoenergia Sp. z o.o.) and CGU related to generation, distribution and sale of heat (TAURON Ciepło Sp. z o.o.).

Impairment tests of goodwill are carried out in accordance with the accounting principles presented in Note 9.6.

9.4. Energy certificates and gas emission allowances (Note 20)

The item includes:

- certificates of energy generated using renewable sources and in gas, methane and other cogeneration and energy efficiency certificates acquired or received for surrendering purposes due to the sale of electricity to end buyers;
- greenhouse gas emission allowances acquired with the intention to meet the obligation resulting from emission of greenhouse gases.

The Group classifies energy certificates and greenhouse gas emission allowances based on the intent regarding their use determined as at the acquisition date (with subsequent reclassification allowed) as:

- short-term intangible assets: energy certificates and greenhouse gas emission allowances, designated for own purposes, if the Group is going to surrender them in order to fulfil its obligation for the current year;
- long-term intangible assets: energy certificates and greenhouse gas emission allowances, designated for own purposes, if the Group is going to surrender them in subsequent years in order to fulfil its obligation;
- inventories: energy certificates and greenhouse gas emission allowances held for sale.

Upon initial recognition, these assets are measured in accordance with the following principles:

	Acquired	Granted / Received free of charge	Release
Energy certificates	Acquisition cost	Fair value as at the receipt date	Weighted average
Greenhouse gas emission allowances	Acquisition cost	Nominal value (i.e. zero)	Obtained free of charge in the first place, subsequently acquired ones (according to weighted average)

Surrender of the energy certificates and greenhouse gas emission allowances held (in correspondence with the settlement of the provision amount) takes place as at the allowances surrender date. Principles of recognizing provisions for obligation to submit energy certificates for cancellation and for liabilities arising from greenhouse gas emissions are presented in Note 9.21.

9.5. Other intangible assets (Note 21)

Key items of other intangible assets include acquired right to perpetual usufruct of land, software, concessions, patents, licenses and similar.

Other intangible assets are measured at cost less accumulated amortization charges and impairment losses.

Other intangible assets, except for those non-commissioned yet, are amortized over the period of their estimated use. Amortization is calculated based on initial value less residual value.

The residual value is included in the determination of the basis for calculation of amortization charges, if there is an active market regarding a given asset. Residual value of the perpetual usufruct of land has been determined based on market prices. Since the residual value is close to the carrying amount, the perpetual usufruct was not amortized.

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

Asset group	Average remaining amortization period (number of years)
Development expenses	2 years
Software, concessions, patents, licenses and similar items	4 years
Other	10 years

9.6. Impairment of non-financial non-current assets (Note 18 and Note 19)

Goodwill is tested for impairment each year on a regular basis, and additionally each time if impairment indications occur. Other non-financial non-current assets are tested for impairment if any indication of impairment occurs.

When carrying out impairment tests, the Group estimates the recoverable amount of a given asset or CGU to which the asset belongs. Information regarding the determination of CGU to which the goodwill is allocated is presented in Note 9.3.

The recoverable amount of an asset or CGU item corresponds to the higher of: fair value less costs to sell or value in use. If the carrying amount of an asset/CGU exceeds its recoverable amount, impairment occurs and the amount of the asset is reduced to the recoverable amount determined.

Impairment loss is allocated to goodwill in the first place; the remaining amount is allocated to individual assets included in a given CGU, up to the share of the carrying amount of each asset in the carrying amount of the CGU. Following the allocation, the carrying amount of an asset cannot be lower than the highest of the three following amounts: fair value less costs of disposal, value in use and zero.

If impairment indications that have resulted in recognition of an impairment loss in the preceding periods cease to exist, the loss is reversed or reduced. Impairment loss on goodwill cannot be reversed.

9.7. Borrowing costs

Borrowing costs are capitalized as part of the cost of qualifying non-current assets.

Borrowing costs include interest on specific and general borrowings calculated using the effective interest method and financial charges due to finance lease agreement. Capitalization includes the effective portion of a hedging relationship for contracts that fulfil the terms of hedge accounting, concluded in relation to funding of fixed assets construction (the hedge accounting policy is presented in Note 9.18).

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

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

9.8. Investments in joint ventures (Note 22)

Joint arrangements of the Group are classified as joint ventures. Shares in joint ventures where the Group exercises a joint control are accounted for using the equity method.

When using the equity method, the initial value of investments carried at cost is increased or reduced by the share in gains/losses and in other comprehensive income of a joint venture beginning from the acquisition date (recognized in financial profit/loss or other comprehensive income of the Group, respectively).

Interests in joint ventures are tested for impairment in case indications of possible impairment or impairment loss reversal occur.

9.9. Loans granted to joint ventures (Note 23)

Loans granted to a joint venture do not meet the criteria allowing their classification as net investments in a joint venture. Loans are initially recognized at fair value and measured at amortized cost including impairment as at the end of the reporting period.

9.10. Other non-financial assets (Note 25)

The Group recognizes prepayments, advance payments for fixed assets under construction, intangible assets and inventories as other non-financial assets. Advance payments, as non-monetary items, are not discounted.

Prepayments include in particular costs of production preparation in coal mines, including costs of reinforcing working faces and costs of drilling drifts not classified as property, plant and equipment. These costs are recognized in the amount of incurred expenses and charged to profit/loss based on the monthly stage of completion of the planned extraction of commercial coal from each working face.

9.11. Inventories (Note 26)

Group's inventories include mostly fuel (classified as materials, semi-finished products or finished products) as well as energy certificates and greenhouse gas emission allowances held for sale.

Inventories are measured at the lower of: cost or the net realizable value. Releases of inventories are measured using the weighted average method.

9.12. Receivables from clients (Note 27)

Receivables from clients include those invoiced and accrued as deferred income, not measured or invoiced in the existing settlement system. The accounting policy regarding accrued revenue is presented in Note 9.26.

Receivables from clients are measured at initially invoiced amounts (including the effects of discount, if material), including impairment losses.

As at the balance sheet date, the Group checks its receivables or groups of receivables for objective evidence of impairment. Material objective indications include mostly payment delays, cases when a debtor faces serious financial problems or is declared bankrupt, instigating a lawsuit against a debtor, a material unfavorable change of debtor's economic, legal or market conditions.

If the recoverable amount of an asset is lower than its carrying amount, an allowance is recognized up to the level of the current value of planned cash flows. Receivables from debtors declared bankrupt, claimed at court and to be collected by means of administrative or court enforcement, are fully impaired. In other cases, collective impairment allowances are recognized based on payment delay: 50% for receivables overdue by 6 to 9 months and 100% for receivables overdue by more than 9 months.

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

9.13. Cash and cash equivalents (Note 29)

Cash and cash equivalents include in particular cash at bank and in hand, as well as short-term deposits with primary maturity up to three months.

Cash is recognized in nominal value. The nominal value of funds on bank accounts includes interest accrued by the bank or by the company itself.

9.14. Non-current assets/disposal groups classified as held for sale and the related liabilities (Note 30)

Non-current assets/disposal groups and the related liabilities are classified as held for sale, if their carrying amount is recovered mostly through sale and the sale is considered highly probable. They are recognized at a lower of the two amounts: carrying amount or fair value less costs to sell.

9.15. Issued capital (Note 31.1)

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

9.16. Debt liabilities (Note 33)

Debt liabilities include bank loans, advances, debt securities and finance lease liabilities.

Debt liabilities are initially measured at fair value less transaction costs. Following initial recognition, these liabilities are measured at amortized cost using the effective interest rate method.

Finance leases transferring substantially all the risks and rewards of ownership of a lease object to the Capital Group are recognized in the statement of financial position as at the inception of the lease at the lower of: fair value of a leased asset or current value of minimum lease payments.

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.

(in PLN '000)

9.17. Derivative financial instruments (Note 34)

Derivative instruments included in the scope of IAS 39 are classified as financial assets/liabilities measured at fair value through profit or loss, except for those designated as hedging instruments and subject to hedge accounting. Derivatives acquired and maintained for internal purposes, as excluded from the scope of IAS 39, are not measured as at the balance sheet date.

Derivative instruments categorized as "financial assets/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. Changes in the fair value of these instruments are charged to profit/loss for the period. Derivatives are recognized as assets if their amount is positive, and as liabilities, if their amount is negative.

As at the balance sheet date, Interest Rate Swaps (IRS) acquired and maintained to hedge against interest rate risk related to issued bonds are subject to hedge accounting (the accounting policy described in details in Note 9.18). Other derivatives held by the Group as at the end of the reporting period are not subject to hedge accounting.

As at the end of the reporting period, the Group held the following derivatives:

Classification	Instrument type
Derivatives subject to hedge accounting	Interest Rate Swaps concluded to hedge against risk related to interest rate changes. Subject to hedge accounting; detailed policy presented in Note 9.18.
Derivatives not subject to hedge accounting, classified as "assets/liabilities measured at fair value through profit or loss"	• forward contracts concluded in order to hedge against risk related to foreign exchange rate fluctuations; • Coupon Cross Currency Swap (CCIRS) concluded in order to hedge against risk related to foreign exchange rate and interest rate fluctuations; • forwards and futures for purchase and sales of emission allowances, energy and other commodities, concluded and maintained for speculation purposes.
Derivatives excluded from the scope of IAS 39	Forwards and futures for purchase and sales of non-financial assets, concluded and maintained for own use purposes.

9.18. Hedge accounting

In order to hedge interest rate risk the Group uses interest rate swaps. The instruments hedge cash flows related to bonds issued. These transactions are subject to hedge accounting.

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

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 for the period.

Gain or loss from revaluation of the hedging instrument disclosed in other comprehensive income is recognized directly in profit or loss for the period in the same period during which the hedged item affects profit or loss for the period.

9.19. Provisions for employee benefits (Note 35)

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

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

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

At the reporting date the present value of provisions for post-employment benefits and provisions for jubilee bonuses is calculated by an independent actuary using actuarial methods. 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 measurement of defined benefit obligations are fully charged to other comprehensive income (with the accumulated loss charged to retained earnings), while actuarial gains or losses on jubilee benefits are changed to profit or loss.

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

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

9.20. Provisions for dismantling of fixed assets and restoration of land (Note 36)

Provision for mine decommissioning costs

The provision for costs of dismantling fixed assets and restoration of land include mainly the provision for costs of liquidating mines, for which it is required to liquidate the assets and restore the land to its initial state.

The provision is determined based on future decommissioning costs and costs of land restoration estimated by independent experts taking into account discounting effect and the amount determined in line with separate regulations of the Mine Decommissioning Fund. The provisions are estimated based on analysis prepared using deposit exploitation projections (for mines) and technical and business analysis.

For coal mines a corresponding entry is made in line with IAS 16 as a fixed asset item of a mine and changes in estimates are disclosed in line with IFRIC 1 Changes in Existing Decomissioning, Restoration and Similar Liabilities, i.e. as provision adjustments and capitalized future mine decommissioning costs. The related accounting policies have been presented in Note 9.2. The unwinding of the discount is recognized in profit or loss.

Provision for costs of restoration of land and dismantling and removal of fixed assets

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

9.21. Provision for liabilities due to gas emission allowances and energy certificates

9.21.1. Provision for the obligation to surrender energy certificates (Note 37.1)

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

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

Provision for the obligation to surrender energy certificates is recognized:

- in the portion corresponding to energy certificates held as at the end of the reporting period – in the amount of certificates held (the accounting policy on energy certificates has been presented in Note 9.4)
- in the portion not covered by energy certificates held at the end of the reporting period – first, in the amount resulting from futures and forwards for the purchase of certificates with the intention to fulfil the obligation for the current year; then in the market value of certificates necessary to fulfil the obligation at the end of the reporting period or in the amount of the substitution fee – in accordance with the intention concerning the method of fulfilling the obligation.

The provision is charged to operating expenses.

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

9.21.2. Provision for greenhouse gas emission liabilities (Note 37.2)

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

The accounting policy concerning emission allowances received and awarded has been presented in Note 9.4.

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

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

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

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

9.22. Other provisions (Note 36 and 38)

Other provisions include:

- a provision for use of real estate without contract. The Group recognizes provisions for all claims filed by owners of real estate on which distribution systems and heat installations are located in amounts of probable cost of claims due to land owners until the end of the reporting period. The Group does not establish a provision for possible unlodged claims of owners of land with unregulated status. Recognition and derecognition of the provision is charged to other operating revenue or other operating expense and interest accrued is charged to financial revenue or finance costs.
- A provision for onerous contracts. As at the end of the reporting period the Group recognized a provision for onerous contracts. The provision was recognized for the surplus of expected costs of meeting the obligations under the contracts with a jointly-controlled entity over the expected economic benefits to be received under the contracts.
- Other provisions which relate to court cases, counterparty claims or other claims, possible fines resulting from administrative proceedings carried out by the Energy Regulatory Office and the Office for Competition and Consumer Protection and tax settlements.

9.23. Accruals, deferred income and government grants (Note 39)

Under accruals, deferred income and government grants, the Group recognizes mainly deferred connection fees, as well as subsidies to the acquisition of property, plant and equipment. The deferred connection fees regard transactions included in the scope of IFRIC 18 Transfers of Assets from Customers, received prior to 1 July 2009. Since 1 July 2009, in accordance with IFRIC 18, the said connection fees have been recognized under revenue from sales of services.

Subsidies and grants for the acquisition of property, plant and equipment are recognized at the amount of cash received, as other operating income, so as to match the corresponding depreciation costs of property, plant and equipment.

9.24. Liabilities to suppliers, capital commitments and other financial liabilities

Liabilities to suppliers, capital commitments and other financial liabilities are measured at amounts due, since the discount effect is immaterial.

9.25. Current and deferred income tax (Note 16)

Tax Capital Group

A Tax Capital Group agreement for the years 2015–2017 was concluded on 22 September 2014. The Tax Capital Group was registered by the Head of the First Śląski Tax Office in Sosnowiec under a tax identification number NIP 2050004308 pursuant to a decision of 20 November 2014. Major companies constituting the Tax Capital Group since 2015 are: TAURON Polska Energia S.A., TAURON Wytwarzanie S.A., TAURON Dystrybucja S.A., TAURON Sprzedaż Sp. z o.o., TAURON Obsługa Klienta Sp. z o.o., TAURON Ekoenergia Sp. z o.o., TAURON Ciepło Sp. z o.o. and TAURON Wydobycie S.A.

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

Current tax

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

Deferred tax

The Group 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.

Deferred tax asset is recognized only if its realization is probable, i.e. if a tax profit sufficient to apply the asset will be generated.

Income tax related to items recognized in other comprehensive income or directly in equity, is recognized in other comprehensive income or in equity, respectively.

Deferred tax asset and deferred tax liability of companies from the Tax Capital Group are netted off due to the fact that the companies file combined tax returns.

9.26. Sales revenue (Note 11)

Revenue is recognized at the fair value of the payment, received or due, following reduction by VAT, excise duty and other sales taxes, charges, discounts and price reductions.

Revenue for a given financial year includes also accrued revenue, not measured and invoiced yet under the existing settlement system.

9.26.1. Revenue from sales of electricity distribution services in the Distribution segment

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

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

- for VAT invoices raised by reference to the meter reading – the reading date;
- for VAT invoices raised in a billing period exceeding one month, by reference to the forecast energy consumption – the forecast period;
- for settlement periods specified in contracts with buyers exceeding one month, the revenue includes the revenue which has not been measured and billed. The said revenue is estimated based on the average daily consumption of electricity in prior billing periods and the number of days in the analyzed billing period. Additional sales are measured at the weighted average sales price in the financial year.
- Adjustments to sales revenue are recognized in the period of their identification or in the period to which they relate (only when material).

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

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

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

Revenue from sales is determined on the basis of the billed volume and price, including additional assessments.

Three types of additional assessment of revenue from sales of electricity and distribution services are made in this segment:

- Additional assessment of sales to clients, unbilled as at the reporting date

  Measurement and billing systems showing the electricity volume sold to retail clients are read and invoices are issued mainly in periods not corresponding to reporting periods. Therefore, the Group companies from the Sales segment make appropriate estimates of sales at each reporting date. For clients being parties to complex contracts and sales contracts, the additional assessment is made in the billing systems on the basis of the average daily consumption of electricity between the last actual reading date and the reporting date.

- Additional assessment of sales related to client migration to an integrated billing system

  Due to the implementation of an integrated billing system, at each balance sheet date additional assessments have been made to comply with technical requirements of the billing system in relation to earlier meter reading dates and changes to the client billing model versus the previous billing systems.

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

  The Group companies from the Sales segment reconcile the energy balance by estimating the non-balancing sales or purchase volume at each reporting date. An amount increasing or reducing revenue from sales of electricity, determined as the product of the estimated non-balancing sales and the weighted average purchase price is also accounted for.

9.26.3. Revenue from wholesale of electricity in the Generation segment

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

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

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

9.26.4. Revenue from sales of heat in the Generation segment

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

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

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

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

9.26.5. Revenue from sales of coal in the Mining segment

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

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

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

9.27. Operating expense

Operating expense 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).

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

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

(in PLN '000)

9.28. Transactions in foreign currencies and translation into the presentation currency of foreign operations

Foreign currency transactions (i.e. those not made in the functional currency) are translated into the functional currency at initial recognition at the exchange rate applicable as at the transaction date.

As at the end of the reporting period monetary items are translated at the closing rate (for entities, whose functional currency is PLN, the closing rate is the average exchange rate published for the currency by the National Bank of Poland as at the date).

Exchange rates applied for the purpose of balance sheet measurement:

Currency	31 December 2015	31 December 2014
USD	3.9011	3.5072
EUR	4.2615	4.2623
CZK	0.1577	0.1537

As at the reporting date exchange differences from translation and settlement are recognized through profit or loss in the financial revenue (or cost), except for those capitalized in assets.

Individual items of the financial statements of foreign operations (TAURON Czech Energy s.r.o. and TAURON Sweden Energy AB (publ)) are translated to the presentation currency in the following manner:

- assets and liabilities are translated to the presentation currency at the average rate published by the National Bank of Poland as at the reporting date;
- revenue and expenses have been translated at the rate of the National Bank of Poland published on the transaction date or the average rate for a given period, if no significant exchange rate fluctuations occurred in the period;
- exchange differences from translation have been recognized in other comprehensive income.

9.29. Statement of cash flows

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

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Information on operating segments

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

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

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

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

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

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

Segment liabilities do not include deferred tax, income tax liability or financial liabilities, except for payables to suppliers, investment liabilities and payroll liabilities, which represent segment liabilities.

The Group's financing (including financial expense and revenue) and income tax are monitored at the Group level and they are not allocated to segments.

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

The Management Board separately monitors operating results of the segments to take decisions on how to allocate the resources, to evaluate the effects of the allocation and to evaluate performance. Evaluation of performance is based on EBITDA and operating profit or loss. EBITDA is defined as EBIT increased by amortization/depreciation and impairment of non-financial assets. EBIT is considered by the Group the profit/(loss) on continuing operations before deducting taxes, finance income and finance cost, i.e. operating profit (loss). In the year ended 31 December 2015, the Management Board of the Company decided to change the definition of EBITDA. In prior periods, EBITDA had been defined by the Group as EBIT increased by amortization/depreciation. The definition of EBITDA has been changed to clearly describe the method of calculating this figure by the Group in line with the generally applied investors' practice. EBITDA reported in compliance with the changed definition will be less sensitive to one-off events, because recognition and reversal of impairment losses are of non-repetitive nature. Consequently, the Management Board decided that the new definition of EBITDA, accounting for impairment losses for non-financial assets, will ensure higher clarity and comparability of financial data presented by individual entities, hence increasing the value for readers of the financial statements. Comparable data were appropriately restated.

In the year ended 31 December 2015 the Management Board decided to no longer distinguish the following operating segments: Renewable Sources of Energy, Heat and Customer Service. The Management Board monitors performance of the Generation segment encompassing all companies generating power and heat from conventional and renewable sources. Activities which used to be included in the Customer Service segment have been reclassified to other business activities of the Group. Comparable data were appropriately restated.

Renewable Sources of Energy and Heat segments have been combined with the Generation segment to allocate resources more efficiently, assess performance of the operations related to generating power from renewable sources and in cogeneration, which were presented in separate segments before. Moreover, the former Customer Service segment provides services mainly to the Capital Group companies, hence generating very insignificant revenue and profit from transactions outside the Group, therefore the data added no informative value for the readers of the Group's financial statements. The former operating segments Renewable Sources of Energy, Heat and Customer Service did not exceed quantitative thresholds specified in IFRS 8, which, if met, would require presenting the related financial data separately.

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

The Group's reporting format for the period from 1 January 2015 to 31 December 2015 and for the comparative period was based on the following operating segments:

Operating segments	Core business	Subsidiaries/ Entities recognized with the equity method
Mining 	*Hard coal mining*	TAURON Wydobycie S.A.
Generation 	*Generation of electricity using conventional sources, including combined heat and power generation, as well as generation of electricity using joint combustion of biomass and other energy acquired thermally. Key fuels include hard coal, biomass, coal gas and coke-oven gas.*	TAURON Wytwarzanie S.A. *Elektrownia Blachownia Nowa Sp. z o.o.** *TAMEH HOLDING Sp. z o.o.** *TAMEH POLSKA Sp. z o.o.** *TAMEH Czech s.r.o.**
	*Generation of electricity using renewable sources.*	TAURON Ekoenergia Sp. z o.o.
	*Generation, distribution and sales of heat.*	TAURON Ciepło Sp. z o.o. *Elektrociepłownia Stalowa Wola S.A.**
Distribution 	*Distribution of electricity*	TAURON Dystrybucja S.A. TAURON Dystrybucja Serwis S.A. TAURON Dystrybucja Pomiary Sp. z o.o.
Sales 	*Wholesale trading in electricity, trading in emission allowances and energy certificates and sale of electricity to domestic end users or entities which further resell electricity.*	TAURON Polska Energia S.A. TAURON Sprzedaż Sp. z o.o. TAURON Sprzedaż GZE Sp. z o.o. TAURON Czech Energy s.r.o.

* *Entities recognized with the equity method.*

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

(in PLN '000)

10.1. Operating segments

Revenue, profit or loss, assets and liabilities of individual segments of the Group for the years ended 31 December 2015 and 31 December 2014 have been presented below.

Year ended 31 December 2015	Mining	Generation	Distribution	Sales	Other	Unallocated items/ Eliminations	Total
Revenue							
Sales to external customers	459 304	2 226 869	3 006 443	12 597 692	84 916	–	**18 375 224**
Inter-segment sales	746 640	3 149 411	3 443 831	3 386 447	843 037	(11 569 366)	**–**
Segment revenue	**1 205 944**	**5 376 280**	**6 450 274**	**15 984 139**	**927 953**	**(11 569 366)**	18 375 224
Profit/(loss) of the segment	**(104 328)**	**(3 477 076)**	**1 371 577**	**369 604**	**32 596**	**(6 379)**	**(1 814 006)**
Unallocated expenses	–	–	–	–	–	(87 135)	**(87 135)**
EBIT	**(104 328)**	**(3 477 076)**	**1 371 577**	**369 604**	**32 596**	**(93 514)**	**(1 901 141)**
Share in profit/(loss) of joint ventures	–	7 933	–	–	–	–	**7 933**
Net finance income (costs)	–	–	–	–	–	(294 563)	**(294 563)**
Profit/(loss) before income tax	**(104 328)**	**(3 469 143)**	**1 371 577**	**369 604**	**32 596**	**(388 077)**	**(2 187 771)**
Income tax expense	–	–	–	–	–	383 556	**383 556**
Net profit/(loss) for the year	**(104 328)**	**(3 469 143)**	**1 371 577**	**369 604**	**32 596**	**(4 521)**	**(1 804 215)**
Assets and liabilities							
Segment assets	1 657 407	10 370 286	15 974 893	2 706 907	478 618	–	**31 188 111**
Investments in joint ventures	–	418 127	–	–	–	–	**418 127**
Unallocated assets	–	–	–	–	–	465 195	**465 195**
Total assets	**1 657 407**	**10 788 413**	**15 974 893**	**2 706 907**	**478 618**	**465 195**	32 071 433
Segment liabilities	537 234	1 735 686	2 505 890	1 652 586	303 352	–	**6 734 748**
Unallocated liabilities	–	–	–	–	–	9 288 528	**9 288 528**
Total liabilities	**537 234**	**1 735 686**	**2 505 890**	**1 652 586**	**303 352**	**9 288 528**	16 023 276
EBIT	**(104 328)**	**(3 477 076)**	**1 371 577**	**369 604**	**32 596**	**(93 514)**	**(1 901 141)**
Depreciation/amortization	**(113 473)**	**(647 963)**	**(992 771)**	**(10 876)**	**(67 607)**	**–**	**(1 832 690)**
Impairment	**8**	**(3 583 864)**	**(7 781)**	**–**	**(117)**	**–**	**(3 591 754)**
EBITDA	**9 137**	**754 751**	**2 372 129**	**380 480**	**100 320**	**(93 514)**	**3 523 303**
Other segment information							
Capital expenditure*	211 458	1 934 229	1 924 886	4 604	100 293	–	**4 175 470**

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

Year ended 31 December 2014 *(adjusted figures)*	Mining	Generation	Distribution	Sales	Other	Unallocated items/ Eliminations	Total
Revenue							
Sales to external customers	486 545	2 965 705	2 678 276	12 352 225	94 728	–	**18 577 479**
Inter-segment sales	707 479	1 997 946	3 396 370	2 925 226	775 307	(9 802 328)	**–**
Segment revenue	**1 194 024**	**4 963 651**	**6 074 646**	**15 277 451**	**870 035**	**(9 802 328)**	18 577 479
Profit/(loss) of the segment	**(6 829)**	**72 093**	**1 209 344**	**582 307**	**56 593**	**(11 442)**	**1 902 066**
Unallocated expenses	–	–	–	–	–	(71 953)	**(71 953)**
EBIT	**(6 829)**	**72 093**	**1 209 344**	**582 307**	**56 593**	**(83 395)**	**1 830 113**
Share in profit/(loss) of joint ventures	–	(936)	–	–	–	–	**(936)**
Net finance income (costs)	–	–	–	–	–	(330 962)	**(330 962)**
Profit/(loss) before income tax	**(6 829)**	**71 157**	**1 209 344**	**582 307**	**56 593**	**(414 357)**	**1 498 215**
Income tax expense	–	–	–	–	–	(312 655)	**(312 655)**
Net profit/(loss) for the year	**(6 829)**	**71 157**	**1 209 344**	**582 307**	**56 593**	**(727 012)**	**1 185 560**
Assets and liabilities							
Segment assets	1 742 510	12 745 464	15 012 125	3 715 551	459 596	–	**33 675 246**
Investments in joint ventures	–	414 584	–	–	–	–	**414 584**
Unallocated assets	–	–	–	–	–	469 363	**469 363**
Total assets	**1 742 510**	**13 160 048**	**15 012 125**	**3 715 551**	**459 596**	**469 363**	34 559 193
Segment liabilities	706 921	1 672 567	2 457 586	1 489 054	323 730	–	**6 649 858**
Unallocated liabilities	–	–	–	–	–	9 912 771	**9 912 771**
Total liabilities	**706 921**	**1 672 567**	**2 457 586**	**1 489 054**	**323 730**	**9 912 771**	16 562 629
EBIT	**(6 829)**	**72 093**	**1 209 344**	**582 307**	**56 593**	**(83 395)**	**1 830 113**
Depreciation/amortization	**(105 241)**	**(668 318)**	**(947 792)**	**(25 906)**	**(49 730)**	**–**	**(1 796 987)**
Impairment	**(8)**	**(52 392)**	**(15 152)**	**–**	**108**	**–**	**(67 444)**
EBITDA	**98 420**	**792 803**	**2 172 288**	**608 213**	**106 215**	**(83 395)**	**3 694 544**
Other segment information							
Capital expenditure*	188 897	855 029	1 934 781	5 928	104 957	–	**3 089 592**

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

(in PLN '000)

10.2. Geographic areas of operations

The majority of the Group's business operations is carried out in Poland. In the years ended 31 December 2015 and 31 December 2014 export sales amounted to PLN 469 756 thousand and PLN 487 453 thousand, respectively.

11. Sales revenue

	Year ended 31 December 2015	Year ended 31 December 2014 (*adjusted figures*)
Sale of goods for resale, finished goods and materials without elimination of excise	**12 191 724**	**12 785 392**
Excise	(425 691)	(453 850)
Sale of goods for resale, finished goods and materials, of which:	**11 766 033**	**12 331 542**
Electricity	10 099 333	10 503 015
Heat energy	613 660	629 766
Energy certificates and greenhouse gas emission allowances	386 211	354 247
Coal	439 608	470 519
Furnace blast and compressed air	56	230 544
Other goods for resale, finished goods and materials	227 165	143 451
Rendering of services, of which:	**6 552 945**	**6 193 716**
Distribution and trade services	6 184 958	5 816 878
Connection fees	124 866	122 594
Maintenance of road lighting	116 042	111 634
Other services	127 079	142 610
Other revenue	**56 246**	**52 221**
Total sales revenue	**18 375 224**	**18 577 479**

The revenue from sale of furnace blast and compressed air decreased because in December 2014 Zakład Wytwarzania Nowa was contributed in kind by the TAURON Group to TAMEH POLSKA Sp. z o.o., being a part of a joint arrangement. Zakład Wytwarzania Nowa was a major provider of the Group's products in question in the comparable period.

Additional assessment of revenue from sales of electricity and distribution services in the Sales segment

Additional assessment of the revenue from the sale of electricity and distribution services have been discussed in Note 9.26 Sales revenue.

As at 31 December 2015 additionally assessed revenue from sale of electricity and distribution services in the Sales segment reached PLN 248 098 thousand and, when revered estimations from the prior year have been accounted for, the impact on the profit or loss for the year has reached PLN 95 390 thousand.

(in PLN '000)

12. Cost of sales

12.1. Expenses by type

	Year ended 31 December 2015	Year ended 31 December 2014 (*adjusted figures*)
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(1 832 690)	(1 796 987)
Impairment of property, plant and equipment and intangible assets	(3 598 926)	(51 636)
Materials and energy	(1 848 777)	(2 084 545)
Maitenance and repair services	(382 641)	(416 141)
Distribution services	(1 706 894)	(1 541 950)
Other external services	(673 161)	(736 375)
Taxes and charges	(770 492)	(692 189)
Employee benefits expense	(2 560 784)	(2 795 472)
Allowance for doubtful debts	(29 461)	(36 218)
Other	(130 155)	(139 718)
Total costs by type	**(13 533 981)**	**(10 291 231)**
Change in inventories, prepayments, accruals and deferred income	(164 328)	61 872
Cost of goods produced for internal purposes	610 506	597 273
Selling and distribution expenses	488 859	549 164
Administrative expenses	618 969	664 187
Cost of goods for resale and materials sold	(7 160 800)	(7 230 044)
Cost of sales	**(19 140 775)**	**(15 648 779)**

12.2. Employee benefits expenses

	Year ended 31 December 2015	Year ended 31 December 2014
Wages and salaries	(1 952 987)	(2 003 756)
Social security costs	(380 096)	(394 979)
Jubilee bonuses	(19 367)	(137 866)
Social Fund	(56 215)	(59 782)
Post-employment benefit expenses, of which:	(31 863)	(72 537)
Provision for retirement, disability and similar benefits	(11 824)	(7 513)
Coal allowances and special electricity rates and charges	32 287	(1 514)
Social Benefits Fund	16 387	(1 858)
Contributions to employee retirement plans	(68 713)	(61 652)
Voluntary termination scheme	(46 172)	(42 809)
Other employee benefit expenses	(74 084)	(83 743)
Employee benefits expenses, of which:	**(2 560 784)**	**(2 795 472)**
Items included in cost of sales	(1 705 021)	(1 841 096)
Items included in selling and distribution expenses	(226 328)	(276 414)
Movement in stock of finished goods	(5 941)	(93 151)
Items included in administrative expenses	(376 309)	(358 789)
Items included in cost of goods produced for internal purposes	(247 185)	(226 022)

A decrease in post-employment benefit costs is related mostly to derecognition of a provision for the Social Benefits Fund and for coal allowances in a Mining segment company. A reduction in the costs of provisions for jubilee bonuses is related to a change in the discount rate adopted for the purposes of actuarial valuation. The above changes have been described in detail in Note 35.1 hereto.

(in PLN '000)

12.3. Depreciation and amortization charges and impairment losses

	Year ended 31 December 2015	Year ended 31 December 2014
Items included in cost of sales:	**(5 337 505)**	**(1 748 760)**
Depreciation of property, plant and equipment	(1 703 932)	(1 660 950)
Impairment of property, plant and equipment	(3 437 907)	(49 256)
Amortization of intangible assets	(36 909)	(37 573)
Impairment of intangible assets	(1 749)	(794)
Impairment of goodwill	(154 998)	–
Other	(2 010)	(187)
Items included in selling and distribution expenses:	**(33 291)**	**(42 786)**
Depreciation of property, plant and equipment	(16 999)	(28 513)
Amortization of intangible assets	(16 292)	(14 273)
Items included in administrative expenses:	**(42 354)**	**(41 505)**
Depreciation of property, plant and equipment	(25 286)	(23 049)
Impairment of property, plant and equipment	(2 262)	(1 327)
Amortization of intangible assets	(14 806)	(17 057)
Impairment of intangible assets	–	(72)
Items included in cost of goods produced for internal purposes:	**(18 466)**	**(15 572)**
Depreciation of property, plant and equipment	(18 117)	(15 380)
Amortization of intangible assets	(349)	(192)
Total depreciation/amortization expense and impairment, of which:	**(5 431 616)**	**(1 848 623)**
Depreciation and amortization	(1 832 690)	(1 796 987)
Impairment	(3 598 926)	(51 636)

An increase in costs of impairment losses on property, plant and equipment and on goodwill is related to the Group's having recognized impairment losses on property, plant and equipment and on goodwill of the Generation segment companies based on impairment tests. The procedure has been described in detail in Notes 18 and 19 hereto.

Depreciation and amortization rates

Following the review of useful lives of fixed assets and intangible assets carried out in 2015 amortization and depreciation costs were reduced in 2015 (PLN 6 177 thousand), with the following impact on individual segment costs:

- a decrease in amortization and depreciation costs in the Mining segment of PLN 1 744 thousand;
- an increase in amortization and depreciation costs in the Generation segment of ca. PLN 5 567 thousand;
- a decrease in amortization and depreciation costs in the Distribution segment of ca. PLN 10 000 thousand.

The review of the economic useful lives in other segments did not considerably affect depreciation and amortization costs in 2015.

(in PLN '000)

13. Other operating income and expenses

	Year ended 31 December 2015	Year ended 31 December 2014
Penalties, fines, compensations received or receivable	28 043	27 530
Surplus of provisions (recognized)/derecognized	(12 616)	44 672
Subsidies/grants and revenue representing the equivalent of amortization/depreciation charges on subsidies/grants to fixed assets or fixed assets received free of charge	39 404	25 335
Surplus of shares taken up in a joint venture over the value of contributed assets	–	38 965
Derecognition of actuarial provisions for the existing pensioners and disability pensioners in the Mining segment	45 557	–
Other	43 878	32 109
Total other operating income	**144 266**	**168 611**
Loss on the disposal of property, plant and equipment/intangible assets and costs of damages to non-current assets	(14 973)	(17 602)
Write-off for abandoned investments and production as well as liquidated materials	(81 540)	(1 826)
Costs of court proceedings, fines and damages	(12 322)	(12 659)
Other	(63 193)	(21 760)
Total other operating expenses	**(172 028)**	**(53 847)**
Total other operating income and expenses	**(27 762)**	**114 764**

An increase in the costs of writing off discontinued investments is related to the write off of capitalized costs of drilling drifts and reinforcing working faces in the amount of PLN 78 610 thousand due to loss of economic use.

An increase in other operating expenses vs. the comparative data results mostly from settlement of a shortage in the inventory volume of coal and semi-finished products of PLN 39 084 thousand detected during a physical count in TAURON Wydobycie S.A.

14. Finance income

	Year ended 31 December 2015	Year ended 31 December 2014
Income from financial instruments, of which:	**68 765**	**78 155**
Interest income	60 385	51 315
Dividends	4 684	3 931
Measurement of derivative instruments	2 415	–
Foreign exchange differences	524	–
Gain on the disposal of investments	757	22 909
Other finance income	**4 687**	**7 751**
Total finance income	**73 452**	**85 906**

15. Finance costs

	Year ended 31 December 2015	Year ended 31 December 2014
Financial instrument costs, of which:	**(310 271)**	**(328 555)**
Interest costs	(279 673)	(285 474)
Surplus of impairment losses recognised	(9 609)	(1 878)
Measurement of derivatives	–	(12 236)
Foreign exchange losses	–	(14 340)
Commission relating to borrowings and debt securities	(12 514)	(14 013)
Net costs from realized derivative instruments	(8 475)	(614)
Other finance costs, of which:	**(57 744)**	**(88 313)**
Interest on employee benefits	(44 491)	(64 096)
Other finance costs	(13 253)	(24 217)
Total finance costs, including recognized in the statement of comprehensive income:	**(368 015)**	**(416 868)**
Interest expense on debt	(279 673)	(285 474)
Other finance costs	(88 342)	(131 394)

(in PLN '000)

16. Income tax

16.1. Tax expense

	Year ended 31 December 2015	Year ended 31 December 2014
Current income tax	**(206 255)**	**(238 340)**
Current income tax expense	(233 398)	(258 363)
Adjustments to current income tax from previous years	27 143	20 023
Deferred tax	**589 811**	**(74 315)**
Income tax expense in profit/(loss)	**383 556**	**(312 655)**
Income tax expense relating to other comprehensive income	**(28 587)**	**68 172**

16.2. Reconciliation of the effective tax rate

	Year ended 31 December 2015	Year ended 31 December 2014
Profit/(loss) before taxation	**(2 187 771)**	**1 498 215**
Tax at Poland's statutory tax rate of 19%	**415 676**	**(284 661)**
Adjustments to income tax from previous years	27 143	20 023
Tax effects of the following items:	(62 376)	(42 927)
Recognition of non-deductible provisions and write-downs/allowances	(9 183)	(3 129)
National Disabled Persons Rehabilitation Fund (PFRON)	(4 551)	(4 766)
Permanent differences on costs related to tangible assets	(5 135)	(26 317)
Impairment of goodwill	(29 450)	–
Other tax non-deductible costs	(19 692)	(24 251)
Dividends	796	721
Other income not included in taxable base	4 839	14 815
Other	3 113	(5 090)
Tax at the effective rate of 17.5% (2014 – 20.9%)	**383 556**	**(312 655)**
Income tax (expense) in profit/(loss)	383 556	(312 655)

16.3. Deferred income tax

	As at 31 December 2015	As at 31 December 2014
– difference between tax base and carrying amount of fixed and intangible assets	1 490 408	2 037 038
– difference between tax base and carrying amount of financial assets	29 609	21 505
– different timing of recognition of sales revenue for tax purposes	69 064	59 105
– difference between tax base and carrying amount of energy certificates	48 817	47 490
– other	39 889	22 813
Deferred tax liability	**1 677 787**	**2 187 951**
– provisions	685 405	667 464
– power infrastructure received free of charge and received connection fees	57 071	62 177
– difference between tax base and carrying amount of financial assets and financial liabilities	49 471	48 003
– valuation of hedging instruments	18 139	34 377
– different timing of recognition of cost of sales for tax purposes	58 333	38 632
– tax losses	12 758	12 758
– other	55 618	29 491
Deferred tax assets	**936 795**	**892 902**
After setting off balances at the level of individual Group companies, deferred tax for the Group is presented as:		
Deferred tax asset	**54 184**	**62 108**
Deferred tax liability	**(795 176)**	**(1 357 157)**

(in PLN '000)

Change in deferred tax liability

	Year ended 31 December 2015	Year ended 31 December 2014
Opening balance	**2 187 951**	**2 175 471**
Change in the balance:		
corresponding to profit/(loss)	(529 019)	42 968
contribution	–	(12 397)
reclassification to/from disposal group classified as held for sale	18 910	(18 910)
other changes	(55)	819
Closing balance	**1 677 787**	**2 187 951**

Change in deferred tax asset

	Year ended 31 December 2015	Year ended 31 December 2014
Opening balance	**892 902**	**882 453**
Change in the balance:		
corresponding to profit/(loss)	60 792	(31 347)
corresponding to other comprehensive income	(28 587)	68 172
contribution	–	(16 627)
reclassification to/from disposal group classified as held for sale	11 585	(11 585)
other changes	103	1 836
Closing balance	**936 795**	**892 902**

Deferred tax asset

Based on the forecasts prepared for the Tax Capital Group (TCG), according to which taxable income will be earned in 2016 and in subsequent years, it has been concluded that there is no risk that the deferred tax asset recognized in these consolidated financial statements will not be realized.

Deferred tax liability

A decrease in deferred tax liability in correspondence with profit or loss is related mostly to impairment losses on property, plant and equipment recognized by the Generation segment companies, as described in detail in Note 18 hereof.

16.4. Income tax receivables and payables

As at 31 December 2015 the Group had the following income tax assets and liabilities:

- income tax receivable of PLN 909 thousand, where the entire amount does not relate to the Tax Capital Group companies,
- income tax liability of PLN 85 357 thousand, where PLN 82 944 thousand relates to settlements of the Tax Capital Group.

17. Earnings (loss) per share

Earnings (loss) per share (in PLN)	Year ended 31 December 2015	Year ended 31 December 2014
Basic and diluted, for profit (loss) for the year attributable to equity holders of the Parent	(1.03)	0.67

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.

(in PLN '000)

	Year ended 31 December 2015	Year ended 31 December 2014
Net profit (loss) for the year attributable to equity holders of the Parent	(1 807 317)	1 180 893
Number of ordinary shares	1 752 549 394	1 752 549 394

18. Property, plant and equipment

Year ended 31 December 2015

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	**117 142**	**18 195 456**	**14 819 091**	**808 607**	**1 364 263**	**35 304 559**
Direct purchase	–	–	228	401	3 808 063	**3 808 692**
Borrowing costs	–	–	–	–	68 656	**68 656**
Transfer of assets under construction	3 608	1 320 193	1 400 437	102 850	(2 827 088)	**–**
Sale, disposal	(1 181)	(5 172)	(8 327)	(17 875)	(586)	**(33 141)**
Liquidation	–	(64 089)	(174 717)	(9 238)	(4)	**(248 048)**
Received free of charge	–	19 830	403	3	–	**20 236**
Transfers to/from assets held for sale	(7)	470 453	793 329	(8 536)	21 192	**1 276 431**
Overhaul expenses	–	–	–	–	139 078	**139 078**
Items generated internally	–	–	–	–	41 899	**41 899**
Cost of disassembly of wind farms and decommissioning of mines	–	(10 039)	(660)	–	–	**(10 699)**
Other movements	(26)	1 767	80 637	(72 202)	(15 493)	**(5 317)**
Foreign exchange differences from translation of foreign entities	–	–	7	10	–	**17**
Closing balance	**119 536**	**19 928 399**	**16 910 428**	**804 020**	**2 599 980**	**40 362 363**
ACCUMULATED DEPRECIATION						
Opening balance	**(458)**	**(5 049 663)**	**(4 957 467)**	**(440 706)**	**(5 323)**	**(10 453 617)**
Depreciation for the period	–	(839 414)	(837 677)	(87 243)	–	**(1 764 334)**
Increase of impairment	(81)	(826 976)	(2 608 593)	(5 036)	(8 421)	**(3 449 107)**
Decrease of impairrment	51	8 954	143	770	16	**9 934**
Sale, disposal	–	1 890	7 290	16 500	–	**25 680**
Liquidation	–	52 057	169 981	8 821	–	**230 859**
Transfers to/from assets held for sale	22	(39 254)	(43 328)	4 610	–	**(77 950)**
Other movements	–	(250)	(35 310)	34 557	–	**(1 003)**
Foreign exchange differences from translation of foreign entities	–	–	(4)	(4)	–	**(8)**
Closing balance	**(466)**	**(6 692 656)**	**(8 304 965)**	**(467 731)**	**(13 728)**	**(15 479 546)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**116 684**	**13 145 793**	**9 861 624**	**367 901**	**1 358 940**	**24 850 942**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**119 070**	**13 235 743**	**8 605 463**	**336 289**	**2 586 252**	**24 882 817**
of which operating segments:						
Mining	**1 189**	**582 131**	**596 130**	**14 595**	**161 732**	**1 355 777**
Generation	**41 638**	**2 514 623**	**3 977 254**	**38 806**	**1 662 593**	**8 234 914**
Distribution	**59 414**	**10 037 164**	**3 892 698**	**260 861**	**754 370**	**15 004 507**
Other segments and other operations	**16 829**	**101 825**	**139 381**	**22 027**	**7 557**	**287 619**

(in PLN '000)

Year ended 31 December 2014

	Land	Buildings, premises and civil engineering structures	Plant and machinery	Other	Assets under construction	Property, plant and equipment, total
COST						
Opening balance	**114 112**	**17 385 870**	**14 909 785**	**738 450**	**1 213 948**	**34 362 165**
Direct purchase	–	–	107	32	2 773 427	**2 773 566**
Borrowing costs	–	–	–	–	45 524	**45 524**
Transfer of assets under construction	4 511	1 409 386	1 208 791	96 797	(2 719 485)	**–**
Sale, disposal	(615)	(6 231)	(13 159)	(13 421)	(37)	**(33 463)**
Liquidation	–	(44 419)	(196 767)	(9 842)	–	**(251 028)**
Received free of charge	10	14 620	748	72	–	**15 450**
Transfers to/from assets held for sale	(80)	(488 270)	(793 781)	(868)	(21 192)	**(1 304 191)**
Contribution	–	(179 107)	(298 531)	(2 773)	(60 296)	**(540 707)**
Overhaul expenses	–	205	12 612	–	91 867	**104 684**
Items generated internally	–	–	–	–	47 445	**47 445**
Cost of disassembly of wind farms and decommissioning of mines	–	86 061	3 145	–	–	**89 206**
Other movements	(796)	17 341	(13 863)	154	(6 938)	**(4 102)**
Foreign exchange differences from translation of foreign entities	–	–	4	6	–	**10**
Closing balance	**117 142**	**18 195 456**	**14 819 091**	**808 607**	**1 364 263**	**35 304 559**
ACCUMULATED DEPRECIATION						
Opening balance	**(645)**	**(4 360 059)**	**(4 490 207)**	**(377 855)**	**(5 760)**	**(9 234 526)**
Depreciation for the period	–	(802 467)	(840 332)	(85 093)	–	**(1 727 892)**
Increase of impairment	(135)	(50 575)	(32 172)	(2 115)	(22)	**(85 019)**
Decrease of impairrment	322	12 794	20 064	1 164	459	**34 803**
Sale, disposal	–	2 427	11 361	11 608	–	**25 396**
Liquidation	–	33 287	190 786	8 890	–	**232 963**
Transfers to/from assets held for sale	–	45 919	43 679	836	–	**90 434**
Contribution	–	70 684	136 587	1 989	–	**209 260**
Other movements	–	(1 673)	2 769	(129)	–	**967**
Foreign exchange differences from translation of foreign entities	–	–	(2)	(1)	–	**(3)**
Closing balance	**(458)**	**(5 049 663)**	**(4 957 467)**	**(440 706)**	**(5 323)**	**(10 453 617)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**113 467**	**13 025 811**	**10 419 578**	**360 595**	**1 208 188**	**25 127 639**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**116 684**	**13 145 793**	**9 861 624**	**367 901**	**1 358 940**	**24 850 942**
of which operating segments:						
Mining	**1 076**	**576 796**	**552 084**	**16 828**	**122 041**	**1 268 825**
Generation	**42 476**	**2 889 200**	**5 653 879**	**41 812**	**549 314**	**9 176 681**
Distribution	**57 627**	**9 573 595**	**3 533 460**	**288 292**	**671 879**	**14 124 853**
Other segments and other operations	**15 505**	**106 202**	**122 201**	**20 969**	**15 706**	**280 583**

Property, plant and equipment used based on finance leases	Year ended 31 December 2015	Year ended 31 December 2014
Buildings	45 895	50 857
Plant and machinery	42 651	45 126
Motor vehicles	870	1 691

In the year ended 31 December 2015, the Group acquired property, plant and equipment for PLN 3 877 348 thousand, including capitalized costs of external financing. Major purchases were related to investments in the following operating segments:

Purchase of property, plant and equipment by segment	Year ended 31 December 2015	Year ended 31 December 2014
Distribution	1 858 807	1 883 562
Generation	1 750 548	703 604
Mining	210 574	185 682

Key investment projects carried out by the Group in the 2015 financial year have been presented in item 1.4.1.3. of the Report on the activities of TAURON Polska Energia S.A. Capital Group for 2015.

(in PLN '000)

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

	Year ended 31 December 2015				Year ended 31 December 2014			
	Generation	Distribution	Other	Total	Generation	Distribution	Other	Total
Increase of impairment	(3 430 917)	(18 173)	(17)	**(3 449 107)**	(72 441)	(12 556)	(22)	**(85 019)**
Decrease of impairrment	609	9 322	3	**9 934**	33 865	929	9	**34 803**
Total impact on the profit (loss) for the period	**(3 430 308)**	**(8 851)**	**(14)**	**(3 439 173)**	**(38 576)**	**(11 627)**	**(13)**	**(50 216)**

Impairment tests

Impairment tests of property, plant and equipment were carried out as at 31 December 2015 considering the following indications:

- the market value of the Company's net assets remaining below their carrying amount for a long-term period;
- long-lasting unfavorable market conditions for power manufacturers and resulting more conservative power price forecasts for the future;
- power manufacturing volumes to be adjusted in the future (i.e. limited) to the existing unfavorable market situation and pessimistic outlooks;
- manufacturing units closed sooner than expected.

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

The impairment test for property, plant and equipment and non-current intangible assets was carried out the level of individual companies, except for:

- TAURON Wytwarzanie S.A., where cash generating units ("CGU") were identified based on the cost nature and analysis of the applied methods of contracting and allocating generation from particular generation units. Consequently, the test was performed for cash generating units understood as generation units or groups of generation units;
- TAURON Ekoenergia Sp. z o.o., where water power plants and wind power plants were individually tested for impairment;
- TAURON Ciepło Sp. z o.o. – where generation of heat and electricity was separated from transmission and distribution of heat (former thermal energetics companies). For the purpose of more detailed cost analysis, additional tests were carried out for individual generation units.

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

- The adopted price path of power coal, other coal sizes and gaseous fuels. Approximately 5% increase of coal price was assumed until 2025, however it's been assumed that after 2025 the price level will remain the same as this year (in fixed prices);
- The adopted electricity wholesale price path for the years 2016–2025, 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; Approximately 22% increase was assumed until 2020, until 2025 more dynamic increase in prices was assumed, however it's been assumed that after 2025 the price level will remain the same as this year (in fixed prices);
- Changes in the Polish market model aimed to introduce the capacity market or other incentive mechanisms for production capacity have not been taken into account. The forecast electricity prices take into account the market impact of the new principles governing Operational Power Reserve application and settlements, implemented by PSE S.A. effective from 2014;
- Emission limits for generating electricity specified in the regulation of the Ministry of Economy, adjusted by capital expenditure incurred and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted by the level of operations, i.e. generation of heat;
- The adopted CO_2 emission allowance price path for the years 2016–2025. An over twofold rise of the market price is assumed by 2025 with 2025 prices thereafter (fixed);

- Green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates. A rise of ca. 9% is assumed for renewable energy prices by 2020 with a more dynamic growth rate by 2025 and 2025 prices thereafter (fixed);
- Limited support periods for green energy have been assumed in accordance with the Act on Renewable Energy Sources, which provides for new support mechanisms for renewable energy. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network. At the same time, hydropower plants with installed capacity of more than 5 MW do not qualify for support;
- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional on the Regulatory Asset Value;
- The adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- Sales volumes taking into account GDP growth and increased market competition;
- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- Maintenance of the production capacity of the existing non-current assets as a result of replacement investments;
- The level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.20% – 9.05% in nominal terms before tax.

The impairment test of assets carried out as at 31 December 2015 indicated that an additional impairment loss of PLN 3 410 726 thousand should be recognized for a portion of assets in the Generation segment. The recoverable amount for this group of assets corresponds to the value in use. Impairment loss has been charged to cost of sales, and was related to the following cash-generating units:

CGU	Company	WACC		Recoverable amount	Impairment loss recognized
		Year ended 31 December 2015	Year ended 31 December 2014		
Elektrownia Jaworzno II	TAURON Wytwarzanie S.A.	7.69%	8.25%	431 771	323 765
Elektrownia Jaworzno III				564 698	893 440
Elektrownia Łaziska				288 017	837 253
Elektrownia Siersza				239 350	555 362
Elektrownia Stalowa Wola				(7 570)	194 253
Zakład Wytwórczy Bielsko Biała EC 1	TAURON Ciepło Sp. z o.o.	7.61%	7.86%	374 966	213 204
Zakład Wytwórczy Bielsko Biała EC 2				(411)	153 446
Zakład Wytwórczy Tychy				575 881	240 003
Total					**3 410 726**

Results of the sensitivity analysis carried out for individual CGU have indicated that changes in electricity prices and in the weighted average cost of capital have the most significant impact on the value in use of tested assets. The impact of changes in the prices of hard coal and CO_2 emission allowances on the measurement is lower. Below please find estimated changes in the impairment losses on assets in the Generation segment as at 31 December 2015, resulting from modification of key assumptions.

Parameter	Change	Impact on impairment loss in PLN millions	
		Increase of impairment loss	Decrease of impairment loss
Change of electricity prices in the entire forecast period	1%	–	200
	-1%	190	–
Change of WACC (net)	+0.1 p.p.	30	–
	-0.1 p.p.	–	30
Change of CO_2 emission allowances prices in the entire forecast period	1%	40	–
	-1%	–	40
Change of coal prices in the entire forecast period	1%	80	–
	-1%	–	80

(in PLN '000)

19. Goodwill

	Year ended 31 December 2015	Year ended 31 December 2014
Opening balance	**195 155**	**247 057**
Impairment loss	(154 998)	–
Reclassification to/from disposal group classified as held for sale	51 902	(51 902)
Closing balance, of which operating segments:	**92 059**	**195 155**
Mining	13 973	13 973
Distribution	25 602	25 602
Generation	52 484	155 580

As at 31 December 2015, goodwill of PLN 51 902 thousand regarding the Generation segment, allocated to CGU related to electricity generation in renewable sources has been reclassified from a disposal group since wind-powered assets did not fulfil the requirements of IFRS 5 as at that date and were no longer classified as a disposal group held for sale, as described in detail in Note 30 hereto.

Impairment tests

As at 31 December 2015, an impairment test of the carrying amount of goodwill was performed for the net assets increased by goodwill for individual operating segments, except for the Generation segment, for which impairment tests were conducted individually for each company. In previous periods the test was carried out for operational segments. The approach change results from the fact that in 2015 Heat and Renewable Sources of Energy were no longer distinguished as separate operating segment, as discussed in detail in Note 10 to these consolidated financial statements and the resulting need to ensure comparability of goodwill impairment test approaches adopted in previous periods to TAURON Ciepło Sp. z o.o. and TAURON Ekoenergia Sp. z o.o.

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

The test was performed based on the present value of estimated operating cash flows. The calculations were based on detailed projections for the period from 2016 to 2025 and the estimated residual value, for the generating units projections cover the entire period of its functioning. 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 on the market. Projections also take into account changes in the legal environment known as at the date of the test.

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

The discount rate used for calculation reflects the weighted average cost of capital (WACC), taking into account the risk-free rate determined by reference to the yield on 10-year treasury bonds (3.22%) and the risk premium for operations appropriate for the power industry (6%). 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 assumptions affecting the estimated value in use and the discount rates adopted for individual companies are:

(in PLN '000)

Goodwill in the segment (company)	Key assumptions	Discount rate (before tax)	
		Year ended 31 December 2015	Year ended 31 December 2014
Mining	• The adopted price path of power coal, other coal sizes and gaseous fuels. By 2025 an increase in prices of coal of approx. 5% has been assumed, and the 2025 level thereafter (fixed prices); • The adopted retail price path of electricity based on the wholesale price of black energy including excise costs, cost of energy certificates surrender and a relevant markup; • Maintaining generation capacity of the existing non-current assets as a result of replacement investments.	9.05%	10.03%
Distribution	• Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the so-called Regulatory Value of Assets; • Maintenance of the electricity distribution capacity of the existing non-current assets as a result of replacement investments.	7.50%	8.26%
Generation (TAURON Ekoenergia Sp. z o.o.)	• Green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates. A rise of approx. 9% in prices of electricity from renewable sources has been assumed by 2020; a more rapid growth has been assumed by 2025, with 2025 prices thereafter (fixed); • For green energy, limited support periods have been included, in accordance with the provisions of the Act on renewable energy sources determining new mechanisms of supporting generation of electricity from renewable sources. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network. At the same time, hydropower plants with installed capacity exceeding 5 MW have been excluded from the support. • Maintaining generation capacity using the existing non-current assets as a result of replacement investments.	8.39% (for hydropower plants); 8.14% – 8.90% (for wind power plants)	9.10% (for hydropower plants); 8.51% – 9.25% (for wind power plants)
Generation (TAURON Ciepło Sp. z o.o.)	• Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital; • The adopted electricity wholesale price path for the years 2016–2025, 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; A rise of ca. 22% is assumed by 2020 with a more dynamic growth rate by 2025 and 2025 prices thereafter (fixed); • Generation volumes of green, red and yellow energy arising from capacity along with the price path for individual energy certificates. • Emission limits for generating electricity and heat in line with regulations of the Council of Ministers. • The price path for CO_2 emission allowances adopted for 2016–2025. An over twofold rise of the market price is assumed by 2025 with 2025 prices thereafter (fixed); • Maintaining generation, distribution and sales of heat capacity of the existing non-current assets as a result of replacement investments.	7.61% (heat and electricity generation); 7.82% (heat transmission and distribution)	7.86% (heat and electricity generation); 7.91% (heat transmission and distribution)

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

Impairment test carried out as at 31 December 2015 indicated impairment of the carrying amount of goodwill allocated to the Generation segment (TAURON Ciepło Sp. z o.o.). As a result, the Group recognized an impairment loss on goodwill of PLN 154 998 thousand. The impairment loss has been charged to cost of sales.

CGU	Company	WACC		Recoverable amount	Impairment loss recognized
		Year ended 31 December 2015	Year ended 31 December 2014		
Generation	TAURON Ciepło Sp. z o.o.	7.61%–7.82%	7.86%–7.91%	2 436 239	154 998

The recognition of the impairment loss resulted from long-lasting unfavorable market conditions for power manufacturers and the resulting conservative power price forecasts for the future.

Results of the sensitivity analysis carried out for individual CGU have indicated that changes in electricity prices and in the weighted average cost of capital have the most significant impact on the value in use of tested assets.

(in PLN '000)

The sensitivity analysis was carried out for the carrying amounts of the assets increased by the goodwill of TAURON Ciepło Sp. z o.o. in the Generation segment. No significant amounts of goodwill have been detected in other segments.

- Sensitivity to gross WACC changes

  The recoverable amounts of assets increased by the goodwill of TAURON Ciepło Sp. z o.o. reaches the carrying amount with the discount rate changing by approx. -15% (-1.2 p.p.)

- Sensitivity to changes in wholesale electricity prices

  The recoverable amounts of assets increased by the goodwill of TAURON Ciepło Sp. z o.o. reaches the carrying amount with the changes in electricity prices by approx. +9%.

20. Energy certificates and gas emission allowances

20.1. Non-current energy certificates and gas emission allowances

Year ended 31 December 2015

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**207 397**	**265 103**	**472 500**
Direct purchase	85 240	129 548	**214 788**
Reclassification	(59 664)	(116 784)	**(176 448)**
Closing balance	**232 973**	**277 867**	**510 840**

Year ended 31 December 2014

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**20 250**	**34 528**	**54 778**
Direct purchase	203 330	226 566	**429 896**
Reclassification	(16 183)	4 009	**(12 174)**
Closing balance	**207 397**	**265 103**	**472 500**

20.2. Current energy certificates and gas emission allowances

Year ended 31 December 2015

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**724 918**	**8 130**	**733 048**
Direct purchase	411 854	33 643	**445 497**
Generated internally	235 484	–	**235 484**
Cancellation	(781 711)	(5 941)	**(787 652)**
Reclassification	61 760	117 251	**179 011**
Closing balance	**652 305**	**153 083**	**805 388**

Year ended 31 December 2014

	Energy certificates	Greenhouse gas emission allowances	Total
Opening balance	**695 427**	**461 123**	**1 156 550**
Direct purchase	504 479	22 794	**527 273**
Generated internally	319 674	–	**319 674**
Cancellation	(838 186)	(463 362)	**(1 301 548)**
Reclassification	43 524	(12 425)	**31 099**
Closing balance	**724 918**	**8 130**	**733 048**

(in PLN '000)

20.3. Balance of greenhouse gas emission allowances recorded in the National Register of Allowances

CO_2 emissions allowances	Year ended 31 December 2015	Year ended 31 December 2014
Allowances recorded at the beginning of the financial year	**26 878 236**	**23 566 799**
Allowances surrendered (previous year's emissions)		
in the installations of TAURON Wytwarzanie S.A.	(12 508 585)	(17 277 731)
in the installations of TAURON Ciepło Sp. z o.o.	(1 571 376)	(4 381 680)
Allocation of free-of-charge allowances	6 985 193	14 166 356
Allowances purchased on the secondary market	8 745 500	47 027 230
Allowances sold on the secondary market	(3 698 500)	(36 123 000)
Other changes – transferred to TAMEH	(1 093 020)	(99 738)
Allowances recorded at the end of the financial year	**23 737 448**	**26 878 236**
Allowances intended for surrender for a given year:	(14 604 360)	(14 110 585)
in the installations of TAURON Wytwarzanie S.A.	(13 040 086)	(12 620 750)
in the installations of TAURON Ciepło Sp. z o.o.	(1 564 274)	(1 489 835)

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

In 2015 the TAURON Group was awarded 722 111 registered allowances due to generation of heat and 6 197 006 allowances due to electricity generation under requests for fee-of-charge allowanced filed in accordance with Article 10a of the Directive and requests for derogation allowances. Moreover, 12 246 allowances due to generation of heat for 2013 and 53 830 allowances due to generation of heat for 2014 were awarded and registered in 2015.

In the financial and factual reports filed by the TAURON Group in 2015, which concerned investment task performance covered by National Investment Plan for the settlement period from 1 July 2014 to 30 June 2015, the value of free-of-charge allowances related to modernization of the electricity generation process for 2015, i.e. 3 042 255 emission allowances were balanced. The Group expects that the allowances will have been registered by April 2016.

(in PLN '000)

21. Other intangible assets

Year ended 31 December 2015

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**4 670**	**789 670**	**475 291**	**153 770**	**53 436**	**1 476 837**
Direct purchase	–	–	80	–	117 065	**117 145**
Transfer of intangible assets not made available for use	–	1 123	89 290	33 451	(123 864)	**–**
Sale, disposal	–	(2 132)	(8 072)	–	–	**(10 204)**
Liquidation	(256)	(1)	(5 925)	(433)	–	**(6 615)**
Other movements	1 276	(2 156)	200	1 216	5 248	**5 784**
Foreign exchange differences from translation of foreign entities	–	–	28	–	–	**28**
Closing balance	**5 690**	**786 504**	**550 892**	**188 004**	**51 885**	**1 582 975**
ACCUMULATED AMORTIZATION						
Opening balance	**(3 822)**	**(15 297)**	**(289 949)**	**(35 635)**	**–**	**(344 703)**
Amortization for the period	(474)	–	(53 959)	(13 922)	–	**(68 355)**
Increase of impairment	(853)	(383)	(2 845)	(259)	–	**(4 340)**
Decrease of impairment	–	2 616	–	–	–	**2 616**
Sale, disposal	–	–	8 072	–	–	**8 072**
Liquidation	256	–	5 916	430	–	**6 602**
Other movements	–	–	(75)	(5)	–	**(80)**
Foreign exchange differences from translation of foreign entities	–	–	(22)	–	–	**(22)**
Closing balance	**(4 893)**	**(13 064)**	**(332 862)**	**(49 391)**	**–**	**(400 210)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**848**	**774 373**	**185 342**	**118 135**	**53 436**	**1 132 134**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**797**	**773 440**	**218 030**	**138 613**	**51 885**	**1 182 765**

Year ended 31 December 2014

	Development expenses	Perpetual usufruct	Software, concessions, patents, licenses and similar items	Other intangible assets	Intangible assets not made available for use	Intangible assets, total
COST						
Opening balance	**4 030**	**810 712**	**379 236**	**109 979**	**84 633**	**1 388 590**
Direct purchase	–	–	175	–	118 198	**118 373**
Transfer of intangible assets not made available for use	–	5 452	105 783	43 677	(154 912)	**–**
Sale, disposal	–	(1 389)	–	–	–	**(1 389)**
Liquidation	–	(77)	(7 504)	(240)	–	**(7 821)**
Contribution	–	(22 178)	(3 704)	–	–	**(25 882)**
Other movements	640	(2 850)	1 293	354	5 515	**4 952**
Foreign exchange differences from translation of foreign entities	–	–	12	–	2	**14**
Closing balance	**4 670**	**789 670**	**475 291**	**153 770**	**53 436**	**1 476 837**
ACCUMULATED AMORTIZATION						
Opening balance	**(3 442)**	**(14 449)**	**(242 012)**	**(23 460)**	**–**	**(283 363)**
Amortization for the period	(380)	–	(56 304)	(12 411)	–	**(69 095)**
Increase of impairment	–	(3 083)	(88)	–	–	**(3 171)**
Decrease of impairment	–	2 235	116	–	–	**2 351**
Liquidation	–	–	7 454	236	–	**7 690**
Contribution	–	–	2 051	–	–	**2 051**
Other movements	–	–	(1 158)	–	–	**(1 158)**
Foreign exchange differences from translation of foreign entities	–	–	(8)	–	–	**(8)**
Closing balance	**(3 822)**	**(15 297)**	**(289 949)**	**(35 635)**	**–**	**(344 703)**
NET CARRYING AMOUNT AT THE BEGINNING OF THE PERIOD	**588**	**796 263**	**137 224**	**86 519**	**84 633**	**1 105 227**
NET CARRYING AMOUNT AT THE END OF THE PERIOD	**848**	**774 373**	**185 342**	**118 135**	**53 436**	**1 132 134**

(in PLN '000)

22. Investments in joint ventures

	Elektrociepłownia Stalowa Wola S.A.	Elektrownia Blachownia Nowa Sp. z o.o.	TAMEH HOLDING Sp. z o.o.*	As at 31 December 2015
Non-current assets	1 085 917	–	1 295 743	**2 381 660**
Current assets	12 387	37 008	341 716	**391 111**
Non-current liabilities (-)	(965 514)	–	(378 507)	**(1 344 021)**
Current liabilities (-)	(125 610)	(85)	(377 432)	**(503 127)**
Total net assets	7 180	36 923	881 520	**925 623**
Share in net assets	3 590	18 461	440 760	**462 811**
Invetment in joint ventures	**–**	**18 461**	**399 666**	**418 127**
Share in revenue of joint ventures	18	490	545 175	**545 683**
Share in profit/(loss) of joint ventures	**(1 474)**	**(13 644)**	**23 051**	**7 933**
Share in other comprehensive income of joint ventures	**–**	**–**	**(387)**	**(387)**

** The data presented concern the TAMEH HOLDING Sp. z o.o. capital group. The value of the interest held in TAMEH HOLDING Sp. z o.o. differs from the value of net assets attributable to the Group, because the cost of shares in TAMEH HOLDING Sp. z o.o. was calculated taking into account the fair value of the share contributed to the joint venture by companies from the ArcelorMittal Capital Group.*

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

** The data presented concern the TAMEH HOLDING Sp. z o.o. capital group.*

Elektrociepłownia Stalowa Wola S.A.

Elektrociepłownia Stalowa Wola S.A. is a special purpose vehicle established in 2010 on the initiative of TAURON Polska Energia S.A. and PGNiG S.A. The entity was registered to carry out an investment project, i.e. construction of a gas and steam unit fuelled with natural gas in Stalowa Wola with the gross maximum electrical capacity of 400 MWe and the net heat capability of 240 MWt.

TAURON Polska Energia S.A. holds an indirect 50% interest in the share capital of this company and in its governing body through TAURON Wytwarzanie S.A. Since as at 31 December 2015 the existing share in losses of a joint venture and the adjustment of performance on top-down transactions concluded between the Group companies and the joint venture exceeded the value of interests held in this joint venture, the Company has ceased recognizing its interests in further losses generated by the joint venture.

Additionally, the Company holds receivables arising from loans originated to Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 223 909 thousand, as described in detail in Note 23 and provisions for onerous contracts resulting from commercial contracts concluded by the Company in the amount of PLN 182 877 thousand (Note 36).

Elektrownia Blachownia Nowa Sp. z o.o.

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

TAURON Polska Energia S.A. holds an indirect 50% interest in the share capital of this company and in its governing body through TAURON Wytwarzanie S.A.

(in PLN '000)

On 30 December 2013 TAURON Polska Energia S.A., KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. concluded an agreement, based on which the construction of gas and steam power unit in Elektrownia Blachownia Nowa Sp. z o.o. has been suspended. The decision resulted from the current situation in the electricity and gas market entailing higher investment risk, which made the entities review and optimise the project.

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

As at 31 December 2015, following the project analysis, including the probability of its non-performance, recognition of an impartment loss on property plant and equipment has been deemed reasonable based on project documentation. As a result of recognizing the impairment loss, the entity's profit/loss has been charged with PLN 27 351 thousand.

TAMEH HOLDING Sp. z o.o. and subsidiaries

In 2014 the TAURON Group entered into an agreement with the ArcelorMittal Group. The shareholders agreement states that TAMEH HOLDING Sp. z o.o. shall 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. Following the transactions concluded last year, 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 and Elektrownia Blachownia contributed in kind by the TAURON Group and Elektrociepłownia in Kraków contributed in kind by the ArcelorMittal Group. Moreover, TAMEH HOLDING Sp. z o.o. holds 100% of shares in TAMEH Czech s.r.o.

23. Loans granted to joint ventures

	As at 31 December 2015		As at 31 December 2014	
	Principal	Interest	Principal	Interest
Loans originated to EC Stalowa Wola S.A., including:	194 950	28 959	182 850	21 343
Subordinated loan	177 000	28 922	177 000	21 331
Loan for debt repayment	15 850	31	–	–
Other loans	2 100	6	5 850	12
Total	**194 950**	**28 959**	**182 850**	**21 343**
Non-current	192 850	28 953	177 000	21 331
Current	2 100	6	5 850	12

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

On 14 December 2015 the Company entered into a loan agreement with Elektrociepłownia Stalowa Wola S.A., under which the Company extended a loan to Elektrociepłownia Stalowa Wola S.A. with the maximum amount of PLN 15 850 thousand for repayment of the first instalment with accrued interest of credit facilities granted to the borrower by the European Investment Bank, the European Bank for Reconstruction and Development and Bank Polska Kasa Opieki S.A. Subject to the provisions of the subordination agreement, the borrower has agreed to make one-off repayment of the principal amount and interest accrued until 31 December 2027.

On 25 November 2015 the Company entered into a loan agreement with Elektrociepłownia Stalowa Wola S.A., under which the Company has been obliged to extend a short-term loan of PLN 2 600 thousand to Elektrociepłownia Stalowa Wola S.A. for financing current operations of the borrower (as at the balance sheet date the total of PLN 2 100 thousand was used).

In the year ended 31 December 2015, the interest income due to loans granted reached PLN 7 671 thousand. The Group presented interest income due to loans granted of Elektrociepłownia Stalowa Wola S.A. in the portion corresponding to unrelated investors' interests in the joint venture in the consolidated financial statements.

(in PLN '000)

24. Other financial assets

	As at 31 December 2015	As at 31 December 2014
Shares	136 488	112 396
Bonds, T-bills and other debt securities	1 890	23 622
Deposits	39 724	35 823
Bid bonds, deposits and collateral transferred	54 106	53 738
Other long-term receivables	4 669	7 000
Other	8 672	26 121
Total	**245 549**	**258 700**
Non-current	211 215	179 052
Current	34 334	79 648

Purchase of shares in PGE EJ 1 Sp. z o.o.

On 15 April 2015 the Company, Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and ENEA S.A. concluded an agreement for acquisition of shares in PGE EJ 1 Sp. z o.o., a special purpose vehicle, managing the preparation and performance of an investment project covering construction and operation of the first Polish nuclear power plant with a capacity of ca. 3,000 MWe ("The Project").The Company, KGHM Polska Miedź S.A., ENEA S.A. acquired 10% of shares in PGE EJ 1 Sp. z o.o. each (the total of 30% of shares) from PGE Polska Grupa Energetyczna S.A. The price paid by the Company for the shares in question was PLN 16 046 thousand.

In accordance with the Shareholders' Agreement dated 3 September 2014 the parties will jointly finance the initial phase of the Project proportionally to the number of shares held. The initial phase will cover determining project elements, such as selecting potential partners, including the strategic partner, technology providers, EPC (Engineering, Procurement, Construction) contractors, nuclear fuel providers, acquiring funds for Project financing and ensuring appropriate organization and competences of PGE EJ 1 Sp. z o.o. to act as a future nuclear plant operator responsible for its security and efficiency.

On 29 July 2015 the Extraordinary Shareholders' Meeting of PGE EJ 1 Sp. z o.o. adopted a resolution to increase the issued capital of the entity from PLN 205 860 thousand to PLN 275 859 thousand. TAURON Polska Energia S.A. took up 49 645 new shares with the total face value of PLN 7 000 thousand.

The timeframe of further investments in PGE EJ 1 Sp. z o.o. by its shareholders will be determined in subsequent reporting periods.

25. Other non-financial assets

25.1. Other non-current non-financial assets

	As at 31 December 2015	As at 31 December 2014
Prepayments for assets under construction and intangible assets	358 673	407 845
Costs of preparing production in hard coal mines	159 159	243 534
Other prepayments	32 543	6 564
Total	**550 375**	**657 943**

Advance payments for fixed assets under construction and intangible assets are mostly related to the performance of an investment task called Construction of a 910 MW Unit in Jaworzno III Power Plant totaling to PLN 337 531 thousand.

A decrease in the costs of preparing production in hard coal mines is related mostly to the write off of capitalized costs of drilling drifts and reinforcing working faces in the amount of PLN 78 610 thousand due to loss of economic use.

(in PLN '000)

25.2. Other current non-financial assets

	As at 31 December 2015	As at 31 December 2014
Costs settled over time, including:	**104 251**	**87 478**
Property and tort insurance	15 888	16 795
IT, telecom and postal services	26 367	18 624
Costs of preparing production in hard coal mines	33 411	38 079
Other prepayments	28 585	13 980
Other current non-financial assets, including:	**128 808**	**133 556**
Advance payments for deliveries	120 342	116 299
Surplus of Social Benefit Fund assets over its liabilities	3 984	5 212
Other current assets	4 482	12 045
Total	**233 059**	**221 034**

Company Social Benefits Fund

The Group entities have offset the Fund assets with its liabilities to the Fund since the assets are not classified as the Group's individual asset items. Analysis of the fund is presented in the following table.

	As at 31 December 2015	As at 31 December 2014
Loans granted to employees	31 087	38 022
Cash	20 144	15 533
Other Fund assets and liabilities	(382)	(3 521)
Social Fund liabilities	(46 865)	(44 822)
Net balance	**3 984**	**5 212**
Transfers made to the Social Fund during the period	(60 388)	(64 482)

26. Inventories

	As at 31 December 2015	As at 31 December 2014
Historical cost		
Raw materials	273 523	285 135
Semi-finished goods and work-in-progress	155 586	239 426
Finished goods	5 510	1 600
Goods for resale	4 053	707
Energy certificates	1 319	20 055
Emission allowances	3 424	1 761
Total	**443 415**	**548 684**
Write-downs to net realisable value		
Raw materials	(10 097)	(7 305)
Finished goods	(4)	(12)
Goods for resale	(35)	(21)
Energy certificates	–	(13 750)
Total	**(10 136)**	**(21 088)**
Net realisable value		
Raw materials	263 426	277 830
Semi-finished goods and work-in-progress	155 586	239 426
Finished goods	5 506	1 588
Goods for resale	4 018	686
Energy certificates	1 319	6 305
Emission allowances	3 424	1 761
Total	**433 279**	**527 596**
Movement in write-downs to net realisable value		
Opening balance	**(21 088)**	**(50 761)**
Recognition	(3 220)	(21 441)
Reversal	10 392	5 633
Utilization	3 780	45 763
Other	–	(282)
Closing balance	**(10 136)**	**(21 088)**

(in PLN '000)

27. Receivables from clients

Current receivables from clients as at 31 December 2015 and 31 December 2014 have been presented in the table below.

	As at 31 December 2015	As at 31 December 2014
Value of items before allowance/write-down		
Receivables from clients	1 581 863	1 738 000
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	298 805	232 541
Receivables claimed at court	227 739	228 011
Total	**2 108 407**	**2 198 552**
Allowance/write-down		
Receivables from clients	(74 828)	(73 809)
Receivables claimed at court	(203 546)	(207 683)
Total	**(278 374)**	**(281 492)**
Value of item net of allowance (carrying amount)		
Receivables from clients	1 507 035	1 664 191
Receivables from clients – additional assessment of revenue from sales of electricity and distribution services	298 805	232 541
Receivables claimed at court	24 193	20 328
Total	**1 830 033**	**1 917 060**

Detailed information on allowances for receivables from clients and other financial receivables has been presented in Note 49.1.1 hereto.

28. Receivables from taxes and charges

	As at 31 December 2015	As at 31 December 2014
Corporate Income Tax receivables	909	26 489
VAT receivables	205 713	106 629
Excise duty receivables	20 314	22 138
Other	1 409	4 188
Total	**228 345**	**159 444**

29. Cash and cash equivalents

	As at 31 December 2015	As at 31 December 2014
Cash at bank and in hand	353 428	410 082
Short-term deposits (up to 3 months)	10 722	1 009 991
Other	762	836
Total cash and cash equivalents presented in the statement of financial position, of which:	**364 912**	**1 420 909**
restricted cash	206 254	116 568
Bank overdraft	(10 206)	(11 918)
Cash pool	(29 377)	(4 481)
Foreign exchange	2 386	3 561
Total cash and cash equivalents presented in the statement of cash flows	**327 715**	**1 408 071**

Restricted cash consists mainly of: cash on the account used for settling electricity trading on the Polish Power Exchange, i.e. Towarowa Giełda Energii S.A., of PLN 55 291 thousand held by companies from the Sales segment and cash on a bank account for bid bonds and deposits of PLN 127 567 thousand.

(in PLN '000)

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

	As at 31 December 2015	As at 31 December 2014
Disposal group	–	1 320 932
Other non-current assets	17 898	16 773
Non-current assets and assets of a disposal group classified as held for sale	**17 898**	**1 337 705**
Liabilities of a disposal group classified as held for sale	**–**	**84 970**

As at 31 December 2014 a disposal group included the assets and liabilities of four existing wind farms classified as held for sale in relation to the followed off-balance sheet asset financing policy aimed at selling interest in the existing wind farms to an external investor. The original idea was to sell (with the buy-back option) a majority interest in the existing wind farms to a financial investor and to refinance the existing debt allocated to the wind farms using bank debt when the Company becomes a minority shareholder. Following a failure to reach an agreement on certain conditions regarding the transaction to sell a package of shares in the existing wind farms, the Company has discontinued negotiations with a potential investor. The TAURON Group will continue activities aimed at off-balance sheet funding of the development of wind power generation in the Group. Under current market conditions, works are continued to reach a solution involving commencement of cooperation with an industrial investor. With this respect, on 2 July 2015 the Company and ENEA S.A. concluded a letter of intent concerning partnership in the implementation of a common strategy on the optimal increase in the use of renewable sources of energy and financing acquisition of wind farm assets.

In light of the above, as at 31 December 2015, an analysis was carried out that indicated that the disposal group did not fulfil all criteria allowing its classification as held for sale in accordance with IFRS 5 as at the end of the reporting period.

Following the discontinuation of the classification of the disposal group as held for sale, property, plant and equipment of wind farms were measured at carrying amounts as at the date preceding the classification of the disposal group as held for sale, adjusted by depreciation calculated as of the date of its classification as held for sale, which resulted in a charge on the Group's net profit/loss of PLN 56 227 thousand.

31. Issued capital and other capitals

31.1. Issued capital

Issued capital as at 31 December 2015

Class/ issue	Type of shares	Number of shares	Nominal value of one share (in PLN)	Value of class/issue at nominal value	Method of payment
AA	bearer shares	1 589 438 762	5	7 947 194	cash/in-kind contribution
BB	registered shares	163 110 632	5	815 553	in-kind contribution
	Total	**1 752 549 394**		**8 762 747**	

As at 31 December 2015, the value of issued capital, the number of shares and the par value of shares did not change compared to 31 December 2014.

Shareholding structure as at 31 December 2015 (to the *best of the Company's knowledge*)

Shareholder	Number of shares	Value of shares	Percentage of share capital	Percentage of total vote
State Treasury	526 848 384	2 634 242	30.06%	30.06%
KGHM Polska Miedź S.A.	182 110 566	910 553	10.39%	10.39%
Nationale - Nederlanden 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%**

(in PLN '000)

31.2. Shareholders' rights

The voting rights of the shareholders holding more than 10% of the total votes in the Company have been limited in such a manner that none of them is entitled to exercise the right to more than 10% of votes at the General Shareholders' Meeting of the Company.

The voting right limitation mentioned above does not apply to the State Treasury and State Treasury owned companies in the period when the State Treasury and State Treasury owned companies hold shares in the Company entitling to more than 25% of the total votes in the Company.

Information concerning the limitations in exercising the voting rights has been presented in item 6.6 of the Management Board's report on the activities of the TAURON Polska Energia S.A. Capital Group for the 2015 financial year.

31.3. Reserve capital

In the year ended 31 December 2015, the reserve capital was increased by PLN 883 561 thousand. Pursuant to a resolution of the Ordinary General Shareholders' Meeting of 23 April 2015 on distribution of profit for 2014, the amount in question was allocated to reserve capital.

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

The total of PLN (3 453 908) thousand represents the Company's loss for 2015 unabsorbed by the date of approving these financial statements to be absorbed with previous years' profits, which has been presented in detail in Note 33.5 of the separate financial statements of TAURON Polska Energia S.A. for the financial year ended 31 December 2015.

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

As at 31 December 2015 and as at the date of approving these financial statements for publication no other dividend restriction occurred.

31.5. Revaluation reserve from valuation of hedging instruments

	Year ended 31 December 2015	Year ended 31 December 2014
Opening balance	**(143 019)**	**(126 651)**
Remeasurement of hedging instruments	85 466	(21 171)
Remeasurement of hedging instruments charged to profit or loss	466	964
Deferred income tax	(16 327)	3 839
Closing balance	**(73 414)**	**(143 019)**

As at 31 December 2015 the Company recognized PLN (73 414) thousand of revaluation reserve from valuation of hedging instruments. It represents a liability arising from measurement of interest rate swaps as at the end of the reporting period, totaling to PLN 95 467 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 89 380 thousand, where PLN 88 914 thousand was the amount paid in respect of hedges used in relation to closed interest periods and PLN 466 thousand resulted from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period. The aforementioned costs of hedging IRS transactions increased financial expenses arising from interest on bonds issued in the statement of comprehensive income.

(in PLN '000)

31.6. Non-controlling interest

	Year ended 31 December 2015	Year ended 31 December 2014
At the beginning of the period	**30 116**	**466 334**
Dividends paid by subsidiaries	(2 787)	(1 163)
Share in actuarial gains/(losses) related to provisions for post-employment benefits	60	(370)
Acquisition of non-controlling interests by the Group	–	(407 596)
Mandatory squeeze-out	(662)	(32 567)
Share in subsidiaries' net profit or loss	3 102	4 667
Change in non-controlling interests due to mergers	–	811
At the end of the period	**29 829**	**30 116**

As at the reporting date non-controlling interest were held in the Distribution segment companies only.

32. Dividends paid

	Year ended 31 December 2015	Year ended 31 December 2014
Dividends paid in the period		
Dividends paid throughout the year by subsidiaries	(2 630)	(1 233)
Final dividends paid by the Parent	(262 882)	(332 984)
Total dividends paid	**(265 512)**	**(334 217)**

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

	Year ended 31 December 2015	Year ended 31 December 2014
Dividend paid per share (PLN)	0.15	0.19

33. Debt

	As at 31 December 2015	As at 31 December 2014
Loans and borrowings	1 411 776	1 232 032
Bonds issued	6 680 433	6 821 830
Finance lease	46 438	59 904
Total	**8 138 647**	**8 113 766**
Current	3 214 520	644 991
Non-current	4 924 127	7 468 775

33.1. Loans and borrowings

Loans and borrowings taken out as at 31 December 2015

Currency	Interest rate	Value of loans and borrowings as at the balance sheet date		of which maturing within (*after the balance sheet date*):					
		currency	PLN	less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
PLN	floating	77 350	77 350	29 993	6 864	7 333	7 308	14 316	11 536
	fixed	1 316 062	1 316 062	20 444	112 297	147 478	162 214	324 429	549 200
Total PLN		**1 393 412**	**1 393 412**	**50 437**	**119 161**	**154 811**	**169 522**	**338 745**	**560 736**
EUR	floating	2 025	8 630	8 630	–	–	–	–	–
Total EUR		**2 025**	**8 630**	**8 630**	**–**	**–**	**–**	**–**	**–**
USD	floating	404	1 576	1 576	–	–	–	–	–
Total USD		**404**	**1 576**	**1 576**	**–**	**–**	**–**	**–**	**–**
Total			**1 403 618**	**60 643**	**119 161**	**154 811**	**169 522**	**338 745**	**560 736**
Interest increasing carrying amount			8 158						
Total loans and borrowings			**1 411 776**						

(in PLN '000)

Loans and borrowings taken out as at 31 December 2014

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

Change in the balance of loans and borrowings excluding interest increasing the carrying amount in the year ended 31 December 2015 and 31 December 2014 has been presented below.

	Year ended 31 December 2015	Year ended 31 December 2014
Opening balance	**1 225 612**	**1 477 456**
Movement in bank overdrafts and cash pool loans	**23 184**	**(82 740)**
Movement in loans (excluding bank overdrafts and cash pool loans):	**154 822**	**(169 104)**
Taken out*	294 705	–
Repaid	(140 585)	(169 971)
Change in valuation	702	867
Closing balance	**1 403 618**	**1 225 612**

** Costs of the loan have been included.*

Major liabilities due to loans and borrowings have been presented in the table below:

Loans/ borrowings	Borrowing institution	Purpose	Interest rate	Maturity date	As at 31 December 2015	As at 31 December 2014
Loans	European Investment Bank	Coal unit at Jaworzno III Power Plant	Fixed – agreed until 15 June 2016	15.12.2021	126 218	147 240
		EC Bielsko Biała coal unit	Fixed – agreed until 15 June 2016	15.12.2021	180 303	210 334
		Modernization and extension of power grid	Fixed – agreed until 15 December 2017	15.06.2024	348 325	389 284
			Fixed – agreed until 15 March 2018	15.09.2024	165 467	183 846
			Fixed – agreed until 15 March 2018	15.09.2024	206 746	229 707
		Modernization and extension of power grid and improvement of hydropower plants	Fixed – agreed until 15 September 2019	15.03.2027	297 132	–
Borrowings	Regional Fund for Environmental Protection and Water Management	Construction of renewable power unit at Jaworzno III Power Plant	Floating	15.12.2022	28 000	32 000
		Construction of biomass infeed installation and modernization of fluid bed at Tychy Generation Plant	Floating	15.12.2022	19 216	21 747
Other loans and borrowings					40 369	17 874
Total					**1 411 776**	**1 232 032**

(in PLN '000)

33.2. Bonds issued

Bonds issued as at 31 December 2015

Issuer	Tranche/ Bank	Redemption date	Currrency	As at balance sheet date		of which maturing within (*after the balance sheet date*):				
				Interest accrued	Principal at amortised cost	up to 3 months	3–12 months	1–2 years	2–5 years	Over 5 years
TAURON Polska Energia S.A.	C	12 December 2016	PLN	4 389	2 998 938	2 249 203	749 735	–	–	–
	BGK*	20 December 2019	PLN	106	99 836	–	–	–	99 836	–
		20 December 2020	PLN	106	99 823	–	–	–	99 823	–
		20 December 2021	PLN	106	99 815	–	–	–	–	99 815
		20 December 2022	PLN	106	99 808	–	–	–	–	99 808
		20 December 2023	PLN	106	99 802	–	–	–	–	99 802
		20 December 2024	PLN	106	99 800	–	–	–	–	99 800
		20 December 2025	PLN	106	99 796	–	–	–	–	99 796
		20 December 2026	PLN	106	99 792	–	–	–	–	99 792
		20 December 2027	PLN	106	99 790	–	–	–	–	99 790
		20 December 2028	PLN	97	99 790	–	–	–	–	99 790
		20 December 2020	PLN	12	70 000	–	–	–	70 000	–
		20 December 2021	PLN	12	70 000	–	–	–	–	70 000
		20 December 2022	PLN	12	70 000	–	–	–	–	70 000
	TPEA1119	4 November 2019	PLN	7 508	1 749 043	–	–	–	1 749 043	–
TAURON Sweden Energy AB (publ)		3 December 2029	EUR	1 921	709 495	–	–	–	–	709 495
Total debentures				**14 905**	**6 665 528**	**2 249 203**	**749 735**	**–**	**2 018 702**	**1 647 888**

** Bank Gospodarstwa Krajowego.*

On 31 December 2015 Tranche C bonds maturing on 12 December 1016 were classified as liabilities maturing within 3 months due to the intention of early redemption. On 29 February 2016 the Company redeemed the bonds in question before maturity, as discussed in detail in Note 53 to these consolidated financial statements.

Bonds issued as at 31 December 2014

Issuer	Tranche/ Bank	Redemption date	Currrency	As at balance sheet date		of which maturing within (*after the balance sheet date*):				
				Interest accrued	Principal at amortised cost	up to 3 months	3–12 months	1–2 years	2–5 years	Over 5 years
TAURON Polska Energia S.A.	B	12 December 2015	PLN	485	299 716	–	299 716	–	–	–
	B	30 January 2015	PLN	2 287	150 000	150 000	–	–	–	–
	C	12 December 2016	PLN	4 849	2 997 442	–	–	2 997 442	–	–
	BGK*	20 December 2019	PLN	115	99 797	–	–	–	99 797	–
		20 December 2020	PLN	115	99 791	–	–	–	–	99 791
		20 December 2021	PLN	115	99 787	–	–	–	–	99 787
		20 December 2022	PLN	115	99 784	–	–	–	–	99 784
		20 December 2023	PLN	115	99 781	–	–	–	–	99 781
		20 December 2024	PLN	115	99 781	–	–	–	–	99 781
		20 December 2025	PLN	115	99 780	–	–	–	–	99 780
		20 December 2026	PLN	115	99 777	–	–	–	–	99 777
		20 December 2027	PLN	115	99 776	–	–	–	–	99 776
	TPEA1119	4 November 2019	PLN	7 953	1 748 810	–	–	–	1 748 810	–
TAURON Sweden Energy AB (publ)		3 December 2029	EUR	1 923	709 276	–	–	–	–	709 276
Total debentures				**18 532**	**6 803 298**	**150 000**	**299 716**	**2 997 442**	**1 848 607**	**1 507 533**

** Bank Gospodarstwa Krajowego.*

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

(in PLN '000)

Change in the balance of bonds excluding interest accrued in the year ended 31 December 2015 and in the comparable period has been presented below.

	Year ended 31 December 2015	Year ended 31 December 2014
Opening balance	**6 803 298**	**4 291 460**
Issue*	309 789	3 649 150
Redemption	(450 000)	(1 148 200)
Change in valuation	2 441	10 888
Closing balance	**6 665 528**	**6 803 298**

** Costs of issue have been included.*

Changes in the balance of bonds in the year ended 31 December 2015 resulted from the following events:

- Redemption – On 30 January 2015 and on 12 December 2015 the Company redeemed Tranche B bonds with the par value of PLN 150 000 thousand and PLN 300 000 thousand, respectively, at their maturity.
- Issue – Pursuant to the agreement with Bank Gospodarstwa Krajowego, in 2015 the Company issued bonds with the total par value of PLN 310 000 thousand: one tranche with the par value of PLN 100 000 thousand and three tranches with the par value of PLN 70 000 thousand each.

  In July 2015 TAURON Polska Energia S.A. and Bank Gospodarstwa Krajowego concluded an annex to the scheme agreement concerning the bond issue scheme organization, under which the amount of the bond issue scheme increased from PLN 1 000 000 thousand to PLN 1 700 000. Bank Gospodarstwa Krajowego acts as an arranger, underwriter and depositary. The bonds were issued to finance capital expenditure of the TAURON Group. The value of the bond scheme with securities of at maximum 15-year maturity periods and 6-month interest periods is PLN 1 700 000 thousand. Under the increased bond issue scheme as at the date of concluding the annex, PLN 300 000 was underwritten; subsequently, pursuant to another annex of 20 November 2015, the amount underwritten by Bank Gospodarstwa Krajowego was increased by PLN 400 000 thousand, up to the total scheme amount of PLN 1 700 000 thousand. In accordance with the financing structure bonds will be issued in series in the years 2015–2016 and they will mature from 2020 to 2029. In December 2015 the Company issued bonds with the total par value of PLN 210 000 thousand maturing on 20 December 2020, 20 December 2021 and 20 December 2022 under the increased bond scheme.

Moreover, 17 500 TPEA1119 series bearer bonds with the total face value of PLN 1 750 000 thousand and the unit face value of PLN 100 thousand issued by the Company in 2014 were listed in the Catalyst market in the year ended 31 December 2015. The first listing took place on 12 March 2015 and the last listing on 22 October 2019.

Concluding contracts regarding the bond issue scheme

On 24 November 2015, the Company, Bank Handlowy w Warszawie S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) BV, Bank of Tokyo-Mitsubishi UFJ (Polska) S.A., Bank Zachodni WBK S.A., CaixaBank S.A. (Spółka Akcyjna) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. signed an agency and depositary agreement and an underwriting agreement providing for a bond issue scheme (the "Scheme") totaling PLN 6 270 000 thousand. The proceeds of the issue under the Scheme will be used for covering expenditures related to implementation of the investment program of the TAURON Group, refinancing its debt or covering corporate expenses of the Group.

As part of the Scheme, the Company will be able to issue bonds repeatedly until 31 December 2020. The said bonds will be unsecured, coupon, floating rate bearer securities with the par value of PLN 100 thousand each and maturity of 1, 3, 6, 12, 24, 36, 48 or 58 months. Their issue will be underwritten, which means that the underwriters (banks being parties to the underwriting agreement) will commit to purchase the bonds issued by the Company under the Scheme.

After the end of the reporting period, the Company issued bonds under the aforementioned Scheme, which has been discussed in more detail in Note 53 to these financial statements.

The Company hedges a portion of interest cash flows related to bonds issued under Tranche C using IRS contracts. The instruments are subject to hedge accounting, as discussed in Note 34 hereto.

The contracts signed by the Company with banks include legal and financial covenants which are commonly used in such transactions. As at 31 December 2015, none of these covenants were breached and the contractual provisions were complied with.

(in PLN '000)

33.3. Finance lease

	As at 31 December 2015		As at 31 December 2014	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
Within 1 year	13 909	12 715	15 146	13 461
Within 1 to 5 years	34 691	33 701	48 731	46 420
More than 5 years	24	22	26	23
Minimum lease payments, total	**48 624**	**46 438**	**63 903**	**59 904**
Less amounts representing finance charges	(2 186)	–	(3 999)	–
Present value of minimum lease payments, of which:	**46 438**	**46 438**	**59 904**	**59 904**
Current	12 715	12 715	13 461	13 461
Non-current	33 723	33 723	46 443	46 443

Key finance lease items as at 31 December 2015:
- liability due to lease of buildings in Katowice in the amount of PLN 30 169 thousand (as at 31 December 2014 it was PLN 33 159 thousand);
- liability due to lease of machines and technical equipment and real estate in the amount of PLN 15 785 thousand (as at 31 December 2014 it was PLN 24 928 thousand).

34. Derivative instruments

	As at 31 December 2015				As at 31 December 2014			
	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	(11 368)	–	**3 055**	**(14 423)**	258	–	**1 499**	**(1 241)**
IRS	(4 833)	(90 634)	**–**	**(95 467)**	(17 746)	(176 567)	**–**	**(194 313)**
Commodity forwards/futures	17	–	**2 225**	**(2 208)**	(250)	–	**312**	**(562)**
Currency forwards	393	–	**404**	**(11)**	–	–	**–**	**–**
Total derivative instruments, including:			**5 684**	**(112 109)**			**1 811**	**(196 116)**
Current			5 668	(96 953)			1 811	(102 615)
Non-current			16	(15 156)			–	(93 501)

The fair value of individual derivative instruments is determined as follows:

Derivative instrument	Methodology of determining fair value hierarchy
IRS, CCIRS	Based on discounted future cash flows accounting for the difference between the forward price (calculated based on zero-coupon interest rate curve) and the transaction price.
Forward currency contracts	Based on discounted future cash flows accounting for the difference between the forward price (calculated based on NBP fixing and the interest rate curve implied by fx swap transactions) and the transaction price.
Commodity forwards and futures	The fair value of forwards for acquisition and sale of power and emission allowances and other commodities is based on prices quoted in an active market.

Hierarchy of fair value of financial derivative instruments is determined as follows:

Classes of financial instruments	As at 31 December 2015		As at 31 December 2014	
	Level 1	Level 2	Level 1	Level 2
Assets				
Commodity – related derivatives	2 225	–	312	–
Derivate instruments – CCIRS	–	3 055	–	1 499
Derivative instruments – currency	–	404	–	–
Liabilities				
Commodity – related derivatives	2 208	–	562	–
Currency derivatives	–	11	–	–
Derivate instruments – CCIRS	–	14 423	–	1 241
IRS derivatives	–	95 467	–	194 313

(in PLN '000)

Derivative instruments used for hedging – IRS

As at 31 December 2015 the Group concluded hedging transactions subject to specific risk management policy. In March 2012 the Company hedged 80% of interest cash flows related to bonds issued under Tranche C and a portion of Tranche A having entered into 5-year IRS contracts. 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. These instruments were subject to hedge accounting.

Derivative instruments measured at fair value through profit or loss (FVTPL)

Derivative instruments CCIRS relate to the Coupon Cross Currency Swap contract entered into by the Company on 24 November 2014, which consisted in a swap of interest payments from the nominal value of EUR 168 000 thousand. In accordance with the contract, 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. After the balance sheet date, on 12 February 2016 the transaction in question was closed and on 15 February 2016 it was settled in cash, hence the Company received PLN 5 400 thousand.

35. Provisions for employee benefits

	As at 31 December 2015	As at 31 December 2014
Provision for post-employment benefits and jubilee bonuses	1 850 375	2 044 405
Provision for employment termination benefits	57 336	62 872
Total	**1 907 711**	**2 107 277**
Current	172 505	158 954
Non-current	1 735 206	1 948 323

35.1. Provisions for post-employment benefits and jubilee bonuses

Change in provisions for employee benefits for the year ended 31 December 2015

	Provision for retirement, disability and similar benefits	Employee electricity rates	Social Fund	Provision for coal allowances	Jubilee bonuses	Provisions, total
Opening balance	**357 017**	**769 975**	**170 242**	**67 661**	**679 510**	**2 044 405**
Current service costs	14 533	8 144	2 960	983	39 023	**65 643**
Actuarial gains and losses, of which:	(11 222)	(47 439)	(6 084)	222	(8 683)	**(73 206)**
arising from changes in financial assumptions	(29 065)	(63 451)	(12 090)	–	(39 657)	**(144 263)**
arising from changes in demographic assumptions	2 439	15 946	3 749	–	6 687	**28 821**
arising from other changes	15 404	66	2 257	222	24 287	**42 236**
Benefits paid	(24 011)	(22 784)	(3 943)	(1 321)	(61 515)	**(113 574)**
Past service costs	(3 115)	(2 321)	(35 561)	(68 432)	(10 197)	**(119 626)**
Interest expense	7 922	17 159	3 496	887	15 027	**44 491**
Other changes	–	–	–	2 242	–	**2 242**
Closing balance	**341 124**	**722 734**	**131 110**	**2 242**	**653 165**	**1 850 375**
Current	22 734	23 527	4 286	2 242	71 793	**124 582**
Non-current	318 390	699 207	126 824	–	581 372	**1 725 793**

(in PLN '000)

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

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

A decrease in provision for post-employment benefits and jubilee benefits in the year ended 31 December 2015 resulted mostly from:

- adoption of the discount rate of 2.75% for the purposes of actuarial valuation, while in the financial year ended 31 December 2014 the discount rate applied had been 2.25%. Change in the other actuarial assumptions affected the provision increase. Change in the provision for actuarial gains and losses resulted in an increase of other comprehensive income, and its portion related to jubilee benefits affected the financial profit/loss of the Group;
- derecognition of provisions related to amendments to regulations underlying the benefits payment (the solution presented under post-employment costs). The most significant item included amounts to PLN 103 772 thousand from derecognized provision for the Social Benefits Fund and for coal allowances in a Mining segment company. Following the changes introduced to the Social Benefits Fund Regulations and to the Collective Labor Agreement the provisions in question were derecognized in the financial year ended 31 December 2015.

Measurement of provisions for employee benefits

Provisions for employee benefits have been estimated using actuarial methods. Key actuarial assumptions made as at the reporting date for the purpose of the provision calculation:

	31 December 2015	31 December 2014
Discount rate (%)	2.75%	2.25%
Estimated inflation rate (%)	2.35%	2.35%
Employee rotation rate (%)	1.14% – 9.10%	1.25% – 10.63%
Estimated salary increase rate (%)	0.23% – 2.43%	1.40% – 2.79%
Estimated electricity price increase rate (%)	4.30%	4.80%
Estimated increase rate for contribution to the Social Fund (%)	4.50%	4.50%
Remaining average employment period	9.80 – 14.90	9.00 – 15.30

As at 31 December 2015 the Group analyzed sensitivity of measurement results to changes in the financial discounting rates and changes in the planned increases in the base amounts in the range of -0.5 p.p./+0.5 p.p.

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

Provision title	Carrying amount	Financial discount rate		Planned base increases	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	341 124	363 082	321 298	321 531	365 683
Employee electricity rates	722 734	787 748	665 860	664 034	789 120
Costs of appropriation to Social Benefits Fund	131 110	143 192	120 557	120 047	143 668
Jubilee bonuses	653 165	680 426	626 410	626 422	685 415
Total		**1 974 448**	**1 734 125**	**1 732 034**	**1 983 886**

(in PLN '000)

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

Provision title	Carrying amount	Deviations			
		Financial discount rate		Planned base increases	
		-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.
Provision for retirement, disability and similar benefits	341 124	21 958	(19 826)	(19 593)	24 559
Employee electricity rates	722 734	65 014	(56 874)	(58 700)	66 386
Costs of appropriation to Social Benefits Fund	131 110	12 082	(10 553)	(11 063)	12 558
Jubilee bonuses	653 165	27 261	(26 755)	(26 743)	32 250
Total, including:		**126 315**	**(114 008)**	**(116 099)**	**135 753**
effect on profit/loss		27 261	(26 755)	(26 743)	32 250
effect on other comprehensive income		99 054	(87 253)	(89 356)	103 503

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

Maturities of employee benefit provisions

	Retirement, disability and similar benefits	Employee electricity rates	Social Fund	Coal allowances	Jubilee bonuses	Provisions, total
31/12/2016	22 734	23 527	4 286	2 242	71 793	**124 582**
31/12/2017	17 500	27 234	4 282	–	48 866	**97 882**
31/12/2018	12 255	27 102	4 272	–	46 069	**89 698**
31/12/2019	10 315	26 391	4 258	–	43 228	**84 192**
31/12/2020 and subsequent years	278 320	618 480	114 012	–	443 209	**1 454 021**
Total	**341 124**	**722 734**	**131 110**	**2 242**	**653 165**	**1 850 375**

35.2. Provisions for employment termination benefits

Year ended 31 December 2015

	Voluntary redundancy schemes in operating segments			Other	Total
	Mining	Generation	Distribution		
Opening balance	**–**	**38 867**	**22 236**	**1 769**	**62 872**
Recognition	4 750	9 864	24 898	8 444	**47 956**
Reversal	(4 750)	(419)	(3 563)	–	**(8 732)**
Utilization	–	(24 852)	(18 139)	(1 769)	**(44 760)**
Closing balance	**–**	**23 460**	**25 432**	**8 444**	**57 336**
Current	–	14 047	25 432	8 444	**47 923**
Non-current	–	9 413	–	–	**9 413**

Year ended 31 December 2014

	Voluntary redundancy schemes in operating segments		Other	Total
	Generation	Distribution		
Opening balance	**28 787**	**17 584**	**8 182**	**54 553**
Recognition	28 700	16 742	–	**45 442**
Reversal	–	–	(3 454)	**(3 454)**
Utilization	(18 620)	(12 090)	(2 959)	**(33 669)**
Closing balance	**38 867**	**22 236**	**1 769**	**62 872**
Current	26 441	22 236	1 769	**50 446**
Non-current	12 426	–	–	**12 426**

In the year ended 31 December 2015 the TAURON Group followed Voluntary Redundancy Schemes introduced in previous years and implemented new schemes.

(in PLN '000)

36. Provisions for dismantling of fixed assets and restoration of land

Year ended 31 December 2015

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provision for onerous contracts with a jointly-controlled entity	Provisions, total
Opening balance	**120 704**	**42 774**	**–**	**163 478**
Interest cost (discounting)	2 996	961	–	**3 957**
Discount rate adjustment	(13 308)	(675)	–	**(13 983)**
Recognition/(reversal), net	1 283	(1 205)	182 877	**182 955**
Reclassification from liabilities of a disposal group classified as held for sale	–	59 389	–	**59 389**
Closing balance	**111 675**	**101 244**	**182 877**	**395 796**
Current	–	905	19 428	**20 333**
Non-current	111 675	100 339	163 449	**375 463**
Other provisions, long-term portion				**1 909**
Total				**377 372**

Year ended 31 December 2014

	Provision for mine decommissioning costs	Provision for restoration of land and dismantling and removal of fixed assets	Provisions, total
Opening balance	**44 620**	**96 280**	**140 900**
Interest cost (discounting)	1 785	3 826	**5 611**
Discount rate adjustment	76 282	24 426	**100 708**
Recognition/(reversal), net	(1 983)	(23 422)	**(25 405)**
Reclassification to liabilities of a disposal group classified as held for sale	–	(58 336)	**(58 336)**
Closing balance	**120 704**	**42 774**	**163 478**
Current	–	871	**871**
Non-current	120 704	41 903	**162 607**
Other provisions, long-term portion			**2 671**
Total			**165 278**

36.1. Provision for mine decommissioning costs

The provision is recognized for mines included in the Group based on estimated costs of liquidating buildings and reclaiming land after completion of the exploitation process. More details on the calculation of the provision have been presented in Note 9.20 hereto.

A reduction in the provision of PLN 13 308 thousand in the year ended 31 December 2015 results from higher discount rates assumed for valuation purposes (2.75%–3.04%) compared to 31 December 2014 (2.25%–2.50%). At the same time, in the comparable period, following a reduction in the discount rate assumed for the purpose of provision measurement as at 31 December 2014 (from 4% to 2.25%–2.50%) the Group incurred costs of provisions in the amount of PLN 76 282 thousand.

The provision for mine decommissioning costs includes the balance of Mine Decommissioning Fund (MDF) which, in accordance with the provisions of Geological and Mining Law and secondary legislation thereto, is established by mining enterprises included in the Capital Group as a percentage of tax value of depreciation charges on fixed assets or, with regard to the exploitation fee, through transfers of cash equivalents of the charges to a separate bank account. Financial assets of the Fund are presented in the statement of financial position under non-current financial assets, while the balance of the Fund is recognized under provision for future costs of decommissioning mine facilities. The following tables present the amount of appropriation to the Fund, the Fund's assets and the balance of liabilities arising from future costs of mine decommissioning.

(in PLN '000)

Mine Decommissioning Fund financial assets

	Year ended 31 December 2015	Year ended 31 December 2014
Assets as at 1 January	**38 232**	**33 260**
Contributions made	4 463	3 971
Interest	809	1 001
Use	(1 375)	–
Assets as at 31 December	**42 129**	**38 232**
Transfers made to the MDF in the period	(4 113)	(4 459)

Provision for mine decommissioning costs

	Year ended 31 December 2015	Year ended 31 December 2014
Mine Decommissioning Fund	43 731	42 625
Surplus of discounted estimated decommissioning costs	67 944	78 079
Total	**111 675**	**120 704**

36.2. Provision for costs of restoration of land and dismantling and removal of fixed assets

The provision for costs of rehabilitation and disassembly and liquidation of fixed assets includes the following provisions recognized by the Generation segment companies:

- provision for costs related to rehabilitation of ash piles whose balance as at 31 December 2015 was PLN 41 855 thousand (PLN 42 774 thousand as at 31 December 2014);
- provision for expenses related to wind farms disassembly of PLN 59 389 thousand.

  As at 31 December 2015, following reclassification of wind farms, which as at 31 December 2014 had been classified as a disposal group held for sale, the provision for disassembly of wind farms was reclassified from items directly related to assets held for sale to provisions for costs of rehabilitation and disassembly and for liquidation of fixed assets.

36.3. Provision for onerous contracts

As the schedule had not been met and the material technical terms of the contract signed with the general contractor of a gas and steam unit fueled with natural gas in Stalowa Wola, determining the safety and failure-free operation as well as the future efficiency and costs of operation of the unit, had been breached, Elektrociepłownia Stalowa Wola S.A. terminated the contract with the general contractor on 29 January 2016. At present, analyses are performed with a view to determining the further course of action and selecting a project implementation scenario. Elektrociepłownia Stalowa Wola S.A., its business partners and the banks financing the project agreed on the project completion formula. All the parties expressed their willingness to continue the project. A solution aimed at restoring financing is being worked out with the banks. The construction site is being taken over from the general contractor and works aimed at securing the equipment and its maintenance are being performed. The Company is negotiating amendments to the gas and electricity contracts with PGNIG S.A.

In relation to the above, in the year ended 31 December 2015 the Company recognized provision for onerous contracts with a jointly-controlled entity – Elektrociepłownia Stalowa Wola S.A. in the amount of PLN 182 877 thousand.

Under the long-term agreement concerning sale of electricity concluded by Elektrociepłownia Stalowa Wola S.A., the Company and PGNiG Energia S.A., the Company is obliged to buy a half of the volume of electricity for the price calculated as "cost plus" formula, covering production costs and ensuring servicing of the financing. The estimated provision is calculated based on the difference between planned market prices of electricity and costs resulting from the "cost plus" formula. The provision was estimated in the amount of PLN 123 254 thousand.

Under the comprehensive contract to supply gaseous fuels concluded by PGNiG S.A. and Elektrociepłownią Stalowa Wola S.A., Elektrociepłownią Stalowa Wola S.A. is obliged to pay for untaken gaseous fuels to PGNiG S.A. or to sell it on the market (the contract provision "take or pay"). The Company may be obliged to cover potential losses being a result of this provision. In the process of calculating the provision the volume of gaseous fuels for the years 2016–2018 was applied according to the contractual terms. The provision as at the end of the reporting period amounted to PLN 51 661 thousand, of which PLN 19 428 thousand was classified under current provision.

(in PLN '000)

At the same time, in connection with the delay of the realization of the project, and thus the necessity to cover costs of operations of Elektrociepłowania Stalowa Wola S.A. the Company as at the end of the reporting period recognized the provision for the costs in question in the amount of PLN 7 962 thousand. The provisions for costs of realization of the contract to supply gaseous fuels and for the additional costs of operations have been recognized proportionally to the Company's share in a jointly-controlled entity.

37. Provisions for liabilities due to gas emission and energy certificates

Provisions for liabilities due to gas emission and energy certificates are related to the current year, therefore the entire amount of these provisions is considered short-term.

Year ended 31 December 2015

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	**8 130**	**914 926**	**923 056**
Recognition	153 084	863 210	**1 016 294**
Reversal	(2 290)	(2 202)	**(4 492)**
Utilisation	(5 841)	(910 883)	**(916 724)**
Closing balance	**153 083**	**865 051**	**1 018 134**

Year ended 31 December 2014

	Provision for gas emission obligations	Provision for obligation to submit energy certificates	Provisions, total
Opening balance	**461 123**	**905 561**	**1 366 684**
Recognition	73 051	917 784	**990 835**
Reversal	–	(2 783)	**(2 783)**
Utilisation	(463 362)	(905 636)	**(1 368 998)**
Contribution	(62 682)	–	**(62 682)**
Closing balance	**8 130**	**914 926**	**923 056**

37.1. Provision for the obligation to surrender energy certificates

As at 31 December 2015, the Group recognized a short-term provision for the obligation to surrender energy certificates for cancellation of PLN 865 051 thousand, out of which PLN 652 305 thousand were covered with certificates held as at the end of the reporting period; the Group intends to cover the amount of PLN 188 757 thousand through payment of a replacement fee, and the amount of PLN 23 989 through purchase of property rights.

In the year ended 31 December 2015 the Group completely fulfilled the requirement to surrender certificates of electricity generated using renewable sources, in cogeneration and energy efficiency certificates for 2014. Therefore, a provision of PLN 910 883 thousand has been utilized.

37.2. Provision for gas emission liabilities

As at 31 December 2015, the provision for gas emission liabilities amounted to PLN 153 083 thousand. The provision was recognized for installations of TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o., as in both companies emission in the year ended 31 December 2015 exceeded the number of free-of-charge emission allowances. Provision for absorption of deficit costs, i.e. of emission exceeding the number of free-of-charge allowances, was recognized in the amount of purchased emission allowances presented as short-term intangible assets with the carrying amount of PLN 153 083 thousand.

As at 31 December 2015, the number of allowances recorded on the Group's account in the National Register of Allowances reached 23 737 448.

(in PLN '000)

38. Other provisions

Year ended 31 December 2015

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**93 818**	**66 341**	**160 159**
Recognition/(reversal), net	3 587	5 840	**9 427**
Utilisation	(5 496)	(6 240)	**(11 736)**
Other movements	–	1 771	**1 771**
Foreign exchange differences from translation of foreign entities	–	(1)	**(1)**
Closing balance	**91 909**	**67 711**	**159 620**
Current	91 909	65 802	**157 711**
Non-current	–	1 909	**1 909**
Current portion of provisions for the costs of disassembly of fixed assets and land restoration and other provisions			**20 333**
Total current other provisions			**178 044**

Year ended 31 December 2014

	Provision for use of real estate without contract	Provision for counterparty claims, court dispute and other provisions	Provisions, total
Opening balance	**104 827**	**92 016**	**196 843**
Discount rate adjustment	–	25	**25**
Recognition/(reversal), net	(3 997)	(7 079)	**(11 076)**
Utilisation	(7 012)	(6 625)	**(13 637)**
Contribution	–	(13 033)	**(13 033)**
Other movements	–	1 024	**1 024**
Foreign exchange differences from translation of foreign entities	–	13	**13**
Closing balance	**93 818**	**66 341**	**160 159**
Current	93 818	63 670	**157 488**
Non-current	–	2 671	**2 671**
Current portion of provision for the costs of disassembly of fixed assets and land restoration			**871**
Total current other provisions			**158 359**

Provision for use of real estate without contract

The Group companies recognize provisions for all claims filed by the owners of the real estate on which distribution systems and heat installations are located. As at 31 December 2015, the relevant provision amounted to PLN 91 909 thousand and covered the following segments:

- Generation – PLN 50 334 thousand;
- Distribution – PLN 41 575 thousand.

In 2012 a third party lodged a claim against TAURON Ciepło S.A. (currently: TAURON Ciepło Sp. z o.o.) related to the regulation of legal status of the transmission devices located in its property. The Company has questioned the validity of the claim and of the offset made against the claimant's current liabilities due to heat supply. Consequently, the Company has claimed its current receivables at court. The amount of claims posed by the entity in relation to regulating the legal status of the company's transmission facilities will be verified further in the course of the proceedings. With regard to the dispute, in light of the adopted accounting policy, a provision has been recognized for the estimated cost of the above claim. Bearing in mind the pending litigation, and in accordance with IAS 37.92, the Group does not disclose all information regarding the above issue as required by IAS 37.

(in PLN '000)

39. Accruals, deferred income and government grants

39.1. Deferred income and government grants

	As at 31 December 2015	As at 31 December 2014
Deferred income, of which:	**325 861**	**358 247**
Donations, subsidies received for the purchase or fixed assets received free-of-charge	83 308	94 599
Connection fees	240 485	262 895
Other	2 068	753
Government grants, of which:	**382 660**	**359 190**
Subsidies obtained from EU funds	286 222	267 438
Forgiven loans from environmental funds	11 801	8 740
Measurement of preferential loans	39 401	41 177
Other	45 236	41 835
Total, of which:	**708 521**	**717 437**
Non-current	650 364	662 072
Current	58 157	55 365

39.2. Current accruals

	As at 31 December 2015	As at 31 December 2014
Unused holidays	37 468	41 403
Bonuses	140 946	140 372
Environmental protection charges	4 449	4 688
Other	13 317	3 692
Total	**196 180**	**190 155**

40. Liabilities due to taxes and charges

	As at 31 December 2015	As at 31 December 2014
Corporate Income Tax	85 357	13 518
Personal Income Tax	46 841	47 696
Excise	42 467	45 640
VAT	46 787	37 772
Social security	156 635	164 780
Environmental charges	46 889	43 629
Other	4 673	2 601
Total	**429 649**	**355 636**

41. Other current non-financial liabilities

	As at 31 December 2015	As at 31 December 2014
Payments from customers relating to future periods, of which:	**273 168**	**266 053**
prepayments for connection fees	25 366	26 100
amounts overpaid by customers	240 700	224 510
other	7 102	15 443
Other	**754**	**11 518**
Total	**273 922**	**277 571**

(in PLN '000)

42. Significant items of the consolidated statement of cash flows

42.1. Cash flows from operating activities

Change in working capital

	Year ended 31 December 2015	Year ended 31 December 2014
Change in receivables	118 806	111 716
Change in inventories	90 497	(43 868)
Change in payables excluding loans and borrowings	(180 636)	(234 014)
Change in other non-current and current assets	(104 176)	(178 409)
Change in deferred income, government grants and accruals	(73 962)	(67 333)
Change in provisions	141 843	(295 463)
Total	**(7 628)**	**(707 371)**

42.2. Cash flows from investing activities

Purchase of property, plant and equipment and intangible assets

	Year ended 31 December 2015	Year ended 31 December 2014
Purchase of property, plant and equipment	(3 877 348)	(2 819 090)
Purchase of intangible assets	(117 145)	(118 373)
Change in the balance of VAT – adjusted capital commitments	138 635	(64 088)
Change in the balance of advance payments	49 172	(298 271)
Costs of overhaul and internal manufacturing	(180 912)	(150 793)
Other	14 088	(13 963)
Total	**(3 973 510)**	**(3 464 578)**

Acquisition of financial assets

Expenditure for acquisition of financial assets resulted primarily from the Parent's transfer of cash intended to finance shares in the increased issued capital of PGE EJ 1 Sp. z o.o. totalling to PLN 23 046 thousand.

Loans granted

Expenditure related to loans granted result from portions of a VAT loan extended by the Parent to the jointly-controlled entity Elektrociepłownia Stalowa Wola S.A. totalling to PLN 8 150 thousand and loans granted under agreements entered into in November and December 2015 totalling to PLN 17 950 thousand, as discussed in detail in Note 23 hereto.

42.3. Cash flows from financing activities

Redemption of debt securities

Expenditure for redemption of debt securities result from redemption of Tranche B bonds by the Parent in the amount of PLN 450 000 thousand in the year ended 2015 in accordance with the schedule.

Loans and borrowings repaid

Expenditure on repayment of loans and borrowings of PLN 140 585 thousand disclosed in the consolidated statement of cash flows result mainly from repayment of PLN 132 818 thousand of the loans granted by the European Investment Bank by the Parent.

(in PLN '000)

Interest paid

	Year ended 31 December 2015	Year ended 31 December 2014
Interest paid in relation to debt securities	(286 692)	(253 511)
Interest paid in relation to loans and borrowings	(57 536)	(63 591)
Interest paid in relation to the finance lease	(1 237)	(2 565)
Total, of which:	**(345 465)**	**(319 667)**
financing cash outflows	(276 305)	(273 392)
investing cash outflows	(69 160)	(46 275)

The Group's consolidated statement of cash flows discloses borrowing costs capitalized in the current period for asset financing as expenditure for acquisition of property, plant and equipment and intangible assets in cash flows from investing activities.

Proceeds from loans and borrowings obtained by the Company

Proceeds from loans and borrowings obtained of PLN 295 000 thousand comprise a tranche of the loan granted by the European Investment Bank to the Parent under the agreement of July 2014.

Issuance of debt securities

Proceeds from issuing debt securities of PLN 310 000 thousand result from issuing bonds under the agreement with Bank Gospodarstwa Krajowego by the Parent.

(in PLN '000)

OTHER INFORMATION

43. Contingent liabilities

Item	Description
Use of real estate without contract	Entities of the Group do not hold legal titles to all plots of land where distribution networks, heating installation and the related devices are located. The Group may have to incur costs related to non-contractual use of property in the future; the risk of losing assets is close to nil, though. The Group has established a provision for all court disputes regarding the issue. No provision has been recognized for potential not submitted claims of owners of land with unregulated legal status, since their detailed records do not exist. As a consequence, potential claim amounts cannot be reliably estimated. In light of the history of claims submitted and the related costs incurred in the previous years, though, the risk of incurring material costs with this regard is low.
Amount	As at the end of the reporting period, a provision was recognized for costs of court disputes in the amount of PLN 91 909 thousand (Note 38).
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 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 issued a final and binding decision ending a dispute concerning GZE's energy supplies to Huta. The court dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which the court had dismissed Huta's appeal against the decision of the President of the Energy Regulatory Office. Huta filed a cassation appeal against the judgment of the Court of Appeals in Warsaw, 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 September 2012, the Court of Appeals overruled the decision of the Regional Court and remanded the case for reexamination. The first hearing before the first instance court was held on 27 November 2012. In May 2015 a court expert prepared an opinion on correctness of settlements between the parties to the dispute. On 30 June 2015 TAURON Polska Energia S.A. lodged complaints against the opinion in question. Complaints against the opinion were also filed by Huta and the State Treasury. In its decision dated 16 September 2015 the court admitted an additional court expert's opinion concerning charges levelled by both parties as evidence. In the most recent pleading lodged, the Company's representative requested that the court expert be promptly excluded from attending the following hearing and that the court expert evidence be rejected. The most recent court hearing was held on 20 January 2016. The next court hearing has been scheduled for 20 May 2016. 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 they 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.
Amount	Claim regarding payment of damages of PLN 182 060 thousand.
Litigation related to termination of long-term contracts	On 18 March 2015, Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation, a subsidiary, terminated long-term contracts concerning purchases of electricity and energy certificates from wind farms, Therefore, proceedings were instigated against the company, to consider its termination statements ineffective and to secure non-monetary claims resulting from the above purchase contracts. Since proceedings regarding the above cases are pending, the final claim amount of the potential financial effects on the company and the capital group cannot be estimated.

(in PLN '000)

Item	Description
Registered pledges and a financial pledge on shares of TAMEH HOLDING Sp. z o.o.	On 15 May 2015 TAURON Polska Energia S.A. established a financial pledge and registered pledges of 3 293 403 shares in the issued capital of TAMEH HOLDING Sp. z o.o., with the unit face value of PLN 100 and the total face value of PLN 329 340 thousand, constituting ca. 50% of shares in the issued capital of the entity for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company established a first lien registered pledge of shares with the maximum collateral amount of CZK 3 950 000 thousand and a first lien registered pledge of shares with the maximum collateral amount of PLN 840 000 thousand for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company also agreed to establish a financial pledge and registered pledges of new shares acquired or taken. Moreover, the Company assigned the rights to dividend and other payments. Agreement on establishing registered pledges and a financial pledge was concluded to secure transactions including the agreement for term loans and working capital loans, entered into by TAMEH Czech s.r.o. and TAMEH POLSKA Sp. z o.o. as original borrowers, TAMEH HOLDING Sp. z o.o. as the parent and the guarantor, and RAIFFEISEN BANK INTERNATIONAL AG as the agent and the collateral agent. Registered pledges are valid in the collateral period, i.e. until the total repayment or until release of the pledge by the pledgee. The financial pledge is valid in the entire collateral period or until a release by the pledgee, not later than on 31 December 2028.
Amount	As at 31 December 2015 the carrying amount of investments in joint venture recognized using the equity method in the TAMEH HOLDING Sp. z o.o. capital group was PLN 399 666 thousand.
Administrative proceedings instigated by the President of the Office for Competition and Consumer Protection (UOKiK)	President of UOKiK has instigated the following procedures: – On 12 December 2012 against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in charging interest for overdue payments for projected use of electricity groundlessly. Such interest was determined by the automatic payment management system as a result of linking payments made by electricity users with amounts payable in future and marking the oldest liabilities as unpaid. On 16 April 2013 the President of UOKiK issued a decision that obliged the company to discontinue the activities. On 30 June 2015 the company filed a report concerning obligations met. – On 17 September 2013 against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in quoting electricity prices in pricing lists and information materials without VAT, which constituted a breach of the Act of counteracting unfair market practices of 23 August 2007 (Journal of Laws No. 171 item 1206) and therefore constitutes a breach of the Act on competition and consumer protection of 16 February 2007 (Journal of Laws of 2007, No. 50, item 331 as amended; the "Act on competition and consumer protection"). The company committed to discontinue practices violating the Act on competition and consumer protection. Further, it motioned for proceedings aimed at the issue of a binding decision. On 22 December 2014 the company received a decision of UOKiK closing the evidentiary proceedings. On 14 December 2015 the President of UOKiK requested the company to indicate whether the practices had been discontinued, to which the company responded in February 2016, informed UOKiK about the practices being discontinued and requested refraining from imposing the fine. – Under a decision of 19 December 2014 anti-trust proceedings were instigated regarding the alleged abuse of the dominant position by TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. on the reserve electricity distribution market. In 2015 the companies applied for a decision requesting the entities to discontinue activities violating the Act on competition and consumer protection and to take steps preventing the alleged violations. In July 2015 the President of the Office for Competition and Consumer Protection, issued a decision requesting the entities to take appropriate steps to prevent the alleged infringements within four months from the date when the decision becomes final and binding. The entities were obliged to report on fulfilling the obligations within 6 months from the date the decision becomes final and binding. – On 27 January 2015 explanatory proceedings were instigated to provisionally determine if actions taken by TAURON Sprzedaż Sp. z o.o. towards small hydropower plants involving enforcing unfair terms of purchase of electricity generated using renewable sources and conditioning the energy purchase on meeting with the commercial balancing requirement, which may constitute a breach of the Act on competition and consumer protection. Under a decision of 15 October 2015 anti-monopoly proceedings were instigated by the President of UOKiK. On 1 February 2016, UOKiK accepted the company's statement regarding presentation of a determined liability, at the same time determining a 21-day deadline to present a relevant proposal. The companies do not recognize provisions for potential fines arising from the above proceedings, since according to their Management Board, the risk of issuing an unfavorable ruling and imposing a fine is remote.
Explanatory proceedings instigated by the President of UOKiK	Explanatory proceedings have been instigated against companies from the Sales segment to preliminarily determine whether their actions have been in breach of the Act on competition and consumer protection. The companies provided requested documents and explanations and responded to statements included in the letters of UOKiK. The companies' Management believe that, considering the explanatory nature of the proceedings instigated, the probability of an unfavorable outcome of the above-mentioned cases is low; hence no provision has been recognized for these events.

(in PLN '000)

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

On 31 October 2015 the surety of TAURON Polska Energia S.A. securing the guarantee extended by BGŻ BNP Paribas S.A. to collateralize transactions entered into by a joint arrangement Elektrociepłownia Stalowa Wola S.A. with an unrelated entity, expired as result of an agreement concluded. The original expiry date of the surety was set at 12 September 2018.

44. Contingent assets and liabilities related to tax returns

Tax returns may be inspected within five years, starting from the end of the year when the tax was paid. As a result of such inspections the Group's tax settlements may be increased by additional tax liabilities. As of 31 December 2015, according to the Group assessments, provisions recognized for identified and measurable tax risk were sufficient.

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

Item	Description
Excise duty	In view of the differences between the Polish and EU regulations concerning excise duty on electricity, following the judgment of the European Court of Justice ("ECJ") in Luksemburg of 12 February 2009 power and heat and power plants from the TAURON Capital Group filed tax return correction and applications to acknowledge excise tax excess payment for the years 2006–2008 and for January and February 2009. In the judgment in question ECJ conceded that Polish regulations determining the timing of recognition for excise tax purposes were not adjusted to the requirements of the Energy Directive neither before nor after the transition period. Proceedings concerning individual companies from the TAURON Capital Group (TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o.) have been carried out before competent tax authorities and Administrative Courts. As the final outcome of this dispute is highly unpredictable, the Group has not recognized any effects of possible reimbursement of excise duty overpayment or claims and possible claims of electricity buyers in these consolidated financial statements.
Amount	The overpaid amounts claimed by the Group approximate PLN 908 500 thousand.
Income tax – an increase in tax-deductible costs by the amount of component repair cost	In accordance with the tax ruling, companies in the Tax Capital Group ("TCG") (TAURON Wytwarzanie S.A. and TAURON Ekoenergia Sp. z o.o.) expensed costs incurred on component repairs over time. At the same time the Company, representing the TCG, appealed against the tax ruling, as in its opinion the repairs in question should be expensed when incurred, on one-off basis, irrespective of the way they are accounted for in the accounting records. Such position was confirmed by the Regional Administrative Court in Gliwice in its decision dated 18 September 2014. On 30 December 2014 the Company filed an application to acknowledge tax excess payment and a tax return correction for 2013, where the component repairs were recognized in tax-deductible expense on one-off basis. At the same time, an impairment loss for income tax receivable has been recognized with relation to the excess payment. In 2015, TCG received an overpayment refund of PLN 22 250 thousand. The impairment loss has been reversed, thus reducing the tax expense for 2015. Following a cassation appeal filed by the Minister of Finance, as at 31 December 2015 the case was awaiting the final decision of the Supreme Administrative Court.
Amount	The refunded overpayment of PLN 22 250 thousand.
Real estate tax	There are different interpretations regarding the approach to real estate tax on electricity generation and transmission facilities. Since the tax is imposed on the local self-government level, there is no unified approach and in several cases, the tax base calculation has been questioned. Depending on court decisions and possible amendments to relevant regulations, the status of real estate tax on electricity generation and transmission facilities may change in future.
Amount	As at the end of the reporting period, provisions were recognized for costs of disputes regarding real estate tax (totaling to PLN 16 038 thousand).
Tax inspection proceedings	The Company is a party to inspection proceedings instigated by the Director of the Tax Inspection Office in Warsaw ("Director of the TIO"). The inspection covers the reliability of declared taxable amounts and the correctness of calculation and payment of value-added tax for individual months from October 2013 to April 2014. The Director of the TIO carries out evidentiary proceedings in the form of written communication with the Company and questioning witnesses. In its subsequent letters the Company responded to requests sent by the Director of the TIO and presented all explanations and documents required. The period of the inspection proceedings was prolonged by the Director of TIO a few times and the new deadline has been set at 28 April 2016. The inspection proceedings are expected to be closed in 2016 but no precise closing date can be determined. As at the date of preparing these consolidated financial statements the Director of the TIO did not present any opinion on the evidence collected, at this stage any possible consequences of his final decision cannot be indicated yet.

(in PLN '000)

45. Collateral against liabilities

The Group uses various forms of collateral against liabilities. Those most frequently used include mortgages, registered pledges, liens relating to real property and other items of property, plant and equipment and frozen cash in bank accounts.

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

Carrying amount of assets pledged as collateral against liabilities

	As at 31 December 2015	As at 31 December 2014
Real estate	94 183	115 202
Plant and machinery	39 550	41 719
Cash	22 067	5 792
Total assets pledged as security for liabilities	**155 800**	**162 713**

Other forms of collateral

The Group also uses other forms of collateral to secure payment of liabilities, of which the most significant ones as at 31 December 2015 regard the following contracts concluded by the Parent:

Agreement	Collateral form	Collateral amount
Bond Issue Scheme dated 16 December 2010 with subsequent annexes	declaration of submission to enforcement	• up to PLN 1 560 000 thousand, valid until 31 December 2016 – as regards repaid Tranche A and Tranche B • up to PLN 6 900 000 thousand, valid until 31 December 2018 – as regards Tranche C, Tranche D and Tranche E (not disbursed)
Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Framework bank guarantee agreement with PKO Bank Polski S.A. The bank guarantee limit securing transactions may be used by the Company and the TAURON Group companies. As at 31 December 2015 the maximum limit of bank guarantees granted reached PLN 100 000 thousand.	authorization to debit the bank account maintained by PKO Bank Polski S.A.	up to PLN 125 000 thousand
Agreement concluded with Bank Zachodni WBK S.A. concerning bank guarantees for Izba Rozliczeniowa Giełd Towarowych S.A.	authorization to debit the bank account maintained by BZ WBK S.A.	up to PLN 150 000 thousand
Overdraft agreements with PKO Bank Polski S.A. (up to PLN 300 000 thousand and an intraday limit up to PLN 500 000 thousand)	authorizations to debit the bank account maintained by PKO Bank Polski S.A.	up to the total amount of PLN 800 000 thousand
Overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 25 000 thousand)	authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego	up to PLN 106 538 thousand (EUR 25 000 thousand)
	declaration of submission to enforcement	up to EUR 50 000 thousand valid until 31 December 2019

Other forms of collateral regarding Group's liabilities

As at 31 December 2015, other material forms of collateral regarding liabilities of TAURON Capital Group included:

- Blank promissory notes

(in PLN '000)

Agreement/transaction secured by blank promissory notes	Capital Group company that has issued a blank promissory note	Value as at 31 December 2015
Agreements concerning loans originated to subsidiaries: TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. by Regional Fund for Environmental Protection and Water Management in Katowice	TAURON Polska Energia S.A.	71 180
Performance bonds to include co-funding of engagements carried out	TAURON Dystrybucja S.A.	131 390
Performance bonds related to co-funding agreements concluded with the National Fund for Environmental Protection and Water Management	TAURON Ciepło Sp. z o.o.	80 579
Agreements for connecting to the industrial network, agreements for power transmission services and agreements for partial loan cancelling concluded with the National Fund for Environmental Protection and Water Management	TAURON Wytwarzanie S.A.	64 144

- Collateral of finance lease agreements

Finance lease agreement	Lessee	Carrying amount of the leased asset as at 31 December 2015	Collateral
Leaseback agreement concerning real estate, plant and machinery	TAURON Ciepło Sp. z o.o.	56 510	Blank promissory note for PLN 92 215 thousand. This agreement is additionally secured by the assignment of receivables, assignment of rights under insurance policies, mortgage on real estate, plant and machinery and authorization to debit bank accounts.
Finance lease agreement concerning real estate in Katowice	TAURON Polska Energia S.A.	28 935	The agreement is collateralized by two blank promissory notes, assignment of receivables and authorization to debit a bank account.

- The Company granted a corporate guarantee to TAURON Sweden Energy AB (publ), a subsidiary, to secure bonds issued by the entity in December 2014. The guarantee is valid in the entire bond period, i.e. until 3 December 2029, and amounts to EUR 168 000 thousand;
- Under the framework agreement for bank guarantees entered into with PKO Bank Polski S.A., upon request of the Company PKO Bank Polski S.A. issued bank guarantees securing liabilities of TAURON Polska Energia S.A.'s subsidiaries totaling PLN 2 185 thousand and securing transactions executed by the Company:
  - up to EUR 1 000 thousand (PLN 4 262 thousand) – a guarantee for CAO Central Allocation Office GmbH (currently: Joint Allocation Office S.A.), valid until 5 February 2016;
  - a performance bond up to PLN 6 300 thousand (Polskie Sieci Elektroenergetyczne S.A.) valid until 11 February 2016;
  - a performance bond up to PLN 3 864 thousand (Operator Gazociągów Przesyłowych GAZ – SYSTEM S.A.) valid until 30 November 2016.
- Under the guarantee agreement concluded with Bank Zachodni WBK S.A., the bank issued a guarantee to secure stock market transactions arising from the membership in the Commodity Clearing House up to PLN 20 000 thousand valid until 15 January 2016;
- collateral for the Company's transactions entered into on Polish Power Exchange:
  - Alienation agreement between TAURON Polska Energia S.A. and Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGIT"). Under the collateral, the number of allowances recorded on the Company's account in the National Register of Allowances reached 5 183 500 EUA. The agreement is valid until 31 March 2016;
  - Alienation agreement between TAURON Wytwarzanie S.A. and IRGiT S.A. The agreement covered a freeze on the following CO_2 emission allowances in the Register of Allowances held by TAURON Wytwarzanie S.A.:
    - 8 000 000 EUA – for the Company's liabilities to IRGiT in the period ended 31 March 2016;
    - 5 040 086 EUA – for trade deposits for transactions conducted by TAURON Wytwarzanie S.A. at TGE S.A. in the period ended 31 March 2016.

      As at 18 December 2015, 5 000 000 EUA out of 5 040 086 EUA deposited on the account were returned to TAURON Wytwarzanie S.A. After the transfer 40 086 EUA were still deposited on the account of TAURON Wytwarzanie S.A. in IRGiT, and secured transactions made by TAURON Wytwarzanie S.A. at TGE S.A.

(in PLN '000)

Mining entities from the Capital Group have established a Mine Decommissioning Fund to ensure funds for covering future liquidation costs. Detailed information is provided in Note 36.1.

46. Capital commitments

As at 31 December 2015, the Group committed to incur expenditure on property, plant and equipment and intangible assets in the amount of PLN 5 597 990 thousand, with the following key items:

Operating segment	Agreement/investment project	As at 31 December 2015	As at 31 December 2014
Generation	Construction of a power-generating unit with the capacity of 910 MW for supercritical parameters in Jaworzno III Power Plant	3 773 520	4 390 240
	Commissioning of a part of external coal handling system and an ash removal system for a power-generating unit with the capacity of 910 MW for supercritical parameters in Jaworzno III Power Plant	144 325	–
	Constructing new cogeneration capacity in Tychy Heat and Power Plant	98 970	393 949
Distribution	Implementation of Smart City Wrocław, an intelligent measurement system	91 126	–
Mining	Construction of a shaft inlet and developing infrastructure in Janina shaft	37 986	65 333

47. Related party disclosures

47.1. Transactions with jointly-controlled entities

The Group has the following joint ventures: Elektrociepłownia Stalowa Wola S.A., Elektrownia Blachownia Nowa Sp. z o.o. and TAMEH HOLDING Sp. z o.o. with subsidiaries, which have been presented in detail in note 22 hereto.

The total amount of transactions with jointly-controlled entities has been presented in the following table.

	Year ended 31 December 2015	Year ended 31 December 2014
Revenue	58 013	10 371
Costs	(36 002)	–

The increase in the transactions value versus the comparative period results from the recognition of a joint arrangement, the TAMEH HOLDING Sp. z o.o. Capital Group since December 2014.

The key item in receivables and payables with jointly-controlled entities is a loan granted to Elektrociepłownia Stalowa Wola S.A. presented in detail in Note 23 hereto.

The Company also granted collateral to joint ventures by providing a registered pledge on shares in TAMEH HOLDING Sp. z o.o., as discussed in detail in note 43 to these consolidated financial statements.

In connection with contracts concluded with a jointly-controlled entity – Elektrociepłownia Stalowa Wola S.A. as at 31 December 2015 the Group recognized a provision for onerous contracts in the amount of PLN 182 877 thousand, as described in detail in Note 36 to these consolidated financial statements.

47.2. Transactions with State Treasury companies

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

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

Revenue and expense

	Year ended 31 December 2015	Year ended 31 December 2014
Revenue	2 558 894	2 820 889
Costs	(3 018 993)	(2 636 725)

(in PLN '000)

Receivables and liabilities

	As at 31 December 2015	As at 31 December 2014
Receivables	367 207	413 102
Payables	270 429	302 646

As at 31 December 2015 receivables presented in the table above included advance payments of PLN 128 650 thousand, mainly advance payments for deliveries of coal of PLN 124 996 thousand and advance payments for purchase of fixed assets of PLN 3 649 thousand. As at 31 December 2014 receivables included advance payments for coal supplies with the value of PLN 115 344 thousand.

In the financial year ended 31 December 2015, the State Treasury companies being the major clients of the TAURON Polska Energia S.A. Capital Group included KGHM Polska Miedź S.A, PSE S.A, PKP Energetyka S.A., Jastrzębska Spółka Węglowa S.A. and Kompania Węglowa S.A. Total sales to these contracting parties accounted for 79% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Kompania Węglowa S.A. Purchases from these contracting parties accounted for 80% of the value of purchases from State Treasury companies in the financial year ended 31 December 2015.

In the financial year ended 31 December 2014, the State Treasury companies being the major clients of the TAURON Polska Energia S.A. Capital Group included KGHM Polska Miedź S.A, PSE S.A, PKP Energetyka S.A., Jastrzębska Spółka Węglowa S.A. and Kompania Węglowa S.A. Total sales to these contracting parties accounted for 87% of revenue from transactions with State Treasury companies. The largest purchase transactions were concluded by the Group with PSE S.A. and Kompania Węglowa S.A. Purchases from these contracting parties accounted for 86% of the value of purchases from State Treasury companies in the financial year ended 31 December 2014.

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

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

47.3. Executive compensation

	Parent		Subsidiaries	
	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2014
Board of Directors	**11 225**	**9 144**	**22 152**	**21 546**
Short-term employee benefits (salaries and surcharges)	7 333	7 022	19 640	20 865
Post-service benefits for a Member of the Management Board	2 820	600	1 018	–
Post-employment benefits	–	–	599	43
Employment termination benefits	–	750	526	263
Other	1 072	772	369	375
Supervisory Board	**1 118**	**908**	**990**	**925**
Short-term employee benefits (salaries and surcharges)	1 118	908	927	862
Other	–	–	63	63
Other key management personnel	**14 588**	**12 819**	**40 541**	**42 246**
Short-term employee benefits (salaries and surcharges)	12 392	11 672	38 580	40 630
Jubilee bonuses	–	–	1 001	1 359
Post-employment benefits	507	140	607	40
Employment termination benefits	627	–	125	–
Other	1 062	1 007	228	217
Total	**26 931**	**22 871**	**63 683**	**64 717**

The above note does not present provisions for post-service benefits payable to a Member of the Management Board and recognized by the Group in the amount of PLN 6 708 thousand and provisions for post-service benefits payable to other top executives of PLN 180 thousand, which are expected to be paid after the reporting date. The provisions in question were presented in these financial statements under accruals.

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

(in PLN '000)

In the year covered by these consolidated financial statements, no loan agreements were concluded between the Social Benefits Fund and members of management and supervisory bodies of the Capital Group. As at 31 December 2015, there were no outstanding loan balances.

48. Financial instruments

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

Categories and classes of financial assets	Note	As at 31 December 2015		As at 31 December 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Assets at fair value through profit or loss, held for trading		**5 684**		**1 811**	
Derivative instruments	**34**	5 684	5 684	1 811	1 811
2 Financial assets available for sale		**140 783**		**116 695**	
Shares (non-current)		132 383		108 399	
Shares (current)		4 105		3 997	
Investment fund units		2 405	2 405	2 409	2 409
Bonds, T-bills and other debt securities		1 890	1 890	1 890	1 890
3 Loans and receivables		**2 150 918**		**2 255 585**	
Receivables from clients	**27**	1 830 033	1 830 033	1 917 098	1 917 098
Deposits		39 724	39 724	35 823	35 823
Loans granted		223 911	223 911	204 699	204 699
Bonds, T-bills and other debt securities		–	–	21 732	22 893
Other financial receivables		57 250	57 250	76 233	76 233
4 Financial assets excluded from the scope of IAS 39		**418 127**		**414 584**	
Investments in joint ventures	**22**	418 127		414 584	
5 Cash and cash equivalents	**29**	**364 912**	**364 912**	**1 420 909**	**1 420 909**
Total financial assets, of which in the statement of financial position:		**3 080 424**		**4 209 584**	
Non-current assets		**851 145**		**791 967**	
Investments in joint ventures		418 127		414 584	
Loans granted to joint ventures		221 803		198 331	
Other financial assets		211 215		179 052	
Current assets		**2 229 279**		**3 417 617**	
Receivables from clients		1 830 033		1 917 060	
Other financial assets		34 334		79 648	
Cash and cash equivalents		364 912		1 420 909	

(in PLN '000)

Categories and classes of financial liabilities	Note	As at 31 December 2015		As at 31 December 2014	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities at fair value through profit or loss, held for trading		**16 642**		**15 183**	
Derivative instruments	**34**	16 642	16 642	15 183	15 183
2 Financial liabilities measured at amortized cost		**9 980 020**		**9 969 713**	
Preferential loans	**33.1**	47 999	47 999	55 222	55 222
Arm's length loans	**33.1**	1 353 571	1 375 724	1 164 892	1 202 546
Bank overdrafts	**33.1**	10 206	10 206	11 918	11 918
Bonds issued	**33.2**	6 680 433	6 683 707	6 821 830	6 821 830
Liabilities to suppliers		790 706	790 706	916 744	916 744
Other financial liabilities		157 240	157 240	232 215	232 215
Capital commitments		767 759	767 759	595 550	595 550
Salaries and wages		155 957	155 957	154 718	154 718
Insurance contracts		16 149	16 149	16 624	16 624
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39		**46 438**		**59 904**	
Obligations under finance leases	**33.3**	46 438	46 438	59 904	59 904
4 Derivative hedging instruments (liabilities)	**34**	**95 467**	**95 467**	**180 933**	**180 933**
Total financial liabilities, of which in the statement of financial position:		**10 138 567**		**10 225 733**	
Non-current liabilities		**5 025 832**		**7 611 262**	
Debt liabilities		4 924 127		7 468 775	
Derivative instruments		15 156		93 501	
Other financial liabilities		86 549		48 986	
Current liabilities		**5 112 735**		**2 614 471**	
Debt liabilities		3 214 520		644 991	
Liabilities to suppliers		790 706		916 744	
Capital commitments		766 843		595 550	
Derivative instruments		96 953		102 615	
Other financial liabilities		243 713		354 571	

Financial derivatives 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 34 to these financial statements. Disclosures of fair value hierarchy of derivative instruments are also discussed in Note 34.

Financial instruments classified to other categories of financial instruments:

- With regard to financial instruments bearing fixed interest, which as at 31 December 2015 included loans received from the European Investment Bank and bonds issued by a subsidiary, the Group carried out fair value measurement. Fair value measurement of 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 issue or loan, i.e. by reference to market interest rates. The measurement resulted in Level 2 classification in fair value hierarchy. As at 31 December 2014, the Group measured loans originated by the European Investment Bank at fair value. The fair value of the bonds issued by the subsidiary was close to their carrying amount.
- The fair value of other financial instruments (except for shares classified as financial assets available for sale and excluded from the scope of IAS 39, as described below) as at 31 December 2015 and 31 December 2014 did not significantly differ from their values presented in the financial statements for the respective periods, for the following reasons:
  - the potential discounting effect relating to short-term instruments is not significant;
  - the instruments are related to arm's length transactions.

  Consequently, the fair value of the instruments in question was disclosed in the table above at the carrying amount.
- The Group did not disclose the fair value of shares in companies not quoted on active markets, categorized to financial assets available for sale. The Group is unable to reliably estimate the fair value of shares held in companies which are not quoted on active markets. They are measured at cost less impairment

(in PLN '000)

losses as at the end of the reporting period. Similarly, in accordance with the Group's accounting policy, shares in joint ventures – financial assets excluded from the scope of IAS 39 – are measured using the equity method.

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

Year ended 31 December 2015

	Assets/liabilities at fair value through profit or loss, held for trading	Financial assets available for sale	Loans and receivables	Financial liabilities at amortized cost	Hedging instruments	Financial assets/ liabilities excluded from the scope of IAS 39	Total
Dividends and shares in profits	–	4 684	–	–	–	–	**4 684**
Interest income/(expense)	15 651	–	44 734	(189 057)	(89 380)	(1 236)	**(219 288)**
Currency translation differences	1 887	–	(24)	(2 152)	–	813	**524**
Impairment/revaluation	2 415	189	(9 798)	–	–	–	**(7 194)**
Commission relating to borrowings and debt securities	–	–	–	(12 514)	–	–	**(12 514)**
Gain/(loss) on disposal of investments	3	754	–	–	–	–	**757**
Other	(8 475)	–	–	–	–	–	**(8 475)**
Net profit (loss)	**11 481**	**5 627**	**34 912**	**(203 723)**	**(89 380)**	**(423)**	**(241 506)**
Remeasurement	–	–	–	–	85 932	–	**85 932**
Other comprehensive income	**–**	**–**	**–**	**–**	**85 932**	**–**	**85 932**

Year ended 31 December 2014

	Assets/liabilities at fair value through profit or loss, held for trading	Financial assets available for sale	Loans and receivables	Financial liabilities at amortized cost	Hedging instruments	Financial assets/ liabilities excluded from the scope of IAS 39	Total
Dividends and shares in profits	–	3 931	–	–	–	–	**3 931**
Interest income/(expense)	14 636	–	36 679	(207 282)	(75 699)	(2 493)	**(234 159)**
Currency translation differences	3 433	–	117	(17 737)	–	(153)	**(14 340)**
Impairment/revaluation	(12 236)	213	(2 091)	–	–	–	**(14 114)**
Commission relating to borrowings and debt securities	–	–	–	(14 013)	–	–	**(14 013)**
Gain/(loss) on disposal of investments	–	22 953	–	–	–	(44)	**22 909**
Other	(614)	–	–	–	–	–	**(614)**
Net profit (loss)	**5 219**	**27 097**	**34 705**	**(239 032)**	**(75 699)**	**(2 690)**	**(250 400)**
Remeasurement	–	–	–	–	(20 207)	–	**(20 207)**
Other comprehensive income	**–**	**–**	**–**	**–**	**(20 207)**	**–**	**(20 207)**

In the year ended 31 December 2015, total gains/losses related to IRS hedging instruments subject to hedge accounting constituted an effective hedge and were recognized accordingly under other comprehensive income. Gains/losses on revaluation of the hedging instrument recognized in other comprehensive income were recognized in the profit/loss for the period under finance costs arising from interest on bonds issued, at the moment when the item was hedged, i.e. when interest on the bonds affected the financial profit/loss for the period. The profit/loss for the period was charged with PLN 89 380 thousand, where PLN 88 914 thousand was the amount paid in respect of hedges used in relation to closed interest periods and PLN 466 thousand resulted from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period.

49. Principles and objectives of financial risk management

The Capital Group manages its financial risk in a mindful and responsible manner, based on the *Specific risk management policy in the area of finance in TAURON Group* presenting principles and standards compliant with the relevant best practices. As the risk incurred and the potential income amount are correlated, the principles are applied to keep the risks at a predetermined and acceptable level. The key objective of financial risk management is to minimize the cash flow sensitivity of the TAURON Group to financial risks and to minimize finance cost and costs of hedging with the use of derivative instruments. The policy for management of specific risk in the area of finance determines the strategy of managing financial risk regarding currency and interest rate risk.

(in PLN '000)

Specific risk management policy in the area of finance has also introduced hedge accounting principles, including types of cash flow hedges and accounting treatment of hedging instruments and hedged items in accordance with the IFRS. In line with the policy, wherever possible and commercially viable, the TAURON Capital Group uses derivative instruments, whose nature allows for the application of hedge accounting. Hedge accounting principles with regard to derivatives have been presented in Note 9.18.

Further, the TAURON Group has also implemented:

- *Liquidity management policy for the TAURON Group.* Thanks to the policy, among others based on precise weekly update of financial plans, scenario and benchmark analyses, the management of the liquidity position of the TAURON Group is optimized and thus the liquidity risk mitigated;
- *Credit risk management policy for the TAURON Group.* The policy defines the principles of managing credit risk in the TAURON Group. The objective of the regulation is to effectively minimize the credit risk's impact on the Group's objectives. The Group has no centralized risk management system, but credit risk control, mitigation and reporting are managed centrally at the Company's level.

Financial and credit risk management has been discussed in the Management Board's report on the activities of the TAURON Polska Energia S.A. Capital Group for the 2015 financial year (item 3).

Key types of risk arising from financial instruments to which the Capital Group is exposed in the course of its operations include:

- credit risk;
- liquidity risk;
- market risk, including:
  - interest rate risk;
  - currency risk;
  - commodity price risk related to commodity derivative instruments.

49.1. Credit risk

Key classes of financial instruments that give rise to credit risk exposure have been presented in the table below. The maximum credit risk exposure related to financial assets of the TAURON Group equals their carrying amounts.

Classes of financial instruments	As at 31 December 2015	As at 31 December 2014
Receivables from clients	1 830 033	1 917 098
Cash and cash equivalents	364 912	1 420 909
Loans granted	223 911	204 699
Deposits	39 724	35 823
Other financial receivables	57 250	76 233

The TAURON Group has adopted Credit risk management policy for the TAURON Group, as discussed in detail in Note 49 to these consolidated financial statements.

49.1.1. Credit risk related to receivables from clients and other financial receivables

The Group has receivables from two groups of buyers: institutional and individual clients. The percentage share of individual groups in the total amount of receivables from buyers and other financial receivables has been presented below:

(in PLN '000)

	As at 31 December 2015	As at 31 December 2014
Institutional clients	75.39%	74.70%
Individual clients	24.61%	25.30%
Total	**100.00%**	**100.00%**

No material concentration of credit risk related to the core activity occurs in the Group. The key item of receivables are those from PSE S.A. which constituted 6.97% of receivables from buyers and other financial receivables as at 31 December 2015 and 6.13% as at 31 December 2014.

Receivables from buyers bear no interest and in case of cooperation with institutional contractors they usually have a 30-day maturity period. In case of individual clients, payments are made on a monthly or bi-monthly basis.

The Group manages credit risk of institutional and individual clients mainly through application of the following methods:

- evaluation of counterparty's financial standing and determining of credit limits;
- requiring determined collateral to be provided with clients with poor financial standing;
- standardizing of contractual provisions regarding credit risk and standardizing of credit collateral;
- ongoing monitoring of payments and an early collection system;
- regular measurement of credit risk arising from trade activities;
- ongoing monitoring of counterparty's financial standing, cooperation with business intelligence and collection companies.

Sales to institutional clients are made only to buyers who have undergone an appropriate verification procedure. As a result, the Management believe that there is no additional credit risk that would exceed the allowance for bad debts recognized for trade receivables of the Group.

The ageing analysis and write-downs for receivables from buyers and other financial receivables have been presented below.

Write-downs for receivables from clients and other financial receivables

	Year ended 31 December 2015	Year ended 31 December 2014
Allowance/write-down at the beginning of period	**(282 848)**	**(273 499)**
Recognised	(106 039)	(129 961)
Utilized	18 438	17 760
Reversed	89 435	102 864
Other movements	116	(12)
Allowance/write-down at the end of period	**(280 898)**	**(282 848)**
Value of item before allowance	2 168 181	2 276 179
Value of item net of allowance (carrying amount)	1 887 283	1 993 331

As at the end of the reporting period, the Group did not hold material non-collectible items not covered with an allowance.

Ageing analysis of receivables from clients and other financial receivables as at 31 December 2015

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Before allowance/write-down	1 643 946	173 145	36 604	22 435	40 656	251 395	**2 168 181**
Allowance/write-down	(1 753)	(3 298)	(3 060)	(8 037)	(29 922)	(234 828)	**(280 898)**
After allowance/write-down	**1 642 193**	**169 847**	**33 544**	**14 398**	**10 734**	**16 567**	**1 887 283**

(in PLN '000)

Ageing analysis of receivables from clients and other financial receivables as at 31 December 2014

	Not past due	Past due					Total
		<30 days	30–90 days	90–180 days	180–360 days	>360 days	
Before allowance/write-down	1 680 340	228 451	46 794	26 179	49 008	245 407	**2 276 179**
Allowance/write-down	(1 335)	(1 763)	(5 314)	(8 668)	(35 723)	(230 045)	**(282 848)**
After allowance/write-down	**1 679 005**	**226 688**	**41 480**	**17 511**	**13 285**	**15 362**	**1 993 331**

49.1.2. Credit risk related to cash and cash equivalents

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

As at 31 December 2015, the share of three banks holding the largest balance of Group's cash was 73%.

49.1.3. Credit risk related to originated loans

Loans granted to joint ventures have been recognized under loans granted by the Group. The loans in question have not been overdue as at the end of the reporting period. According to the Group, credit risk due to originated loans was insignificant as at the balance sheet date. The key item was a subordinated loan of PLN 205 922 thousand, secured with a blank bill of exchange with a bill of exchange agreement.

49.2. Liquidity risk

The Group maintains the balance between continuity and flexibility of funding through the use of a variety of funding sources, such as overdraft facilities, bank loans, other loans, bonds and finance leases. Such use of the funding sources allows liquidity risk management and effective mitigation of its possible negative effects.

Liquidity is managed at the Capital Group level. The TAURON Group has adopted *Liquidity management policy for the TAURON Group*, as discussed in detail in Note 49 to these consolidated financial statements.

Additionally, in order to minimize the possibility of cash flow interruption and the risk of loss of liquidity, the TAURON Group, as in previous years, used the cash pooling mechanism. Regardless of funds collected by its individual members, cash pooling is linked to a flexible credit facility in the form of overdraft. 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.

Apart from an overdraft made available under the cash pool agreement, the Group is entitled to use foreign currency overdrafts:

- up to USD 2 000 thousand, with the outstanding amount of USD 404 thousand as at the reporting date;
- up to EUR 25 000 thousand, with the outstanding amount of EUR 2 025 thousand as at the reporting date.

The following tables present the Group's financial liabilities based on non-discounted contractual payments by maturity as at 31 December 2015 and 31 December 2014.

(in PLN '000)

Financial liabilities as at 31 December 2015

Classes of financial instruments	Carrying amount	Non-discounted contractual payments*	of which non-discounted contractual payments maturing within (*after the balance sheet date*)					
			less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	more than 5 years
Financial liabilities other than derivative instruments:								
Interest-bearing loans and borrowings and issued bonds	**8 092 209**	**(9 236 101)**	(2 335 274)	(1 046 480)	(316 908)	(324 752)	(2 596 757)	(2 615 930)
Liabilities to suppliers	**790 706**	**(790 706)**	(790 655)	(29)	(22)	–	–	–
Capital commitments	**767 759**	**(767 759)**	(766 749)	(93)	(613)	(113)	(191)	–
Other financial liabilities	**329 346**	**(329 346)**	(231 380)	(12 332)	(9 184)	(40 662)	(35 647)	(141)
Obligations under finance leases	**46 438**	**(48 625)**	(4 799)	(9 110)	(10 958)	(23 730)	(4)	(24)
Derivative financial liabilities:								
Derivate instruments – IRS	**95 467**	**(96 559)**	–	(96 559)	–	–	–	–
Derivate instruments – CCIRS	**14 423**	**(68 165)**	–	2 749	2 662	988	(4 350)	(70 214)
Derivate instruments – commodity	**2 208**	**(985)**	–	(251)	(734)	–	–	–
Total	**10 138 556**	**(11 338 246)**	**(4 128 857)**	**(1 162 105)**	**(335 757)**	**(388 269)**	**(2 636 949)**	**(2 686 309)**

** 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 2014

Classes of financial instruments	Carrying amount	Non-discounted contractual payments*	of which non-discounted contractual payments maturing within (*after the balance sheet date*)					
			less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	more than 5 years
Financial liabilities other than derivative instruments:								
Interest-bearing loans and borrowings and issued bonds	**8 053 862**	**(9 317 895)**	(199 728)	(625 209)	(3 340 049)	(289 008)	(2 412 307)	(2 451 594)
Liabilities to suppliers	**916 744**	**(916 744)**	(916 512)	(188)	(22)	(22)	–	–
Capital commitments	**595 550**	**(595 550)**	(572 425)	(23 125)	–	–	–	–
Other financial liabilities	**403 557**	**(403 557)**	(327 643)	(26 927)	(8 437)	(40 451)	–	(99)
Obligations under finance leases	**59 904**	**(63 903)**	(5 110)	(10 036)	(20 753)	(4 247)	(23 731)	(26)
Derivative financial liabilities:								
Derivate instruments – IRS	**194 313**	**(198 470)**	–	(103 415)	(95 055)	–	–	–
Derivate instruments – CCIRS	**1 241**	**(45 378)**	–	1 190	2 351	1 389	(1 224)	(49 084)
Derivate instruments – commodity	**562**	**(580)**	–	(580)	–	–	–	–
Total	**10 225 733**	**(11 542 077)**	**(2 021 418)**	**(788 290)**	**(3 461 965)**	**(332 339)**	**(2 437 262)**	**(2 500 803)**

** Negative values indicate a cash outflow. Estimations of future payments to be made in selected periods may be positive for some derivatives, i.e. they may indicate a cash inflow, but the value resulting from measurement of such instruments during the entire term to maturity is negative (liability).*

49.3. Market risk

Market risk is related to possible negative effects of fluctuations in the fair value of financial instruments or the related future cash flows arising from changes in market prices on the financial profit/loss of the Group.

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

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

49.3.1. Interest rate risk

The Group's interest rate risk results mainly from debt, concluded IRS and CCIRS contracts, cash deposits and loans granted to joint ventures.

Due to floating rate items the Group is exposed to cash flow changes resulting from interest rate fluctuations. As a result of fixed-rate items the Group is exposed to changes in the fair value of items measured at amortized cost. The risk of fair value changes resulting from interest rate changes also relates to IRS and CCIRS contracts. The Company is also exposed to lost benefit risk related to a decrease in interest rates of fixed interest rate debt or to an increase in interest rates of fixed interest rate assets, with the changes not disclosed in the financial statements.

(in PLN '000)

The purpose of interest rate risk management is to limit negative effects of market interest rate fluctuations on the Group's cash flows to an acceptable level and to minimize finance costs using derivative instruments (IRS). In order to hedge interest rate risk related to floating-interest rate bonds issued, in 2012 the Group concluded interest rate swaps contracts (IRS) More information on IRS has been presented in Note 34.

Carrying amount of financial instruments of the Company exposed to the interest rate risk has been presented in tables below. The Parent has issued floating interest rate bonds only. A portion of bonds with interest cash flow fluctuations hedged with interest rate swaps was presented in the tables below together with measurement of fixed-rate hedging instruments.

Financial instruments by interest rate type at 31 December 2015

Financial instruments	Fixed interest rate	Floating interest rate	Total
Financial assets			
Deposits	–	39 724	**39 724**
Loans granted	–	223 911	**223 911**
Cash and cash equivalents	–	364 912	**364 912**
Derivative instruments (CCIRS)	–	3 055	**3 055**
Financial liabilities			
Bank overdrafts	–	10 206	**10 206**
Preferential loans	–	47 999	**47 999**
Arm's length loans	1 324 191	29 380	**1 353 571**
Bonds issued	3 714 744	2 965 689	**6 680 433**
Derivative instruments (IRS)	95 467	–	**95 467**
Obligations under finance leases	–	46 438	**46 438**
Derivative instruments (CCIRS)	–	14 423	**14 423**

Financial instruments by interest rate type at 31 December 2014

Financial instruments	Fixed interest rate	Floating interest rate	Total
Financial assets			
Bonds, T-bills and other debt securities	21 732	–	**21 732**
Deposits	–	35 823	**35 823**
Loans granted	–	204 699	**204 699**
Cash and cash equivalents	–	1 420 909	**1 420 909**
Derivative instruments (CCIRS)	–	1 499	**1 499**
Financial liabilities			
Bank overdrafts	–	11 918	**11 918**
Preferential loans	–	55 222	**55 222**
Arm's length loans	1 160 411	4 481	**1 164 892**
Bonds issued	3 713 490	3 108 340	**6 821 830**
Derivative instruments (IRS)	180 933	13 380	**194 313**
Obligations under finance leases	–	59 904	**59 904**
Derivative instruments (CCIRS)	–	1 241	**1 241**

Interest rate of floating-rate financial instruments is updated on a regular basis, more frequently than once a year. Interest on fixed rate financial instruments is fixed for the entire period until the maturity date of these instruments or to a determined future date, when the rates are verified and may be changed; this principle applies to loans obtained from the European Investment Bank, as described in detail in Note 33.1.

Sensitivity analysis

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

(in PLN '000)

The interest rate risk sensitivity analysis is conducted by the Group using the parallel shift in the yield curve by the potential change in reference interest rates within a horizon until the date of the next financial statements. The interest rate risk sensitivity analysis has been carried out based on average reference interest rates in the year. The scale of potential changes in interest rates has been estimated on the basis of implied volatility for interest rate options quoted on the interbank market for currencies which expose the Group to the interest rate risk as at the end of the reporting period.

In the interest rate risk sensitivity analysis, the effect of changes in risk factors has been determined for interest income/expense related to financial instruments measured at amortized cost and for the fair value of floating interest rate financial instruments measured at fair value as at the end of the reporting period.

The Group identifies exposure to the risk of changes in WIBOR and EURIBOR, but as at 31 December 2015 the EURIBOR interest rate risk was insignificant. 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.

Year ended 31 December 2015

Classes of finacial instruments	31 December 2015		Sensitivity analysis for interest rate risk as at 31 December 2015	
			WIBOR	
	Carrying amount	Value at risk	WIBOR + 66 bp	WIBOR -66 bp
			Profit or loss / other comprehensive income	
Deposits	39 724	39 724	262	(262)
Loans granted	223 911	223 911	1 478	(1 478)
Cash and cash equivalents	364 912	364 912	2 152	(2 152)
Derivatives (assets)	5 684	3 055	(3 360)	3 360
Preferential loans	47 999	47 999	(317)	317
Arm's length loans	1 353 571	29 380	(194)	194
Issued bonds	6 680 433	5 969 017	(39 396)	39 396
Obligations under finance leases	46 438	46 438	(306)	306
Derivatives (liabilities)	112 109	109 890	(24 358)	24 358
Total			**(64 039)**	**64 039**

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 or loss / other comprehensive income		*Profit or loss / other comprehensive income*	
Deposits	35 823	35 823	247	(247)	–	–
Loans granted	204 699	204 699	1 412	(1 412)	–	–
Cash and cash equivalents	1 420 909	1 420 909	9 606	(9 606)	237	(237)
Derivatives (assets)	1 811	1 499	(4 624)	4 624	(223)	223
Preferential loans	55 222	55 222	(381)	381	–	–
Arm's length loans	1 164 892	4 481	(31)	31	–	–
Bank overdrafts	11 918	11 918	–	–	(116)	116
Issued bonds	6 821 830	6 110 631	(42 163)	42 163	–	–
Obligations under finance leases	59 904	59 904	(413)	413	–	–
Derivatives (liabilities)	196 116	195 554	(4 439)	4 439	(26 016)	26 016
Total			**(40 786)**	**40 786**	**(26 118)**	**26 118**

49.3.2. Currency risk

In the TAURON Group companies the currency risk included transaction and translation exposure. Capital Group companies are exposed to the EUR/PLN, CZK/PLN and USD/PLN exchange rate risk related to their operations and financial transactions. The Group's exposure to currency risk by financial instrument class in 2015 and 2014 is presented in the following tables.

(in PLN '000)

Currency position as at 31 December 2015

Classes of financial instruments	Total carrying amount in PLN	EUR		CZK		USD	
		in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets							
Receivables from clients and other financial receivables	1 887 283	1 586	6 759	57 819	9 118	96	376
Cash and cash equivalents	364 912	8 184	34 876	16 988	2 679	338	1 317
Derivatives (assets)	5 684	334	1 425	–	–	205	800
Total		**10 104**	**43 060**	**74 807**	**11 797**	**639**	**2 493**
Financial liabilities							
Bank overdrafts	10 206	2 025	8 630	–	–	404	1 576
Issued bonds	6 680 433	166 941	711 417	–	–	–	–
Liabilities to suppliers and other financial liabilities	947 946	3 173	13 523	13 139	2 072	1	4
Derivatives (liabilities)	112 109	242	1 032	70	11	301	1 176
Total		**172 381**	**734 602**	**13 209**	**2 083**	**706**	**2 756**
Net currency position		**(162 277)**	**(691 542)**	**61 598**	**9 714**	**(67)**	**(263)**

Currency position as at 31 December 2014

Classes of financial instruments	Total carrying amount in PLN	EUR		CZK		USD	
		in currency	in PLN	in currency	in PLN	in currency	in PLN
Financial assets							
Receivables from clients and other financial receivables	1 993 331	1 520	6 477	81 737	12 563	–	–
Cash and cash equivalents	1 420 909	5 723	24 395	17 879	2 748	444	1 556
Derivatives (assets)	1 811	–	–	–	–	89	312
Total		**7 243**	**30 872**	**99 616**	**15 311**	**533**	**1 868**
Financial liabilities							
Bank overdrafts	11 918	2 796	11 918	–	–	–	–
Issued bonds	6 821 830	166 858	711 199	–	–	–	–
Liabilities to suppliers and other financial liabilities	1 148 959	4 756	20 272	18 556	2 852	91	320
Derivatives (liabilities)	196 116	132	562	–	–	–	–
Total		**174 542**	**743 951**	**18 556**	**2 852**	**91**	**320**
Net currency position		**(167 299)**	**(713 079)**	**81 060**	**12 459**	**442**	**1 548**

In 2015 and in 2014 the TAURON Group used forward transactions under its currency risk management policy in order to hedge against currency risk associated with its trading operations. The Group has not used hedge accounting to hedge currency risk.

Additionally, in November 2014 the Group entered into a Coupon Cross Currency Swap (CCIRS) contract to mitigate EUR/PLN currency risk related to interest coupon on bonds issued in EUR. The fair value measurement of this instrument is exposed to EUR/PLN currency risk. The transaction is excluded from hedge accounting. As at 31 December 2015 CCIRS was measured at PLN (11 368) thousand. After the balance sheet date, on 12 February 2016 the transaction in question was closed and on 15 February 2016 it was settled in cash, hence the Company received PLN 5 400 thousand.

Sensitivity analysis

The analysis of sensitivity to changes in market risk factors is conducted by means of a scenario analysis. The Group relies on expert scenarios reflecting its judgment concerning the behavior of individual market risk factors in the future. The 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 Group identifies its exposure to the risk of EUR/PLN, CZK/PLN and USD/PLN exchange rate changes. The tables below present sensitivity of the gross financial profit/loss to reasonably possible changes in the exchange rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

(in PLN '000)

Year ended 31 December 2015

Classes of finacial instruments	31 December 2015		Sensitivity analysis for currency risk as at 31 December 2015					
			EUR/PLN		CZK/PLN		USD/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +7.15%	exchange rate EUR/PLN -7.15%	exchange rate CZK/PLN +8.22%	exchange rate CZK/PLN -8.22%	exchange rate USD/PLN +11.43%	exchange rate USD/PLN -11.43%
			Profit or loss / other comprehensive income		*Profit or loss / other comprehensive income*		*Profit or loss / other comprehensive income*	
Receivables from clients and other financial receivables	1 887 283	16 253	483	(483)	749	(749)	43	(43)
Cash and cash equivalents	364 912	38 872	2 494	(2 494)	220	(220)	151	(151)
Derivatives (assets)	5 684	5 684	3 078	(3 078)	–	–	91	(91)
Overdrafts	10 206	10 206	(617)	617	–	–	(180)	180
Bonds issued	6 680 433	711 417	(50 866)	50 866	–	–	–	–
Liabilities to suppliers and other financial liabilities	947 946	15 599	(966)	966	(170)	170	–	–
Derivatives (liabilities)	112 109	16 642	21 587	(21 587)	(1)	1	(135)	135
Total			**(24 807)**	**24 807**	**798**	**(798)**	**(30)**	**30**

The exposure to risk as at 31 December 2015 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date.

Year ended 31 December 2014

Classes of finacial instruments	31 December 2014		Sensitivity analysis for currency risk as at 31 December 2014					
			EUR/PLN		CZK/PLN		USD/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +7.7%	exchange rate EUR/PLN -7.7%	exchange rate CZK/PLN +8.37%	exchange rate CZK/PLN -8.37%	exchange rate USD/PLN +12.89%	exchange rate USD/PLN -12.89%
			Profit or loss / other comprehensive income		*Profit or loss / other comprehensive income*		*Profit or loss / other comprehensive income*	
Receivables from clients and other financial receivables	1 993 331	19 040	499	(499)	1 052	(1 052)	–	–
Cash and cash equivalents	1 420 909	28 699	1 878	(1 878)	230	(230)	201	(201)
Derivatives (assets)	1 811	1 811	1 925	(1 925)	–	–	40	(40)
Overdrafts	11 918	11 918	(918)	918	–	–	–	–
Bonds issued	6 821 830	711 199	(54 762)	54 762	–	–	–	–
Liabilities to suppliers and other financial liabilities	1 148 959	23 444	(1 561)	1 561	(239)	239	(2)	2
Derivatives (liabilities)	196 116	1 803	25 162	(25 162)	–	–	–	–
Total			**(27 777)**	**27 777**	**1 043**	**(1 043)**	**239**	**(239)**

The exposure to risk as at 31 December 2014 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date, except for transactions made at the end of 2014. They included a class of bonds issued in December 2014 and denominated in EUR and individual classes of derivative instruments, i.e. assets and liabilities, such as the CCIRS transaction of November 2014.

49.3.3. Commodity price risk related to commodity derivative instruments

The Company concludes derivative contracts, with underlying instruments being commodities and raw materials. Group's exposure to commodity derivatives price risk is related to the risk of fluctuation in the fair value of these instruments following changes in prices of the underlying raw materials/commodities. In most cases the Group hedged the risk by way of entering into opposite transactions. This way the Group hedges the price risk related to commodity derivative instruments. The risk is limited to open long and short positions concerning a given commodity or raw material.

As at 31 December 2015 open positions included forward and future contracts for emission allowances and a future contract for gas. As at 31 December 2015 the total carrying amount of all derivative contracts for emission allowances was PLN 433 thousand (the asset item of PLN 1 425 thousand and the liability item of PLN 992 thousand) and in case of the derivative contract for gas it was PLN 40 thousand (liability item).

As at 31 December 2014 the Group's exposure to commodity risk related to derivative instruments held was insignificant and concerned one open position only.

Sensitivity analysis

For the purpose of analysis of sensitivity to greenhouse gas emission allowance change risks the Group applies a scenario analysis. The scenarios reflect the Group's assessment of risk factors shaping in the future and are aimed at examining the effect of risk changes on the Group's financial performance.

	Carrying amount as at 31 December 2015			Increase		Decrease	
	price (EUR)	Assets	Liabilities	price (EUR)	Impact on profit (loss)	price (EUR)	Impact on profit (loss)
Derivative instruments – commodity (emission allowances)	8.25–8.29	1 425	992	8.53–8.57	(122)	4.83–4.85	1 490

50. Operational risk

Operational commercial risk is managed at the level of the TAURON Group, which has been presented in detail in item 3 of the Management Report on the activities of the TAURON Polska Energia S.A. Capital Group for the year 2015. The Company manages its operational risk following the Operational risk management policy developed and adopted in the TAURON Group, which defines the principles and general terms of managing operational and commercial risk at the level of the TAURON Group. The document implements market practices and operational risk solutions applied to trading in electricity and related products tailored to the structure of the TAURON Group and energy industry requirements.

Companies from the TAURON Polska Energia S.A. Capital Group are exposed to negative effects of the risk related to fluctuations of cash flows and profit/loss expressed in domestic currency due to changes in the prices of commodities. The Group's exposure to the commodity price risk is reflected in the volume of purchases of the key raw materials and commodities, to include hard coal, gas and electricity. The volume and cost of purchases of the key commodities from non-Group suppliers are presented in the following table.

Fuel type	Unit	2015		2014	
		Volume	Purchase cost	Volume	Purchase cost
Coal	tonne	4 821 241	947 360	4 578 847	935 604
Gas	thousand m^3	112 270	122 189	3 598 607	208 615
Electricity	MWh	33 993 308	5 703 158	38 036 718	6 185 219
Heat energy	GJ	6 028 877	227 926	4 941 873	118 225
Total			**7 000 633**		**7 447 663**

51. Finance and capital management

Key tools allowing effective management of financial resources include the central financing model and TAURON Group's liquidity management policy along with cash pooling adopted by the TAURON Group. Additionally, the financial management system is supported with the TAURON Group's central specific risk management policy and central insurance policy with the Company acting as a manager directing activities, thus allowing relevant risk exposure limits to be established.

Detailed information regarding financial management has been described in Section 4.12 of the Management Board's report on the activities of TAURON Polska Energia S.A. Capital Group.

In 2015, the Capital Group was fully able to pay its liabilities within contractual deadlines.

The key objective of the capital management policy developed by the Group is maintaining a good credit rating and safe capital ratios supporting its operations and increasing its shareholder value. The Group manages its capital structure and modifies it in accordance with changes in economic conditions. In order to maintain or adjust the capital structure, the Group may establish dividend policy for its shareholders, return equity to them, issue new shares or influence external debt level accordingly.

The Group monitors first of all the debt ratio defined as a relation of net financial debt to EBITDA.

Net financial debt is the financial debt of the TAURON Group due to interest-bearing borrowings and securities and due to finance lease reduced by cash and short-term investments with maturity up to one year. EBITDA is the operating profit or loss of the TAURON Group increased by amortization/depreciation and impairment of non-financial assets. Financial debt means the obligation to pay or refund money (both principal and interest).

(in PLN '000)

The value of the ratio is also monitored by the Company's creditors, rating agencies and has a measurable impact on the Company's ability to obtain funding and its costs, as well as on evaluation of its credit standing.

As at the end of the reporting period, the debt ratio was 2.2 which is classified as safe and allowing contracting further financial liabilities according to the valid market standards.

	Year ended 31 December 2015	Year ended 31 December 2014
Loans and borrowings	1 223 814	1 068 750
Bonds	3 666 590	6 353 582
Finance lease	33 723	46 443
Non-current debt liabilities	**4 924 127**	**7 468 775**
Loans and borrowings	187 962	163 281
Bonds	3 013 843	468 249
Finance lease	12 715	13 461
Short-term debt liabilities	**3 214 520**	**644 991**
Total debt	**8 138 647**	**8 113 766**
Cash and cash equivalents	364 912	1 420 909
Short-term investments maturing within one year	9 772	27 539
Net debt	**7 763 963**	**6 665 318**
EBITDA	**3 523 303**	**3 694 544**
Operating profit (loss)	(1 901 141)	1 830 113
Depreciation/amortization	(1 832 690)	(1 796 987)
Impairment	(3 591 754)	(67 444)
Net debt / EBITDA	**2.2**	**1.8**

Change in the balance of debt has been presented below.

	Debt liabilities
As at 1 January 2014	**5 864 135**
Proceeds arising from debt taken out	**3 649 150**
financing received	3 653 234
transaction costs	(4 084)
Interest accrued	**330 869**
charged to profit or loss	284 594
capitalized to property, plant and equipment	46 275
Debt related payments	**(1 658 460)**
principal repaid	(1 338 793)
interest paid	(273 392)
interest paid, capitalized to investment projects	(46 275)
Change in the balance of overdraft facility and cash pooling	**(82 740)**
Change in debt measurement	**11 755**
Other non-monetary changes	**(943)**
As at 31 December 2014	**8 113 766**
Proceeds arising from debt taken out	**604 494**
financing received	605 000
transaction costs	(506)
Interest accrued	**344 378**
charged to profit or loss	275 218
capitalized to property, plant and equipment	69 160
Debt related payments	**(950 476)**
principal repaid	(605 011)
interest paid	(276 305)
interest paid, capitalized to investment projects	(69 160)
Change in the balance of overdraft facility and cash pooling	**23 184**
Change in debt measurement	**3 143**
Other non-monetary changes	**158**
As at 31 December 2015	**8 138 647**

(in PLN '000)

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

Information concerning the fee of the certified auditor has been presented in the Management Board's report on the activities of TAURON Polska Energia S.A. Capital Group for the 2015 financial year in Section 4.13.

53. Events after the end of the reporting period

Issuance of debt securities

On 8 January 2016 the Company issued long-term bonds with the total face value of PLN 210 000 thousand under the agreement with Bank Gospodarstwa Krajowego with the following redemption dates:

- Tranche of PLN 70 000 thousand with the redemption date of 20 December 2023;
- Tranche of PLN 70 000 thousand with the redemption date of 20 December 2024;
- Tranche of PLN 70 000 thousand with the redemption date of 20 December 2025.

Acquisition of the organized part of the enterprise Zakład Górniczy w Brzeszczach

On 31 December 2015 Nowe Brzeszcze Grupa TAURON Sp. z o.o. and Spółka Restrukturyzacji Kopalń S.A. ("SRK") entered into an agreement for sale of a specified part of Zakład Górniczy w Brzeszczach, constituting an organized part of the enterprise ("ZCP Brzeszcze"). The sales contract was included in the performance of the preliminary agreement of 19 October 2015 and pursuant to Article 8a.4 of the Act on coal mining operations of 7 September 2007. According to the sale contract concluded, the date of releasing the sold item and transferring the acquired ZCP Brzeszcze to be used by Nowe Brzeszcze Grupa TAURON Sp. z o.o. was determined as 1 January 2016, on this date, Nowe Brzeszcze Grupa TAURON Sp. z o.o. assumed risks and benefits related to the acquired item.

The sales contract has determined the selling price of ZCP Brzeszcze payable to SRK as PLN 1. Since KWK Brzeszcze generated losses when operating within SRK, pursuant to the agreement of 29 May 2015 concluded by and between the Minister of Economy and SRK, the latter was granted public funds to absorb the current mining production losses of the enterprise in 2015 ("Public Aid"). At the same time, pursuant to provisions of the agreement on aid refund, Nowe Brzeszcze Grupa TAURON Sp. z o.o. undertook to refund the Public Aid with interest accrued from the date of providing SRK with individual Public Aid tranches. Thus, the acquisition cost includes the price of PLN 1 and the amount of Public Aid refund with interest accrued as at 31 December 2015, i.e. PLN 130 108 thousand.

Since the transaction of acquiring ZCP Brzeszcze has been concluded under common control of the State Treasury, Nowe Brzeszcze Grupa TAURON Sp. z o.o. shall account for the combination in accordance with the accounting policy as described in Note 9.1.3 assuming no possibility to present comparative data. The acquisition transaction will be recognized in the financial statements of Nowe Brzeszcze Grupa TAURON Sp. z o.o. and of the TAURON Group since the date of releasing the item sold, i.e. 1 January 2016.

Below we present the estimated balance sheet as at the date of Nowe Brzeszcze Grupa TAURON Sp. z o.o. assuming control over the separate part of Zakład Górniczy in Brzeszcze.

	As at 1 January 2016		As at 1 January 2016
Non-current assets		**Equity**	**(10 087)**
Property, plant and equipment and intangible assets	215 924	**Provisions and liabilities**	
Deferred tax assets	2 538	Provision for mine decommissioning	65 992
	218 462	Provisions for employee benefits	26 462
		Accruals (provision for unused annual leave)	4 203
Current assets		Obligations under leases	3 132
Inventories	1 348	Liabilities arising from public aid refund	130 108
Other financial assets	25	Other financial liabilities	25
	1 373		**229 922**
Total assets	**219 835**	**Total equity and liabilities**	**219 835**

As Zakład Górniczy Brzeszcze did not prepare its financial statements in conformity with IFRS, for purposes of accounting for the transaction the Group prepared an estimated balance sheet of ZCP Brzeszcze in accordance with the accounting policy of the Group. To this end, the following procedures were carried out:

- fixed assets were measured by an independent property appraiser. The amortized replacement cost method was used for the major part of those assets in the absence of an active market.
- The following provisions were recognized:
  - mine decommissioning provision – estimated on the basis of calculations made by third-party experts;
  - actuarial provision – estimated using actuarial methods in accordance with agreements setting out the terms of calculation and payment of retirement, disability and jubilee benefits at Kompania Węglowa S.A.;
  - provision for unused annual leave – estimated by an actuary.

Having acquired ZCP Brzeszcze, Nowe Brzeszcze Grupa TAURON Sp. z o.o. did not take over any trade liabilities or receivables related to that part of the enterprise, or inventories, except for materials of PLN 1 348 thousand.

On 31 December 2015, the Extraordinary General Shareholders' Meeting of Nowe Brzeszcze Grupa TAURON Sp. z o.o. adopted a resolution to increase the issued capital of the entity by PLN 2 900 thousand by way of issuing 29 000 shares with the par value of PLN 100 each, which will be acquired by the Parent at PLN 1 000 per share, i.e. PLN 29 000 thousand in total. By the end of the reporting period, neither the capital increase had been registered nor had the funds been paid to increase the capital. The funds increasing the issued capital were paid by the Company on 8 January 2016. The capital increase was registered on 29 January 2016.

Redemption and issuance of debt securities

On 29 February 2016, the Company purchased 22 500 bonds out of 30 000 C series bonds issued on 12 December 2011 as part of the bond issue scheme of 16 December 2010, for purposes of redemption. The remaining 7 500 C series bonds are not subject to early buyback and are to be bought back on 12 December 2016 in accordance with the terms of issue. The bonds were purchased at the issue price of PLN 100 thousand. Thus, the total par value of the bonds purchased and redeemed by the Company is PLN 2 250 000 thousand. The purchase price was increased by interest due from the beginning of the last interest period preceding the purchase to the bond purchase date. The bonds were purchased for purposes of redemption under bilateral agreements concluded by TAURON and the C series bond holders, primarily with a view to prolonging the due date of the debt assumed by the Company in the form of bonds. The funds necessary to refinance the bonds were secured as part of a new bond issue scheme of 24 November 2015. Under the new scheme, on 29 February 2016 the Company issued 22 500 bonds with the total par value of PLN 2 250 000 thousand, maturing on 29 December 2020. The bonds were issued in PLN as unsecured, dematerialized and coupon securities. They were acquired at the issue price equal to the par value, i.e. PLN 100 thousand. Interest was determined by reference to WIBOR 6M plus a fixed margin. The bonds will be bought back at the issue price at the buyback date and interest will be payable in arrears, at the end of each interest period, to bond holders holding the bonds as at the record date. Interest on bonds is payable on a semi-annual basis (with the first period of four months). The bonds were acquired by the financial institutions being parties to the bond issue scheme agreements, i.e. Bank BGŻ BNP Paribas S.A., Bank Handlowy w Warszawie S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) BV, Bank of Tokyo-Mitsubishi UFJ (Polska) S.A., Bank Zachodni WBK S.A., CaixaBank S.A. (Spółka Akcyjna) Branch in Poland, Industrial and Commercial Bank of China (Europe) S.A. Branch in Poland, ING Bank Śląski S.A., mBank S.A. and Powszechna Kasa Oszczędności Bank Polski S.A.

These consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the year ended 31 December 2015 in accordance with the International Financial Reporting Standards as endorsed by the European Union have been presented on 91 consecutive pages.

Management Board of the Company:

Katowice, 8 March 2016

Remigiusz Nowakowski	– President of the Management Board	....
Jarosław Broda	– Vice-President of the Management Board	....
Kamil Kamiński	– Vice-President of the Management Board	....
Marek Wadowski	– Vice-President of the Management Board	....
Piotr Zawistowski	– Vice-President of the Management Board	....

Oliwia Tokarczyk – Head of the Accounting and Tax Department ....

REPORT OF THE MANAGEMENT BOARD ON OPERATIONS OF TAURON POLSKA ENERGIA S.A. CAPITAL GROUP FOR THE FINANCIAL YEAR 2015

MARCH 2016

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1. TAURON CAPITAL GROUP

1.1. Basic Information on TAURON Capital Group

TAURON Polska Energia S.A. Capital Group (TAURON Capital Group) is a vertically integrated energy group located in the southern part of Poland. TAURON Capital Group conducts its operations in all key segments of the energy market (excluding electricity transmission which is the sole responsibility of the Transmission System Operator (TSO)), i.e. in the area of coal mining, generation, distribution as well as trading in electricity and heat.

Figure no. 1 TAURON Capital Group

TAURON POLSKA ENERGIA S.A.
the holding company in TAURON Capital Group
Supervises corporate functions: management, strategic investment, regulations, human resources, finance, controlling, internal audit, PR, investor relations, procurement

MINING

20% of steam coal resources in Poland

- 2 hard coal mines in 2015
- hard coal output: 4.9 million t, including 74% used within TAURON Capital Group, and 26% sold to external clients
- EBITDA of the segment for 2015: (PLN 9 million)

GENERATION

the second largest producer of electricity in Poland

- 8 conventional power plants and CHP plants with electric capacity of 4.8 GW_e and thermal capacity of 2.5 GW_t
- 4 wind farms with the total capacity of 201 MW_e
- 35 hydroelectric plants with the total capacity of 143 MW_e
- 1,050 km of heat networks
- 16.6 TWh of net electricity output, including 0.8 TWh from biomass
- 0.8 TWh of net electricity output from wind and hydroelectric sources
- 11.5 PJ of heat output
- EBITDA of the segment for 2015: PLN 755 million

DISTRIBUTION

the largest electricity distributor in Poland

- c.a. 5.4 million of clients
- distribution across the area of 57.1 thousand km^2, i.e. 18.3% of the territory of Poland
- 49.2 TWh of electricity distributed
- EBITDA of the Distribution segment for 2015: PLN 2,372 million

SALES

the second largest electricity supplier in Poland

- c.a. 5.3 million of clients
- 35.9 TWh of electricity retail sales
- EBITDA of the Sales segment for 2015: PLN 380 million

OTHER

- services provided to consumers of electricity and distribution services for companies of TAURON Capital Group
- provision of support services for entities of TAURON Capital Group in the following areas: Accounting, IT and HR
- limestone mining for the needs of power engineering, metallurgical industry, construction and road building
- acquisition, transport and processing of biomass for the needs of professional power sector
- financial activities
- EBITDA of the segment for 2015: PLN 100 million

1.2. Areas of activity

TAURON Capital Group conducts its operations in the following Business Areas (hereinafter also referred to as Segments):

Mining Area, comprising mainly mining, preparation and sales of hard coal in Poland – the activity provided by TAURON Wydobycie S.A. (TAURON Wydobycie). As of 1 January 2016 the Segment also comprises the company Nowe Brzeszcze Grupa TAURON sp. z o.o. (Nowe Brzeszcze GT), established as a result of acquisition of assets of a designated part of the Mining Plant in Brzeszcze, as an organised part of the enterprise.

Generation Area, comprising mainly generation of electricity in conventional sources, including co-generation, as well as generation of electricity from renewable energy sources, including combustion and co-firing of biomass, and in hydroelectric power plants and wind farms. The Area also comprises generation, distribution and sales of heat. The basic fuels used by the Generation Area comprise hard coal, biomass and gas. Operations in this area are carried out by TAURON Wytwarzanie S.A. company. (TAURON Wytwarzanie), TAURON Ciepło sp. z o.o. (TAURON Ciepło) and TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA). Until the end of 2014 companies of TAURON Ciepło and TAURON EKOENERGIA were assigned to the separately operating Areas, respectively, Heat and Renewable Energy Sources (RES), whereas as of 2015 these Areas have been recognised within the Generation Segment.

Distribution Area, covering the distribution of electricity using distribution grids located in southern Poland. The activities are conducted by TAURON Dystrybucja S.A. (TAURON Dystrybucja). This area also comprises companies: TAURON Dystrybucja Serwis S.A. (TAURON Dystrybucja Serwis) and TAURON Dystrybucja Pomiary sp. z o.o. (TAURON Dystrybucja Pomiary).

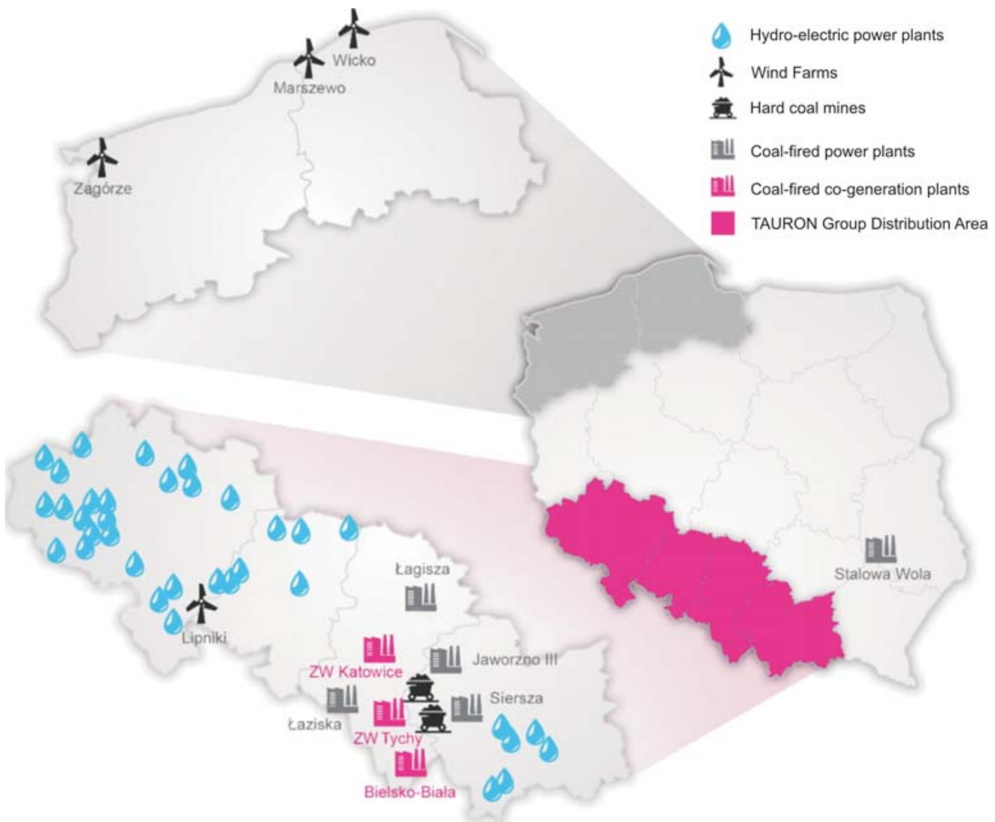
Sales Area, comprising sales of electricity to end-customers and wholesale trading of electricity, as well as trading and management of CO_2 emission allowances and property rights arising from the energy certificates of origin and trading of fuels. Operations in this area are conducted by the following companies: TAURON Polska Energia S.A. (TAURON or the Company), TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż), TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE) and TAURON Czech Energy s.r.o. (TAURON Czech Energy).

Other Area, comprising activity in the scope of customer service for clients of TAURON Capital Group and provision of support services for companies of TAURON Capital Group in the scope of accounting and ICT, provided by TAURON Obsługa Klienta sp. z o.o. company (TAURON Obsługa Klienta), as well as extraction of stone, including limestone, for the needs of energy industry, metallurgy, construction and road building as well as production of sorbing agents for installations of flue gas desulphurisation using the wet method and for application in fluidized bed boilers – the activity carried out by Kopalnia Wapienia "Czatkowice" sp. z o.o. company (KW Czatkowice). This Area also comprises the following companies: TAURON Sweden Energy AB (publ) (TAURON Sweden Energy), dealing with financial activities, Biomasa Grupa TAURON sp. z o.o., (Biomasa GT), dealing mainly with biomass acquisition, transport and processing and Polska Energia Pierwsza Kompania Handlowa sp. z o. o. in liquidation (PEPKH in liquidation). Until the end of 2014, TAURON Obsługa Klienta company was assigned to the separately operating Customer Service Area, whereas since 2015 this company has been recognised within the Other Segment.

TAURON Capital Group conducts its operations and acquires its revenues mainly from sales and distribution of electricity and heat, generation of electricity and heat, as well as from sales of hard coal.

The figure below shows the location of key assets of TAURON Capital Group as well as the distribution area where TAURON Dystrybucja acts as the Distribution System Operator (DSO).

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



1.3. Organisation and structure of TAURON Capital Group

The parent entity, TAURON Polska Energia S.A. was established on 6 December 2006 under the implementation of the *Programme for Power Engineering*. The founders of the Company included: State Treasury represented by the Minister of Treasury, EnergiaPro S.A. with its seat in Wrocław (currently: TAURON Dystrybucja), ENION S.A. with its seat in Kraków (currently: TAURON Dystrybucja) and Elektrownia Stalowa Wola S.A. with its seat in Stalowa Wola (currently: TAURON Wytwarzanie). The Company was registered in the National Court Register on 8 January 2007 under the enterprise name: Energetyka Południe S.A. The change of the Company enterprise to its current name, i.e. TAURON Polska Energia S.A., was registered on 16 November 2007. The company does not have any branches (plants).

As of 31 December 2015, the key companies of TAURON Capital Group, besides the parent company, TAURON, included 15 subsidiaries subject to consolidation, indicated in subsection 1.3.1. hereof. Moreover, the Company holds, directly or indirectly, shares in other 42 companies.

Detailed information concerning the activities of TAURON Capital Group companies in individual Business Areas is contained in subsection 1.2. of this report.

The model of TAURON Capital Group structure assumes functioning of one leading company in each Business Area, which simultaneously enables operation of companies established or acquired for the needs of strategic alliances, activities in international markets, identified business needs and implementation of investment projects. Such a structure enables to optimise the functioning of entities along the whole value chain, indicated in the figure below, in order to maximise the margin generated in the whole TAURON Capital Group.

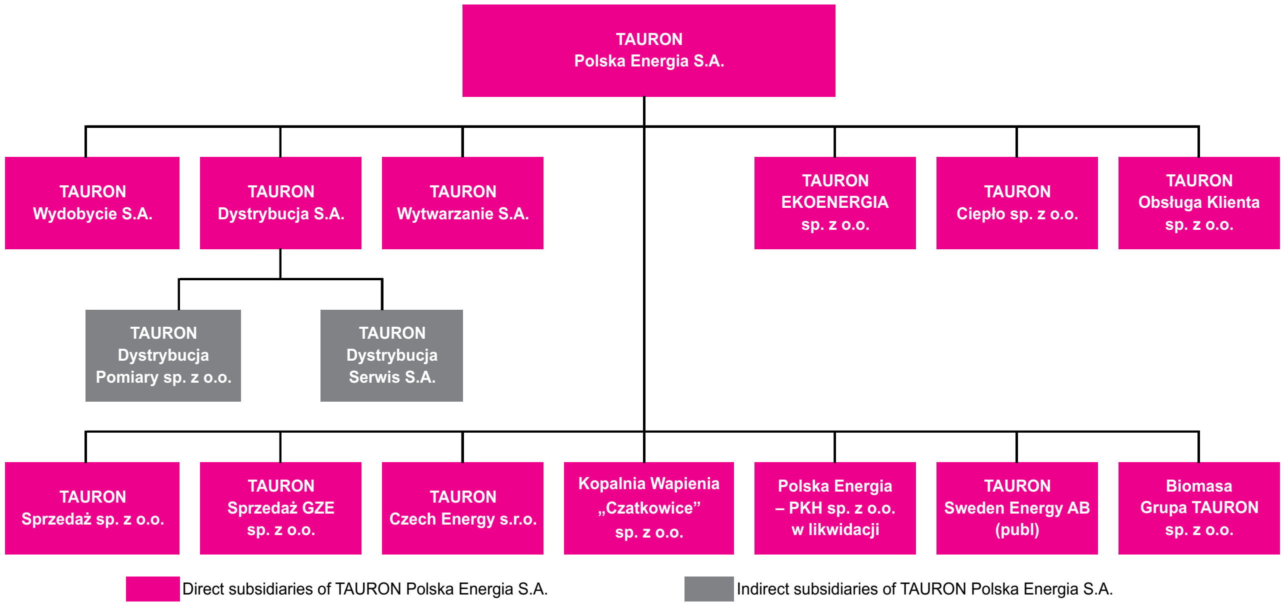
Figure no. 3 Value chain in TAURON Capital Group

* *The RES Area and Heat Area have been recognised in the Generation Segment since 2015.*
** *The Customer Service Area has been recognised in the Other Segment since 2015.*

1.3.1. Entities subject to consolidation

The figure below presents the structure of TAURON Capital Group, including the companies subject to consolidation, according to the status as at 31 December 2015.

Figure no. 4 Structure of TAURON Capital Group, including companies subject to consolidation, as at 31 December 2015



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), TAMEH POLSKA sp. z o.o. (TAMEH POLSKA) and TAMEH Czech s.r.o. (TAMEH Czech), which are measured by equity method in the consolidated financial statements.

Detailed information on companies covered by consolidation and on TAURON share in their initial capital and in their governing body, is presented in subsection 1.6 of this report.

1.3.2. Changes in organisation of TAURON Capital Group

In 2015 the following changes in organisation of TAURON Capital Group took place:

Purchase of shares or stocks of other companies

On 14 January 2015, the Company purchased 4,267 shares of Biomasa GT company, with the total nominal value of PLN 237,885.25, representing 100% of share in the share capital, from its subsidiary, TAURON Wytwarzanie, at a price of PLN 1,224 thousand. The transfer of ownership of Biomasa GT shares took place through datio in solutum, under the agreement concluded between TAURON and TAURON Wytwarzanie in exchange for the waiver of TAURON Wytwarzanie obligations towards TAURON due to the partial redemption of bonds with the value of PLN 1,230 thousand. The remaining part of the liability in the amount of PLN 6 thousand was paid in cash.

The above transaction was aimed at gaining 100% of the direct share in the share capital of Biomasa GT by TAURON.

Merger of companies

On 1 July 2015 the District Court in Rzeszów, 12th Commercial Department of the National Court Register entered the merger of the following companies to the register: Energopower sp. z o.o. (the Acquiring Company) with Biomasa GT company (the Acquired Company). The merger was executed pursuant to art. 492 § 1 item 1 of the Code of Commercial Companies, i.e. through the assignment of the total assets of the Acquired Company to the Acquiring Company. At the same time, the name of the enterprise name of the Acquiring Company was changed to "Biomasa Grupa TAURON sp. z o.o.".

As a result of the merger, the share capital of the Acquiring Company was increased from the amount of PLN 45,000 thousand to the amount of PLN 9,000,000, i.e. by the amount of PLN 8,955,000, through creating 179,100 new shares with the nominal value of PLN 50 per share., i.e. with the total nominal value of PLN 8,955,000. TAURON, as the sole shareholder of the Acquired Company, took up all newly created shares.

The merger of the companies enabled inclusion of Biomasa GT company into the Tax Capital Group.

Division of the company

On 9 February 2015 the Extraordinary GM of companies TAURON EKOENERGIA and Marselwind sp. z o.o. (Marselwind) adopted the resolutions concerning the division of TAURON EKOENERGIA company (the Divided Company), pursuant to Article 529 § 1 item 4 of the Code of Commercial Companies, i.e. through the transfer of a part of the Divided Company assets, constituting an organised part of the enterprise, consisting of fixed assets and intangible assets associated with electricity generation in renewable energy sources – wind farms, to Marselwind (the Acquiring Company), in exchange for the interest in the increased share capital of the Acquiring Company, to be taken over by the sole shareholder of the Divided Company – TAURON (division through separation).

On 19 February 2015 the District Court for Wrocław-Fabryczna in Wrocław, 9th Commercial Department of the National Court Register, registered the reduction of the share capital of the Divided Company from the amount of PLN 573,423,000 to the amount of 444,888,000, i.e. by the amount of PLN 128,535,000, through the redemption of 128,535 shares with the nominal value of PLN 1,000 per share.

As at the day of drawing up this information, the separation of wind assets from TAURON EKOENERGIA and their transfer to the Marselwind special purpose vehicle has not taken place.

Establishment of new companies

1. On 5 October 2015 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on registering in the Register of Entrepreneurs of a company: Łagisza Grupa TAURON sp. z o.o., with its registered office in Katowice (Łagisza GT), established on 17 July 2015 by TAURON Wytwarzanie which, as the sole shareholder of the aforementioned company, took over all 50 shares with the nominal value of PLN 100 per share, i.e. with the total nominal value of PLN 5 thousand.

   Łagisza GT company was established as the special purpose vehicle for the implementation of the project concerning the construction of the CCGT unit of 413 MW_e class at TAURON Wytwarzanie – Elektrownia Łagisza Branch in Będzin, within the execution of provisions of the investment agreement concluded on 13 July 2015 by TAURON Wytwarzanie with Polskie Inwestycje Rozwojowe S.A. company (PIR), in order to agree on the rules of joint implementation of the project.

2. On 5 August 2015 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on registering in the Register of Entrepreneurs of a company: R S G sp. z o.o., with its registered office in Katowice (R S G), established on 31 July 2015 by TAURON, which, as the sole shareholder of the aforementioned company, took over all 1,000 shares with the nominal value of PLN 100 per share, i.e. with the total nominal value of PLN 100,000 thousand.

   On 8 October 2015 the Extraordinary Meeting of Shareholders (SM) of the R S G company adopted the resolution concerning the amendment to the company Memorandum of Association, consisting in the change of the company enterprise name to “Nowe Brzeszcze Grupa TAURON sp. z o.o.”. The change was registered in the National Court Register on 20 October 2015.

   The company was established in order to acquire assets of a designated part of the Mining Plant in Brzeszcze, as an organised part of the enterprise.

Dissolution of companies

1. On 29 September 2015 the Extraordinary Shareholders’ Meeting (SM) of TAURON Wytwarzanie GZE sp. z o.o. Company with its registered office in Gliwice (TAURON Wytwarzanie GZE) adopted the resolution on dissolution and liquidation of this company, where TAURON holds 99.998% of share in the share capital and 99.998% of share in the total number of votes at the SM directly, and 0.002% of the share indirectly, through the subsidiary, TAURON Dystrybucja Serwis, and on the appointment of the former President of the single-member Management Board as its liquidator. The Resolution of the Extraordinary SM referred to above entered into force on the day of its adoption.

   On 9 December 2015 the District Court in Gliwice, 10th Commercial Department of the National Court Register issued the order opening the liquidation of TAURON Wytwarzanie GZE sp. z o.o. in liquidation.

   The decision on the liquidation of the aforementioned company is an element of the reorganisation measures intended to simplify and streamline the structure of TAURON Capital Group. The Company currently does not carry out any economic activity and it was not subject to consolidation in the process of drawing up the financial statements of TAURON Capital Group.

2. On 30 September 2015 the District Court in Nowy Sącz, 5th Commercial Division – Bankruptcy Court issued the decision on termination of the bankruptcy proceedings of Ośrodek Szkoleniowo-Wypoczynkowy “JAGA” sp. z o.o. Company, in liquidation bankruptcy, with its registered office in Muszyna – a subsidiary of TAURON Dystrybucja.

   On 13 November 2015 the decision of the Registry Court on termination of the bankruptcy proceedings became final and binding.

Increase in the share capital of companies

1. On 13 July 2015 the Extraordinary Shareholders' Meeting of TAURON Sweden Energy company adopted the resolution concerning the increase in the share capital of this company from the amount of EUR 55,000 to the amount of EUR 6,700,000, i.e. by the amount of EUR 6,645,000, through the issue of 6,645,000 new shares with the total nominal value of EUR 6,645,000, which were taken up by the sole shareholder of this company – TAURON. On 8 September 2015, the increase of the share capital was registered by the Swedish Companies Registration Office.

   The increase in the share capital of TAURON Sweden Energy company is associated with the process implemented by the company, related to fund raising for TAURON Capital Group in the German market.

2. On 1 December 2015 the Extraordinary SM of Nowe Brzeszcze GT company adopted the resolution concerning the increase in the share capital of this company from the amount of PLN 100,000 to the amount of PLN 2,100,000, i.e. by the amount of PLN 2,000,000, through establishing of 20,000 new shares with the nominal value of PLN 100 per share and with the total nominal value of PLN 2,000,000, which were taken up by TAURON in exchange for the cash contribution in the amount of PLN 2,000,000. All new shares were taken up by TAURON at a purchase price equal to their nominal value.

   The increase in the share capital of Nowe Brzeszcze GT was registered in the National Court Register on 31 December 2015.

   On 31 December 2015 the Extraordinary SM of Nowe Brzeszcze GT company adopted the resolution concerning the increase in the share capital of this company from the amount of PLN 2,100,000 to the amount of PLN 5,000,000, i.e. by the amount of PLN 2,900,000, through establishing of 29,000 new shares with the nominal value of PLN 100 per share and with the total nominal value of PLN 2,900,000, which were taken up by TAURON, as the former sole shareholder of the company, in exchange for the cash contribution at a price of PLN 1,000 per share, i.e. for the total amount of PLN 29,000,000.

   The surplus of the price of taking up each new share in the increased share capital over its nominal value, in the total amount of PLN 26,100,000 was transferred to the share capital of the company which had been established under the aforementioned resolution. The share capital of the company, increased to the amount of PLN 5,000,000, is divided into 50,000 shares with the nominal value of PLN 100 per share and the total nominal value of PLN 5,000,000.

   The increase in the share capital of Nowe Brzeszcze GT was registered in the National Court Register on 29 January 2016.

1.4. Strategy, Development Policy and Strategic Priorities of TAURON Capital Group

1.4.1. Development policy of TAURON Capital Group

1.4.1.1. Characteristics of the policy in the scope of development directions

On 2 June 2014 TAURON Management Board adopted and the Supervisory Board issued a positive opinion on the document entitled *Corporate Strategy of TAURON Group for 2014–2017 with an outlook until 2023* (Corporate Strategy), which is an update of the corporate strategy adopted and approved in 2011. In 2014, activities performed so far were comprehensively reviewed and evaluated, and the assumptions concerning the economic, market and regulatory conditions adopted in 2011 were verified in detail. When updating the Corporate Strategy, among others, the changing market and regulatory environment were taken into account, where the most important factors affecting the sector are the European Union and national regulations related to the conditions of the energy sector operation 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 (EC) activities aimed at emission abatement, the Polish energy regulation package, regulations related to electricity distribution and development of smart technologies, Energy Policy of Poland up to 2030, the Polish Nuclear Energy Programme and the Energy Roadmap 2050.

The description of changes in the macroeconomic environment is included in subsection 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 the **Vision** is "To become one of the leading energy companies in the region".

The Overall Strategic Objective of TAURON Capital Group is the continuous value growth ensuring a safe return on the invested capital to the shareholders. The accomplishment of this objective will be measured using basic indicators of value growth, i.e. ROIC and EBITDA increase.

The Company monitors the macroeconomic environment and analyses its impact on the activities of TAURON Capital Group on on-going basis. Due to the significant changes in the market and legal environment of the energy sector, the review of the Corporate Strategy and the investment directions is ongoing.

1.4.1.2. Implementation of the Corporate Strategy

Activities undertaken under the implementation of the Corporate Strategy focus on four main goals which jointly provide for 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.

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 investment and diversification of the generation portfolio exists. 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 the management of exposure to market and regulatory risks which, due to the specific nature of TAURON Capital Group activities, continue to be significant.

The implementation of the Corporate Strategy in 2015 allowed for the accomplishment of the EBITDA growth ratio adopted for that year, up to the level of PLN 3,523 million.

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, restoration and increase of the installed generation capacity up to the level of approximately 6 GW in 2023 from the current 5.1 GW, is planned. Important areas of growth also include the Distribution and Sales Segments.

The growth will be associated with the commissioning of new highly efficient coal and gas fired generation units as well as wind farms. In a longer term, extension of the Generation Segment asset portfolio is planned, allowing for the acquisition of energy from the nuclear power plant, through the involvement of TAURON Capital Group in the construction of such a unit, jointly with strategic partners.

In the framework of the planned investment, commissioning of new generation capacity at a level of approximately 2,150 MW is assumed, including in particular:

1) approx. 965 MW in coal-based technology (910 MW at Elektrownia Jaworzno III, co-generation capacity: 50 MW in Zakład Wytwarzania Tychy (ZW Tychy)),
2) approximately 675 MW in gas technology (225 MW at EC Stalowa Wola and about 400 MW at Elektrownia Łagisza),
3) approximately 500 MW in wind farms.

It is planned that in 2023 TAURON Capital Group will hold wind sources with the total capacity of approximately 700 MW which, including biomass, will enable to achieve the target of TAURON Capital Group to hold capacity at a level of 800 MW in new RES sources.

At present, 92% of the generation capacity installed in TAURON Capital Group comes from coal-based technology. 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 modern, high efficiency coal-fired units. The share of low emission technologies, i.e. gas, wind, hydro and biomass, will reach approximately 26%.

In view of the need to develop a diversified generation portfolio which is the consequence of, among others, growing restrictions related to the CO_2 emission, TAURON Capital Group participates in the project on the construction of the first nuclear power plant in Poland.

The planned growth is also associated with the development of a 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 Corporate Strategy puts great emphasis on the development of a model for managing the research and development areas in TAURON Capital Group. The effective management of research and development activities in companies of TAURON Capital Group aims at intensifying the innovation activities and maximising the benefits derived from the access to knowledge and experience gained while implementing such undertakings.

In the scope of implementation of investment tasks, in 2015 activities associated with the execution of the following strategic projects were continued:

1) in the Generation Area – the construction of the power unit with the capacity of 910 MW_e at Elektrownia Jaworzno III, the construction of the CCGT unit with the capacity of 449 MW_e, including the heat generation component with the heat capacity of 240 MW_t at EC Stalowa Wola, preparation to the commencement of the construction of the CCGT unit with the capacity of 413 MW_e at Łagisza Power Plant,
2) in the Mining Area – the construction of "Grzegorz" shaft, including the infrastructure, and the construction of the 800 m level, at Zakład Górniczy Janina (ZG Janina),
3) in the Heat Area – the construction of a new 50 MW capacity unit at ZW Tychy,
4) in the RES Area – the construction of the 18 MW Marszewo Wind Farm, constituting the 2nd stage of construction of the wind farm with the total capacity of 100 MW at Marszewo location.

In 2015, works were 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.

Operating and investment effectiveness at the level of best practice

While implementing the Corporate Strategy stipulating further improvement of operating and investment effectiveness, in 2015 the restructuring activities were continued through the improvement of governance processes, integration of companies and integration of the 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 pursuing of the common procurement policy in the scope of consolidated and strategic purchases.

Treating budgetary discipline in the scope of investment expenditure and operating costs as a priority applies in each Business Area.

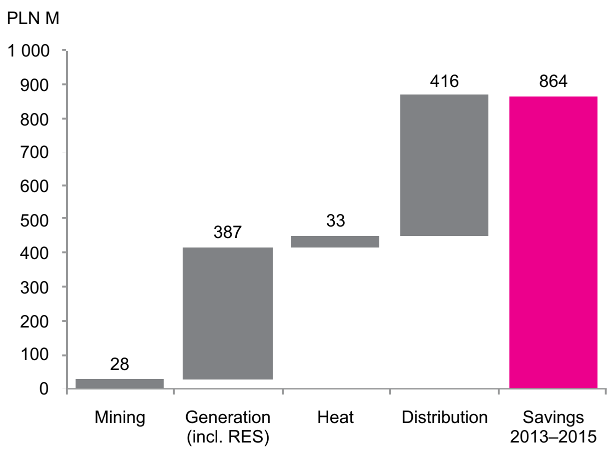
In 2015 the OPEX Effectiveness Improvement Programme in TAURON Capital Group for 2013–2015 was continued, adopted by the Management Board of TAURON on 15 January 2013. The Programme was prepared and implemented with the underlying goal to ensure the growth in TAURON Capital Group value.

The assumed targets related to 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 organisational effectiveness, by continuing the process of building the target business model and integrating companies of TAURON Capital Group.

The consolidation and restructuring projects had been prepared, the execution of which resulted in cost reduction at a level of approximately PLN 1,198 million in 2013–2015 (the total amount for the entire 3-year period), against the initially planned PLN 864 million. According to the assessment of the Company, the accomplishment of the target enables strengthening of the competitive position due to the limitation of the cost base of TAURON Capital Group. The OPEX reduction programme is one of the pillars for maintaining the high competitive position.

The figure below presents the Effectiveness Improvement Programme for 2013–2015.

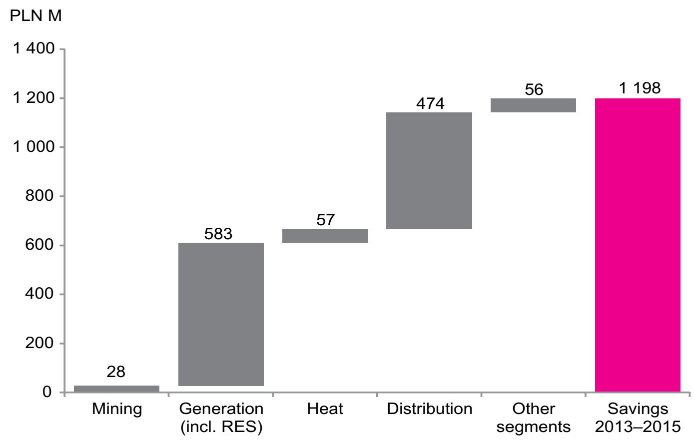
Figure no. 5 Effectiveness Improvement Programme for 2013–2015 – plan



In 2013–2013, savings at a level of PLN 1,198 million were accomplished.

The figure below presents the implementation of the Effectiveness Improvement Programme for 2013–2015.

Figure no. 6 Implementation of the Effectiveness Improvement Programme for 2013–2015



The table below presents the implementation of the effectiveness improvement programme in individual Segments.

Table no 1. Implementation of the effectiveness improvement programme

No.	Segment	Savings accomplished in 2013–2015 (in PLN million)	Savings planned for 2013–2015 (in PLN million)	Percentage of imple-menttation (%)	Major initiatives
1.	Mining	28	28	100%	1) Construction of nitrogen generation installation 2) Expansion of the sludge dehydration station 3) Drinking water treatment 4) Electronic auctions in public procurement proceedings 5) Using the mechanic lining for excavation drilling
2.	Generation (including RES)	583	387	151%	1) Restructuring of employment and optimisation of processes 2) Limitation of repairs for the least effective units 3) Optimisation of overhead costs 4) Outsourcing of some functions, mainly in repairs area 5) Improvement of equipment efficiency, optimisation of production volume and operating costs in hydroelectric power plants 6) Reduction of costs of service and maintenance of wind farms
3.	Heat	57	33	173%	1) Employment restructuring 2) Limiting of compressed air losses 3) Restructuring of assets 4) Cost optimisation of external services 5) Procurement policy optimisation 6) Optimisation in performance of own heat sources and the heating network as well as heat purchase cost
4.	Distribution	474	416	114%	1) Implementation of the target business model, elimination of duplicating functions 2) Change in rules of classification of expenses as expenditures or costs 3) Optimisation of balance sheet differences 4) Optimisation of IT processes 5) Integration of business functions in the service area 6) Optimisation of external services
5.	Other Segments	56	–	–	1) Employment restructuring 2) Optimisation in costs of external services
	Total	**1,198**	**864**	**139%**	

Management of exposure to market and regulatory risks

Due to the specific nature of TAURON Capital Group operations and the strong exposure to any amendments to the regulations of the national and the EU law, the management of market and regulatory risk is one of the key elements of the Corporate Strategy implementation 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, it focuses mainly on energy trading.

In order to optimise market and regulatory risk and maximise rates of return on equity, TAURON Capital Group diversifies the generation portfolio by appropriate adjustment of individual types of technology (limitation of long-term risk arising from investment decisions) as well as develops the effective hedging policy, including securing energy supplies (limitation of medium- and short-term risk resulting from the trading activity). This policy enables to reduce the volatility of result in TAURON Capital Group through asset portfolio management and control of risk limits.

The effective strategy of securities will cover the overall measures within the value chain of TAURON Capital Group, starting from securing of the assumed volume of fuel supply from the sources held, ending up with covering of the specific volume of electricity sold to end customers from own generation units. The pursued policy guarantees the secure functioning of assets held in the Generation Area through provision of fuel supplies and maintaining its price at an acceptable level.

The detailed description of the risk management process in TAURON Capital Group is presented in subsection 3 of this report.

In 2015 the Company continued its activity in the scope of promotion and development of strategic energy technology and preparation of nuclear energy development. In this area, activities took place 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) and Horizon 2020).

The description of research tasks co-financed from external sources and other important research and development achievements is presented in subsection 7.2. hereof.

Building an effective organisation

Within implementation of this goal, TAURON Capital Group has focused its activities on the organisation effectiveness improvement in each Business Area, including raising of 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 towards an external and internal client.

The activities performed in 2015 comprised, inter alia, finalising of the centralisation of billing systems for mass clients, where migration of clients' data was completed by the end of 2015, which will enable to improve the quality of the service and standardisation of business processes as well as enhance the effectiveness of those processes. The integration of the accounting function was finalised, which will foster growth of effectiveness and optimisation of activities in this area. The project associated with consolidation of data processing centres was completed, aimed at increasing the security of data processes in IT systems in the context of their availability and confidentiality as well as reduction of costs of the operated IT infrastructure of business applications. In areas responsible for sales and customer service, numerous activities were carried out with the aim of improvement of the quality and growth of client satisfaction level.

The measures under implementation represent an essential element of the Corporate Strategy implementation in the overall value chain, contributing to the strengthening of TAURON Capital Group competitive position among the leading energy companies in the region.

1.4.1.3. Implementation of strategic investment

Key strategic investment projects under implementation

The table below presents the activities carried out in TAURON Capital Group in 2015, in connection with the implementation of the key strategic investment projects.

Table no 2. Implementation status of the key strategic investment projects

No.	Investment	Status of investment implementation
1.	Construction of the CCGT unit with the capacity of 449 MW_e, including the heat generation component with the capacity of 240 MW_t in Stalowa Wola (the investment is implemented with participation of the strategic partner – Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG)). **Contractor:** Abener Energia S.A. (Abener Energia) **Scheduled date of investment project completion:** 2018 (it will be possible to estimate the precise date after the inventory of the project is performed) **Progress level:** 85–90%	As a result of no response of the General Contractor to the letter calling for due performance of the contract, the infringement of the schedule and essential technical conditions of the contract, affecting both the security and reliability of the unit operation, as well as its future effectiveness and costs of its performance, in January 2016 the contract with Abener Energia was waived. Analyses concerning further procedure and selection of the implementation scenario are in progress. EC Stalowa Wola, jointly with TAURON, PGNiG and banks financing the project will determine the formula of continuation and completion of the investment. The process of the site take-over from the General Contractor as well as works in the scope of protection and maintenance of equipment are ongoing. The technical audit / investment inventory has been launched.
2.	Construction of new generation capacity in co-generation at a level of 50 MW_e and 86 MW_t at ZW Tychy (TAURON Ciepło). **Contractor:** Elektrobudowa S.A. **Scheduled date of investment project completion:** 2016. **Progress level:** 93%	In 2015, the most important works were completed, inter alia, pickling of the pressure part of the boiler, modernisation of the track layout, works in the scope of water supply and sewage system, tests of boiler burners, installation of insulation materials of the boiler and the pipelines, recovery of the system following pickling of the boiler and the pipelines, commissioning of the heating station and steam supply to the turbine. Works associated with tests of unit safeguards and boiler acceptance by the notified entity are carried out. Technical multi-trade acceptance of individual systems for the start-up is in progress. The test run and adjustment test run has been prepared. The conducted acceptance of construction and assembly works as well as acceptance of deliveries confirms the proper quality of the works performed. The quality of the works was confirmed by the first synchronisation which took place in January 2016.
3.	Construction of a new power unit with the capacity of 910 MW_e, for supercritical parameters on the premises of Jaworzno III Power Plant (TAURON Wytwarzanie). **Contractor:** The RAFAKO S.A. and Mostostal Warszawa S.A. consortium. **Scheduled date of investment project completion:** 2019. **Progress level:** 14%	In 2015 the process of indirect foundation was completed and foundation slabs of main buildings of the unit were installed. The installation of the return leg of the cooling water pipeline was terminated, plinths on the slab of the cooling water pump station were topped up with concrete, beams of the top panel of the cooling tower were assembled. The pressing shoe of pylons was made (the assumed 138 m was achieved), construction of ceiling formwork and prefabrication of stair runs is in progress. The contractor for the external ash disposal system and external carburisation system – part 1, has been selected. The following procurement procedures are pending: Carburisation system – part 2; Water Treatment Station and Wastewater Treatment Plant; Auxiliary Fuel Installation; Compressed air system; Water supply system.
4.	The construction of the installation for flue gas de-nitrification in 6 units of Jaworzno III Power Plant and 4 units of Łaziska Power Plant belonging to TAURON Wytwarzanie. **Contractor:** Jaworzno III Fortum Power and Heat Oy and ZRE K-ce, Łaziska-Strabag Sp. z o.o. and Strabag AG **Scheduled date of investment project completion:** 2016. **Progress level – Jaworzno III:** 91% **Progress level – Łaziska:** 100%	In 2015 at Elektrownia Łaziska, modernisation of all four units with the capacity of 200 MW was completed. The units were provided with SCR catalysts (selective catalytic reduction), flue gas de-nitrification, reaching the assumed nitrogen oxide emission level of up to 200 mg/m^3. At Elektrownia Jaworzno III, modernisation of installation of six units with the capacity of 200 MW was finalised in the SNCR (selective non-catalytic reduction) technology. Four units were commissioned. The remaining two units will be commissioned in accordance with the plan, i.e. in 2016.
5.	Construction of the CCGT unit with the capacity of 413 MW_e, including the heat generation component with the capacity of 266 MW_t on the premises of Elektrownia Łagisza (TAURON Wytwarzanie). **Contractor:** selection process in progress **Scheduled date of investment project completion:** 2019. **Progress level:** 5%	Project implemented in cooperation with the PIR business partner. In July 2015 the investment agreement was signed with PIR and the special purpose vehicle – Łagisza GT was established. Works in the scope of releasing of the land for the construction of the peak load and reserve boiler house were carried out. Under the procedure for selection of the General Contractor of the CCGT unit, negotiations with potential four bidders were carried out. Preparations of the final ToR for the selection of the CCGT Contractor are in progress. Moreover, arrangements with the Gas Transmission System Operator – GAZ-SYSTEM S.A. (GAZ-SYSTEM) – were performed, related to gas connection to the unit.

No.	Investment	Status of investment implementation
6.	Construction of the “Grzegorz” shaft (TAURON Wydobycie), including the infrastructure (surface and underground) and the accompanying headings. **Contractor:** call for tender planned in 2016 **Scheduled date of investment project completion:** 2022. **Progress level:** 20%	In 2015 the detailed documentation for the shaft was accepted. The construction part of the GSZ 20/6 switchboard was completed, works associated with its equipment are in progress. Earthworks associated with the construction of 2x20kV cable lines were finalised, 6 km of lines were laid. Works related to the preparation of the ToR for the selection of the general contractor for shaft construction, including the infrastructure, are ongoing.
7.	Construction of a 800 m level at ZG Janina in Libiąż (TAURON Wydobycie). **Contractor:** Consortium of KOPEX S.A. and KOPEX Przedsiębiorstwo Budowy Szybów S.A. (main task – shaft drilling) **Scheduled date of investment project completion:** 2019. **Progress level:** 36%	The deepening of the shaft and drilling of access workings is in progress. Supplies of mining infrastructure equipment are under implementation. A significant task associated with the construction of belt stone haulage was completed.
8.	Construction of the 18 MW Marszewo Wind Farm, constituting the 2nd stage of construction of the wind farm with the total capacity of 100 MW in Marszewo location. **Contractor:** The consortium of Iberdrola Engineering and Construction Poland sp. z o. o. and Iberdrola Ingenieria y Construcción S.A.U. **Date of investment project completion:** 2015. **Progress level:** 100%	The project on the construction of the 18 MW Marszewo Wind Farm was completed in accordance with the schedule. The 18 MW farm was commissioned in October 2015. At the same time, the project on the construction of 100 MW Marszewo wind farm was finalised (stage I – 82 MW, stage II –18 MW). The total expenditure incurred for the construction of the 100 MW farm amounted to PLN 851.1 million, against the planned amount of PLN 865.3 million. The difference arises from savings obtained within the tendering procedures.

Nuclear power plant construction project

With reference to the earlier measures and arrangements concerning the joint implementation of the nuclear energy project in Poland, on 15 April 2015 TAURON, KGHM and ENEA, as Business Partners, and PGE concluded the agreement for the purchase of shares in PGE EJ 1 sp. z o.o. (PGE EJ 1) – a special purpose vehicle which is responsible for development and execution of the investment covering construction and operation of the first Polish nuclear power plant with the capacity of approximately 3 thousand MW_e (the Project). Business Partners acquired 10% of shares each (30% of shares in total) in PGE EJ 1 company from PGE. TAURON paid the amount of PLN 16,044,000 for the shares purchased. At the same time, one of the obligations arising from the Shareholders' Agreement concluded between Business Partners and PGE on 3 September 2014 was fulfilled.

In accordance with the Shareholders' Agreement, the parties committed jointly, proportionally to the shares held, to finance activities scheduled under the preliminary stage of the project, in order to define such elements as prospective partners, including the strategic partner, technology suppliers, EPC (Engineering, Procurement, Construction) contractors, nuclear fuel supplier and acquiring 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). The Shareholders' Agreement provides that further decisions related to the project, including the decision concerning the declaration of continued participation of individual parties (including TAURON) in the subsequent stage of the Project, will be made after the completion of the preliminary stage, directly prior to the settlement of the integrated procedure.

Under the execution of the aforementioned Shareholders' Agreement, on 29 July 2015 the Extraordinary SM of PGE EJ 1 company adopted the resolution on increasing of the share capital from the amount of PLN 205,860,000 to the amount of PLN 275,859,450, i.e. by the amount of PLN 69,999,450 through creating 496,450 new shares with the nominal value of PLN 141 per share and the total nominal value of PLN 69,999,450. Accordingly, TAURON took up 49,645 new shares with the nominal value of PLN 141 per share and the total nominal value of PLN 6,999,945, which were covered by the cash contribution in the amount of PLN 6,999,945.

On 16 October 2015 the increase in the share capital of the PGE EJ 1 sp. z o.o. company was registered in the National Court Register.

Project on construction of CCGT unit at Blachownia Power Plant

The portfolio of investment projects of TAURON Capital Group also comprises the project on the construction of the new CCGT unit with the capacity within the range of 850 on the premises of Blachownia Power Plant. Pursuant to the Memorandum of Understanding concluded on 30 December 2013 by KGHM, TAURON and TAURON Wytwarzanie, under which it was decided to temporarily suspend the implementation of the project on construction of the CCGT unit in the company Elektrownia Blachownia Nowa (KGHM share: 50%, TAURON Wytwarzanie share: 50%), expressing the willingness to continue the project, the Parties undertook to ensure the continued functioning of the company Elektrownia Blachownia Nowa, securing the existing results of the Project, in particular to update its documentation, and also committed to continuous monitoring of the energy market and the regulatory environment for possible early resumption of the project. As at the day of compiling this report, the aforementioned project remains suspended.

Capital expenditure

In 2015, the capital expenditure of TAURON Capital Group amounted to PLN 4,175.5 million and it was higher by approximately 35% as compared to the expenditure incurred in 2014, which amounted to approx. PLN 3,089.6 million. It results mainly from the growth of expenditure in the Generation Area.

The table below presents the selected capital expenditure incurred in 2015, the highest in terms of value, within TAURON Capital Group Business Areas:

Table no 3. The highest capital expenditure in terms of value, incurred in 2015 within TAURON Capital Group Business Areas

Specification	Capital expenditure (PLN M)
Distribution	
Construction of new connections	591
Modernisation and reconstruction of existing grids	1,033
Generation	
Construction of new capacity at Elektrownia Jaworzno III (910 MW)	643
Construction of flue gas de-nitrification installation and modernisation of units at Elektrownia Jaworzno III and Elektrownia Łaziska	248
Construction of new capacity in co-generation at ZW Tychy (including the construction of BC-50 unit)	352
Installation of supply of the Eastern and Southern Main from Łagisza source	59
Other investment associated with the development and maintenance of heating networks	62
Adjustment of the source at ZW Katowice for the needs of the heat market after 2015	37
Installation of supply of the Western and Southern Main from ELCHO source	28
Construction of Marszewo wind farm with the capacity of 100 MW – stage II – 18 MW	94
Modernisation of hydroelectric power plants	40
Mining	
Purchase of additional enclosure set at ZG Janina	71
Construction of a 800 m level at ZG Janina	67

Detailed information concerning the capital expenditures incurred in individual Business Areas of TAURON Capital Group is included in subsection 2.4. of this Report.

1.4.2. Assessment of implementation capacity of investment projects

Strategic investment as well as its financing is managed centrally at the level of the Company. At present, works on the new strategy of TAURON Capital Group are carried out, with the investment programme of TAURON Capital Group representing its significant element. While preparing the new strategy, the Management Board of the Company analyses the capacity of TAURON Capital Group to finance the current and planned investment projects to the extent enabling their implementation, from funds generated from operating activities and by acquisition of debt financing.

1.4.3. Purchase of equity securities

In the scope of purchase of shares and stocks in companies of TAURON Capital Group, the main investment of the Company included:

Purchase of shares in Biomasa GT company

On 14 January 2015, TAURON purchased 4,267 shares of Biomasa GT company, with the total nominal value of PLN 237,885.25, representing 100% of share in the share capital, from its subsidiary, TAURON Wytwarzanie, at a price of PLN 1,224 thousand.

Purchase of shares in PGE EJ 1

On 15 April 2015 TAURON and PGE, KGHM and ENEA concluded the agreement for the purchase of shares in PGE EJ1 – a special purpose vehicle responsible for the preparation and execution of the investment comprising the construction and operation of the first Polish nuclear power plant with the capacity of approximately

3 thousand MW_e. TAURON, KGHM and ENEA purchased from PGE 10% of shares each (30% of shares in total) in PGE EJ 1. In accordance with the Shareholders' Agreement of 3 September 2014, the parties will jointly, proportionally to the shares held, finance activities under the preliminary stage of the project. The price for the shares purchased by TAURON amounted to PLN 16,044 thousand.

Pursuant to the resolution of the Extraordinary SM of PGE EJ 1 of 29 July 2015 concerning the increase in the share capital, TAURON took up 49,645 new shares with the total nominal value of PLN 6,999,945, in exchange for cash contribution in the amount of PLN 6,999,945. Other shareholders of PGE EJ 1 also participated in the increase of the share capital, accordingly, after the increase, the interest of TAURON in the share capital of the special purpose vehicle did not change, amounting to 10% as at the day of drawing up of this Report.

Detailed information concerning the acquisition of the PGE EJ 1 company shares is included in subsection 1.4.1.3 hereof.

1.4.4. Priorities of the TAURON Capital Group in 2016

In view of the demanding market situation and the associated challenges for the energy sector, in 2016 TAURON Capital Group will focus on:

1) consistent implementation of the OPEX reduction and maintaining the budgetary discipline in all Business Areas,
2) implementation of profitable projects, in particular, in the Distribution Segment, with the simultaneous care for long-term effectiveness of projects concerning the construction of new capacity in the Generation Segment,
3) use of the synergy between Business Areas and effective management of assets of TAURON Capital Group,
4) increase of the efficiency and optimisation of functions supporting the core activity
5) strengthening of the competitive position in core areas of operations.

At present, works concerning the new strategy of TAURON Capital Group are in progress, which will respond to challenges arising from the changing macroeconomic, legal and market environment of the power sector. The new strategy will define development directions of TAURON Capital Group, objectives and the investment programme.

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

1.5.1. The management rules of the Company and TAURON Capital Group

Management Rules of the Company

In accordance with the provisions of the *By-laws of the Management Board of TAURON Polska Energia Spółka Akcyjna with its seat in Katowice*, the Management Board conducts all issues of the Company and represents it in all judicial and extra-judicial proceedings. All issues connected with managing the Company, which are not restricted by legal regulations and provisions of the Company Articles of Association to the competence of the General Meeting or the Supervisory Board lie within the competences of the Company Management Board. Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for submitting statements on behalf of the Company.

Issues covered by competences of the Management Board as a collective body are described in detail in subsection 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 Company (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 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 the 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 2015 the improvement of TAURON Capital Group management process was continued. Considering the changes occurring in the organisation of the TAURON Capital Group, the Management Board of the Company updated the allocation of membership of the companies to "TAURON Group".

Within "TAURON Group", Business Areas operate, established by the Company Management Board, comprising the companies of "TAURON Group" as well as the established Management Areas within which the relevant cooperation rules apply. In addition, within "TAURON Group" permanent committees of "TAURON Group" operate:

1) Project Assessment Committee,
2) TAURON Group Management Committee,
3) TAURON Group Compliance Committee,
4) Risk Committee.

The aforementioned Committees were established in order to enable the performance of activities in accordance with the principles of operational consistence of the "TAURON Group", in compliance with the law and the interests of "TAURON Group" and its stakeholders.

The Committees fulfil the following functions:

1) opinion-making function for the Company Management Board,
2) decision-making function,
3) supervisory function for the management boards of TAURON subsidiaries.

The core task of the Committees is to provide surveillance over implementation of the consistent actions by all the participants of the "TAURON Group", compliant with the *TAURON Group Code* and to the benefit of "TAURON Group" interests. The specific functions of the Committees are provided in detail in the by-laws of their operations adopted by the Company Management Board.

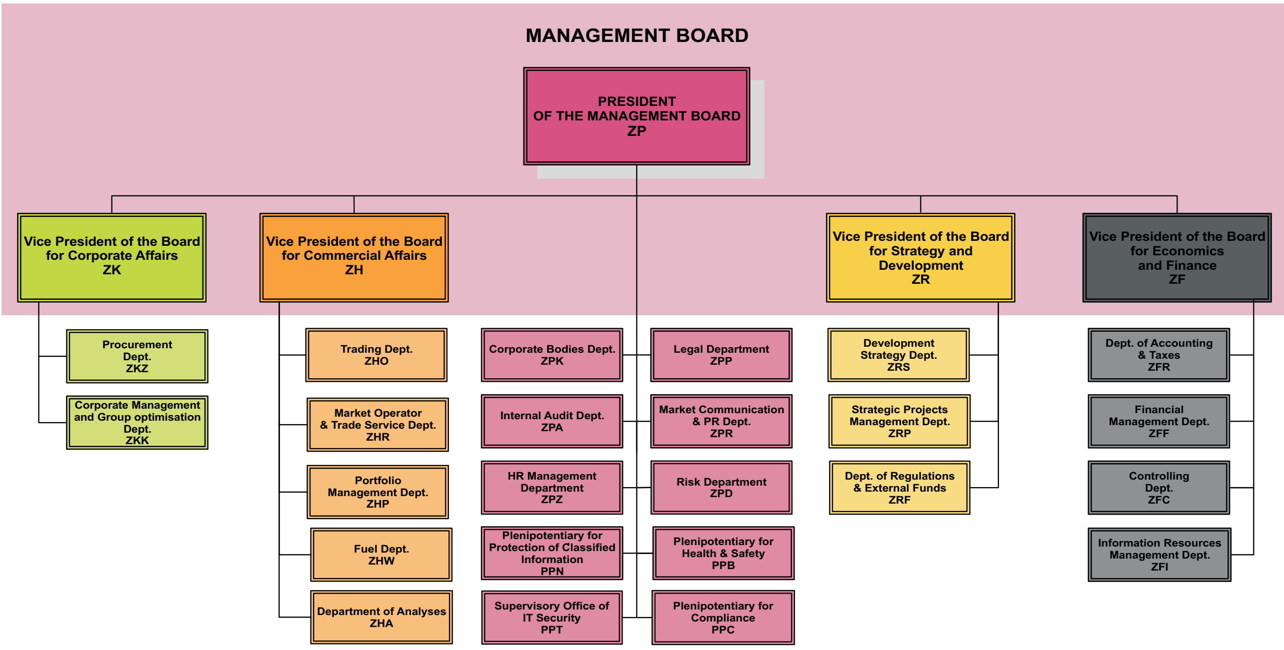
1.5.2. Changes in the management rules of the Company and TAURON Capital Group

Changes in the management rules of the Company

In 2015, no significant changes in the Company management rules were introduced. On the other hand, changes made 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. 7 Organisational chart of TAURON Polska Energia S.A. as at the day of this report



Changes in the management rules of "TAURON Group"

In 2015, a new *Business Model of TAURON Group* was adopted and, as a consequence, the Rules of Cooperation in Governance Areas were updated. Changes in the scope of allocation of companies to Business Areas were also performed.

The update in the scope of defining the allocation of "TAURON Group" companies to the specific Business Area or Business Areas resulted from the processes taking place in the structure of TAURON Capital Group, described in subsection 1.3.2. of this Report.

1.6. Organisational or capital links

The table below presents the list of significant direct and indirect subsidiaries, subject to consolidation, in which the Company held shares and stocks according to the status as at 31 December 2015.

Table no 4. Specification of significant subsidiaries covered by consolidation as at 31 December 2015 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	Jaworzno	Generation, transmission and distribution of electricity and heat	100.00%
3.	TAURON EKOENERGIA	Jelenia Góra	Electricity generation and trade in electricity	100.00%
4.	TAURON Dystrybucja	Kraków	Distribution of electricity	99.72%
5.	TAURON Dystrybucja Serwis*	Wrocław	Services	99.72%
6.	TAURON Dystrybucja Pomiary*	Tarnów	Services	99.72%
7.	TAURON Sprzedaż	Kraków	Trade in electricity	100.00%
8.	TAURON Sprzedaż GZE	Gliwice	Trade in electricity	100.00%
9.	TAURON Czech Energy	Ostrava (Czech Republic)	Trade in electricity	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	Warszawa	Trade in electricity	100.00%
14.	TAURON Sweden Energy	Stockholm (Sweden)	Services	100.00%
15.	Biomasa GT**	Stalowa Wola	Biomass sourcing and trading	100.00%

** The share in TAURON Dystrybucja Serwis and TAURON Dystrybucja Pomiary is held by TAURON indirectly, through its subsidiary, TAURON Dystrybucja. In addition, TAURON is the user of shares/stocks held by TAURON Dystrybucja.*
*** On 1 July 2015 the merger of Energopower sp. z o.o. and Biomasa GT companies was registered.*

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 2015.

Table no 5. Specification of significant co-subsidiaries as at 31 December 2015 in which the Company holds direct and indirect share

No.	Company name	Registered Office	Core business area	TAURON share in the company capital and governing body
1.	EC Stalowa Wola*	Stalowa Wola	Generation, transmission, distribution and trade in electricity	50.00%
2.	Elektrownia Blachownia Nowa*	Kędzierzyn Koźle	Electricity generation	50.00%
3.	TAMEH HOLDING**	Dąbrowa Górnicza	Activities of central companies and holdings	50.00%
4.	TAMEH POLSKA**	Dąbrowa Górnicza	Generation, transmission, distribution and trade in electricity and heat	50.00%
5.	TAMEH Czech**	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 Companies create a capital group. TAURON holds a direct share in the capital and the governing body of TAMEH HOLDING, which, in turn, holds a 100% share in the capital and the governing body of TAMEH POLSKA and TAMEH Czech.*

2. OPERATIONS OF TAURON CAPITAL GROUP

2.1. Factors essential for development

As in the past, the operations of TAURON Capital Group will be most significantly affected by the such factors as:

External:

1) the macroeconomic situation, especially in Poland, and the economic situation in the area in which TAURON Capital Group operates, as well as at the EU level and global economy level, including volatility of interest rates and currency rates, etc., influencing the valuation of assets and liabilities recognised by the Company in the statement of financial situation,
2) political environment, especially in Poland as well as at the EU level, including the positions and decisions of public administration institutions and bodies, e.g.: Office for Competition and Consumer Protection (UOKiK), Energy Regulatory Office (ERO) and the EC,
3) changes in regulations concerning the energy sector as well as changes in the legal environment, including: tax law, commercial law, environmental protection law, in particular: the announced liberalisation of electricity prices for households, the announcement of the ERO President related to the application of maximum prices in tariffs for G group (instead of fixed priced), in order to protect consumers against rapid changes of prices upon full liberalisation,
4) resumption of the support system for electricity generation in high-performance co-generation, resulting, on the one hand, in the growth of redemption costs of “red” and “yellow” certificates of electricity sellers to end consumers, and, on the other hand, in the growth of revenues on sales of “red” and “yellow” certificates of generators of energy in co-generation,
5) situation in electricity sector, including the activity and measures undertaken by competition in the energy market,
6) the number of CO_2 emission allowances allocated free of charge, as well as prices of the allowances purchased – under the circumstances of the deficit in free allowances,
7) electricity prices on the wholesale market;
8) sales prices of electricity and coal as well as distribution tariffs, as factors influencing the level of revenues,
9) prices of certificates of origin of energy from renewable sources and co-generation,
10) prices of energy resources,
11) environmental protection requirements,
12) research and technical progress,
13) demand for electricity and other products of the energy market, considering the changes arising from seasonality and weather conditions.

Internal:

1) activities in the area of optimisation of processes in all companies of TAURON Capital Group,
2) decisions in the scope of implementation of key investment projects,
3) geological and mining conditions of extraction,
4) potential failures of equipment, installations and grids belonging to TAURON Capital Group.

The activity of TAURON Capital Group demonstrates seasonality which refers, in particular, to production, distribution and sales of heat, distribution and sales of electricity to individual consumers and sales of coal to individual consumers for heating purposes. Sales of heat depends on the atmospheric conditions, in particular, on the air temperature, and it is higher in the autumn and winter season. The level of electricity sales to individual consumers depends on the length of a day, which usually makes electricity sales in this group of consumers lower in the spring and summer season and higher in the autumn and winter season. Sales of coal to individual consumers is higher in the autumn and winter season. The seasonality of the remaining areas of TAURON Capital Group operations is limited.

Changes in the aforementioned external factors may constitute premises committing TAURON Capital Group, in accordance with the International Accounting Standard 36, to perform impairment tests on assets. Results of such tests may affect the financial results of TAURON Capital Group in the perspective of the subsequent reporting periods.

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

2.2.1. Internal factors and their assessment

The activities and results of TAURON Capital Group in 2015 were affected, among others, by the following internal factors:

1) implementation of OPEX effectiveness improvement programme in TAURON Capital Group, including the consolidation and restructuring programmes, voluntary redundancy programmes,
2) implementation of key investment projects, in particular, in the scope of construction of new and modernisation of the existing generation capacity, building new connections and modernisation of the existing distribution grids, heating networks, construction of underground excavations,
3) marketing actions in the scope of acquisition of new clients and loyalty activities in terms of maintaining existing clients,
4) centralising the financial management area in TAURON Capital Group, supported by such tools as: central model of financing, cash flow management policy with the cash pool, risk management policy in the financial area, insurance policy,
5) procurement management by the Company, in particular, fuel purchases for the needs of generation entities included in TAURON Capital Group.

Impact of the aforementioned factors on the financial result achieved in 2015 is described in subsection 4 of this Report. Effects of this impact are visible both in a short-term and long-term perspective.

2.2.2. External factors and their assessment

2.2.2.1. Macroeconomic environment

The basic area of TAURON Capital Group operations is the Polish market within which the Company uses positive trends occurring in it as well as is affected by effects of such changes. The macroeconomic situation, both in individual sectors of economy and in financial markets, is a significant factor affecting the results achieved by TAURON Capital Group.

The condition of the Polish economy is considerably associated with the economic trends in the EU and in international markets. According to the EC forecasts of November 2015, the EU economic growth rate for 2015 is estimated at 1.9%, for the euro area this value amounts to 1.6%, and the estimated inflation rate amounts to 0.0% and 0.1%, respectively. In case of many countries: Greece, Spain, Lithuania, Slovenia, Slovakia, Finland, Bulgaria, Croatia, Poland and Romania, inflation estimated for 2015 takes a negative value. At the same time, the EC forecast indicates a modest improvement of the EU economic situation in 2015 and a positive outlook for 2016–2017.

Positive factors influencing the European economy in 2015 included low prices of crude oil and other energy commodities, the relative weakness of EUR and the growth-oriented monetary policy of the European Central Bank. In 2015, a slight decline in the unemployment rate occurred, i.e. To the level of 9.5% across the EU and 11.0% in the euro area (respectively, against the levels of 10/2% and 11.6% for 2014).

Compared to the EU, the economic situation in Poland seems quite favourable. Since the 2nd quarter of 2013 Polish economy has been following a growth path. In 2015 the GDP growth appeared the fastest for the last 4 years, reaching 3.90% YoY at the end of the 4th quarter of 2015. The Central Statistical Office (GUS) reported that GDP calculated according to fixed prices of the previous year increased by 3.6% in real terms last year, against the growth by 3.3% in 2014. The domestic demand was the main factor of the economic growth. The growth in demand was fostered by the favourable situation in the labour market, positive consumer sentiment as well as good financial standing of companies. On the other hand, the uncertainty related to the economic growth outlook abroad was an adverse factor, limiting the demand growth.

Maintaining of the stable pace of economic growth is supported by growing investment – according to GUS data, the capital expenditure index for three quarters of 2015 increased by 1.5% in relation to three quarters of 2014. Interest rates represented another pro-development factor – the basic NBP rates applicable since March 2015 represent the lowest values recorded since 1998. In terms of the labour market, 2015 was a period of a very fast decline in unemployment. At the end of 2015 the unemployment rate dropped to its lowest level since 2008, reaching 9.80% at the end of December 2015, against 11.4% at the end of 2014.

The deflation persisting for several months is still a negative factor. At the end of 2015 the inflation rate reached -0.50% YoY whereas the average annual inflation in the previous year amounted to -0.9% and was lower than the level assumed in the budgetary act by 2.1%. The inflation rate remaining below zero encouraged the Monetary Policy Council to resume a cycle of cuts in interest rates. Thus, the average value of the reference rate in 2015 reached 1.6%. It is expected that clearly positive inflation values should appear at the end of 2016.

Throughout 2015 the industrial output increased, on average, by 6.70% YoY. It was fostered by the persisting upward trend in exports and a high competitiveness of Polish enterprises. Throughout 2015, political and economic events on the local arena, as well as global transformations, affected the exchange rate of PLN against other currencies. Important national events included cuts in interest rates and elections (both presidential and parliamentary). On the other hand, factors in the European scale influencing foreign currency exchange rates in 2015 included the military conflict in Ukraine, the Greek financial crisis as well as the QE programme representing an attempt aimed at overcoming the deflation, and changes in the monetary policy.

Summing up, it should be stated that in economic terms, the past year was definitely good. Justifying the positive assessment of the overall economy the aforementioned factors should be stressed, such as the stable economic growth and the decline in unemployment. Results achieved by the Polish economy in 2015, in conjunction with NBP data concerning the historically low imbalance of the current account balance, should be perceived as a good starting point for the Polish economy in 2016.

The growth in GDP and industrial output sold (according to GUS forecasts, in 2015 this output increased by 4.8%) remain the major factors affecting the growth in the domestic electricity consumption (KZEE). The demand for electricity and heat are the key factors affecting the results of TAURON Capital Group.

According to the data of Polskie Sieci Elektroenergetyczne S.A. (PSE), in 2015 a significant growth (1.7% YoY) in the domestic gross electricity consumption occurred, with the simultaneous growth of production in domestic power plants (3.3% YoY). Contrary to 2014, the balance of interconnector exchange was exports-based and amounted to 0.3 TWh. In 2015, wind energy remained the most dynamic area of power engineering, where the growth in the capacity installed by approximately 1.3 GW translated into the output in the range of 10.0 TWh (growth in production by 39.8% YoY). A significant growth in production (by approximately 28.1%) was also recorded in case of gas energy – in 2015 this area generated the total of 4.2 TWh. Production in coal-fired power plants – using the basic fuel of TAURON Capital Group – amounted to 81.9 TWh at the national level and in 2015 it increased by 2.0% against 2014, whereas lignite-fired sources produced 53.6 TWh in 2015, which makes a decline by 1.2%.

Simultaneously, heat production increased at the national level – according to the ARE data for three quarters of 2015, the total of 181.6 PJ of heat was produced, against 174.0 PJ in the corresponding period of 2014.

Figure no. 8 Growth of GDP, industrial output sold and change in domestic electricity consumption (KZEE)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
GDP	6,2%	7,2%	3,9%	2,6%	3,7%	5,0%	1,6%	1,3%	3,3%	3,6%
Sold industrial output	11,6%	10,7%	3,6%	-4,5%	9,0%	7,5%	0,5%	1,8%	4,1%	4,8%
KZEE	3,5%	2,8%	0,5%	-4,0%	4,2%	1,9%	-0,6%	0,6%	0,5%	1,7%

2.2.2.2. Market environment

Prices of electricity and related products

In 2015 wholesale prices of energy in Poland recorded levels lower than in 2014. The average price on the Day-Ahead Market (RDN) of Towarowa Giełda Energii S.A. (TGE) for 2015 amounted to PLN 156.95/MWh, whereas the so-called CRO price on the balancing market (RB) reached PLN 157.25/MWh. The aforementioned electricity prices in relation to 2014 were lower, respectively, by PLN 22.91/MWh and 27.57/MWh. The lower price level as compared to 2014 was driven by persistently relatively lower hard coal prices – the average value of the PSCMI_1 (Polish Index of Steam Coal Market) index for 2015 amounted to PLN 9.76/GJ against PLN 10.55/GJ for 2014. In addition, the volume of electricity from wind farms had an impact on reduction of RDN and RB prices – in 2015 they produced the total of 10 TWh as compared to 7.2 TWh for 2014.

The significant decline in prices of steam coal (CIF ARA index), crude oil and natural gas in the global markets as well as the growing supply of energy from renewable sources, contributed to the continued decline in electricity prices in the remaining countries of Europe, which was visible in case of SPOT market prices and forward market in Germany. The average price for Germany for 2015 (EPEX exchange) amounted to EUR 31.63/MWh against EUR 32.76/MWh for 2014, whereas the average rate of Phelix BASE Y-16 contract quoted in 2015 amounted to EUR 30.96/MWh against EUR 35.09/MWh in case of Phelix BASE Y-15 contract quoted in 2014. In Germany, renewable energy sources (water, wind, biomass, photovoltaic, waste and other sources) generated the total of 220.1 TWh of gross electricity in 2015, against 183.6 TWh for 2014, covering 36.9% of the demand which increased by 0.8% YoY to the level of 597 TWh gross.

The aforementioned downward corrections in commodity markets resulted, inter alia, from OPEC decision on discontinuation of control over the volume of oil extracted. Moreover, this trend was also a consequence of the so-called shale revolution in the USA resulting in the surplus of commodity in oil markets. It amounted to 0.81 mbpd in 2014 and as much as 1.71 in 2015. Accordingly, in the previous year, decline in prices initiated in 2014 continued. Brent oil traded on the London ICE exchange was quoted at USD 58.02/bbl in January 2015, whereas in May its price increased to the level above USD 67/bbl. At the end of the previous year a barrel of Brent oil was quoted at only USD 37.28/bbl. It means that the price of oil dropped by 36% in relation to the price at the beginning of the year and by 45% in relation to the maximum price. In December 2015, in the USA the historic ban on exports of oil effective over the last 40 years was waived. Moreover, sanctions imposed on Iran were also lifted, which means that one of the major producers is returning to the oil market. The above mentioned factors cause that in 2016 the surplus of oil will most probably continue.

In the steam coal market declines could have been also observed. The demand for coal has significantly decreased, mainly from the major consumer of this commodity, i.e. China. At the end of December 2015, annual CIF ARA Y-16 contracts dropped to USD 44.15/Mg in relation to prices at the beginning of 2015 which stayed at the level of USD 67.28/Mg. It means that their decline reached 34% throughout the year.

Balance of the National Power System and prices in the Balancing Market

In 2015, a noticeable growth in the domestic electricity consumption (KZEE) was recorded. According to the PSE data, the volume of KZEE in Poland in 2015 reached 161.4 TWh and it was higher by 1.7% than in 2014. At the same time, growth in the volume of electricity production in domestic power plants was noted (161.8 TWh against 156.6 TWh in 2014), and Poland recorded a minor exports balance (0.3 TWh) in foreign electricity trade.

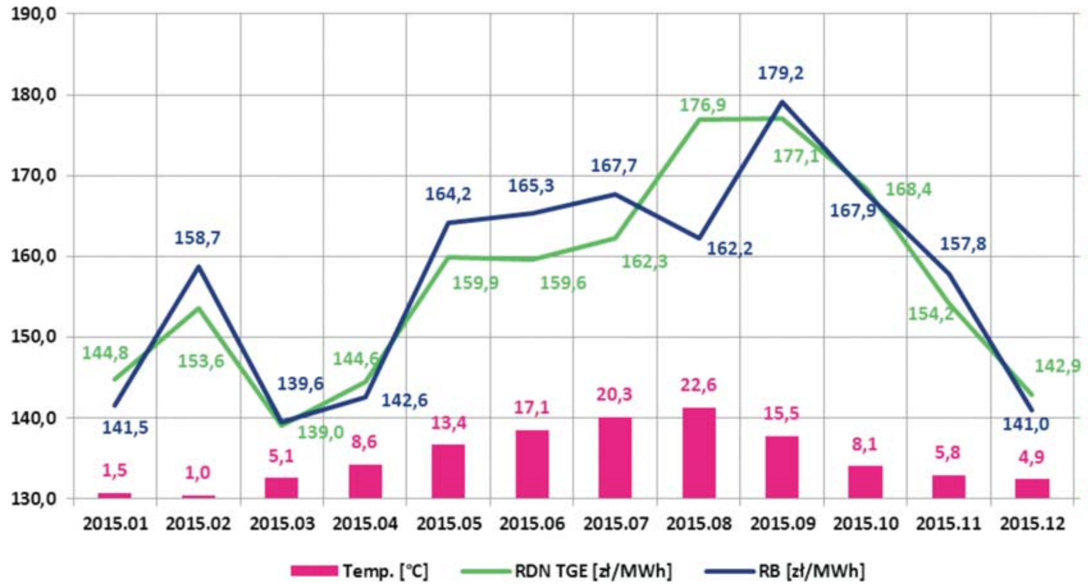
W 2015, growth of electricity production in coal-fired power plants occurred (from the level of 80.3 TWh in 2014 to the level of 81.9 TWh in 2015), with the simultaneous decline in electricity production in lignite-fired power plants (from the level of 54.2 TWh in 2014 to the level of 53.6 TWh in 2015). The volume of electricity produced in gas-fired power plants increased by approximately 28.1% (from the level of 3.3 TWh in 2014 to the level of 4.2 TWh in 2015).

2015 was a period of significant growth of capacity installed in wind farms – according to the PSE data, the capacity of wind farms as at the end of December 2015 amounted to 5.0 GW against 3.7 GW at the end of December 2014, which means the raise by 34.6%. Throughout 2014 the growth reached only 10.2%, from the level of 3.4 GW in December 2013 to 3.7 GW in December 2014.

A significant event was the introduction of power supply levels by PSE in August 2015, which was associated with the deterioration of operation conditions within the KSE (National Power System), reflected by growing power depletion in face of the increased electricity demand resulting from high temperatures and unfavourable hydrological situation in the country. In connection with the continuing threat for the security of electricity supplies, on 11 August 2015 the Council of Ministers issued the regulation pursuant to which curtailments in electricity supplies and consumption were introduced from 11 August 2015 at 00:00 hrs to 31 August 2015 at 00:00 hrs on the territory of the Republic of Poland for electricity consumers with the contractual power supply over 300 kW. As a result of the aforementioned curtailments, hourly prices in the RDN and RB markets increased to levels exceeding PLN 250/MWh.

The figure below presents the average monthly electricity prices on the SPOT and RB markets and the average temperatures.

Figure no. 9 Average monthly energy prices on the SPOT and RB markets and the average temperatures



On the forward market of electricity a clear downward trend of prices could have been observed in the period from January to September 2015. The price for BASE Y-16 contract dropped from the level of PLN 181/MWh as at 2 January 2015, reaching its record low of PLN 154.00/MWh on 28 September 2015. In the period from October to December 2015 the price recovered, leading to quotations closed at a level of PLN 167.50/MWh.

It should be stressed that in 2015, the average volume-weighted price for this product amounted to PLN 164.41/MWh, whereas almost 123 TWh was sold in total. The share of the volume sold with the participation of TGE in the overall pool, reached 80% (99 TWh), and 20% (24 TWh) for broker platforms. The average volume-weighted prices obtained in 2015 for the exchange segment and brokers reached, respectively, PLN 164.27/MWh and PLN 165/MWh.

In case of PEAK Y-16 contract, the quotations were equivalent. The peak of quotations in 2015 occurred on 16 January 2015, reaching PLN 235.06/MWh, whereas the minimum level was recorded on 6 October 2015, amounting to PLN 195.90/MWh. The total trading volume recorded in 2015 for this product reached 16.5 TWh, including 87% (14.3 TWh) in the exchange segment, at the average price of PLN 211.55/MWh, and the share of brokers amounted to 13% (2.2 TWh), with the average price of PLN 207.11/MWh.

The growth in prices on the market of forward transactions was affected by fees for maintaining the OPR (Operating Power Reserve), paid only during peak hours (PEAK).

The figures below show the results of trading in Base Y-16 and PEAK Y-16 contracts.

Figure no. 10 Trading in BASE and PEAK Y-16 contracts

In 2015, the persistently low oil prices represented the major factor affecting the global price of natural gas. Prices of blue fuel worldwide, both in traditional and in liquefied form (LNG) dropped by several dozen per cent during the year. The global decline in prices of other energy commodities, driven, inter alia, by a weaker condition of the Chinese economy and the absence of frosty winter on the European continent was also not negligible.

On the TGE the average volume-weighted SPOT gas price in 2015 reached PLN 87.46/MWh. As compared to 2014, the decline of over 17% took place. On the other hand, the trading volume increased, reaching 10.5 TWh in the analysed period, which was the result over 94% better than in 2014. Temperatures persisting in the winter period, higher than the average, represented one of the main reasons causing that the seasonality characteristic for this market became blurred. Prices of gas in the 2nd and 3rd quarter, i.e. in the gas summer season, were higher by more than ten zlotys than in the 4th quarter.

The maximum price on the RDN (Day-ahead market) for gas was reached immediately on 1 January 2015, amounting to PLN 116.82/MWh. Following the relatively high volatility in the 1st quarter and at the beginning of the 2nd quarter, SPOT prices followed the lateral trend and their significant smoothing occurred. In the 4th quarter, following the gradual declines, in the last days of December, the minimum level of PLN 57.08/MWh was reached. It is worth highlighting that it was the record low since the beginning of trading in gas on the TGE.

In the neighbouring countries, the average SPOT price of gas for 2015 ranged around PLN 84.00/MWh (~EUR 20/MWh). In the German gas hub, Gaspool, acting as a benchmark for the Polish exchange, this price amounted to PLN 83.94/MWh, in the other German hub, New Connect Germany – to PLN 84.31/MWh, whereas on the Czech OTE exchange, it reached PLN 84.19/MWh.

The TGE forward market in 2015 demonstrated a strong downward trend. The reference annual contract with the delivery in 2016, similar to SPOT price, reached its maximum at the beginning of the year (PLN 110.60/MWh). Since the beginning of March the Polish market remained strongly correlated with the above mentioned German gas hub – Gaspool. The spread between the aforementioned markets ranged from PLN 5–10/MWh practically all over the year.

In accordance with the worldwide tendency, prices of all forward contracts strongly declined, only accelerating the dynamics of the falls in the consecutive quarters. The minimum for the annual contract on TGE was reached on 23 December 2015, amounting to PLN 70.00/MWh. The average volume-weighted price for the product for 2016 for the overall period analysed amounted to PLN 95.35/MWh and was lower in relation to the corresponding price of the contract for 2015 by PLN 15.11/MWh. The trading volume for the whole forward market approached 93 TWh. As compared to the previous year, a decline of over 11% took place.

The figure below presents the average monthly SPOT prices and prices for Y-16 contract in 2015 on the TGE.

Figure no. 11 Average monthly SPOT prices and Y-16 contract prices in 2015 on the TGE

In 2015, on the market of CO_2 emission allowances the upward trend initiated already in 2014 was continued. Factors affecting the growth in EUA prices included political events and EC legislative work related to the reform of the European Union Emission Trading System (EU ETS).

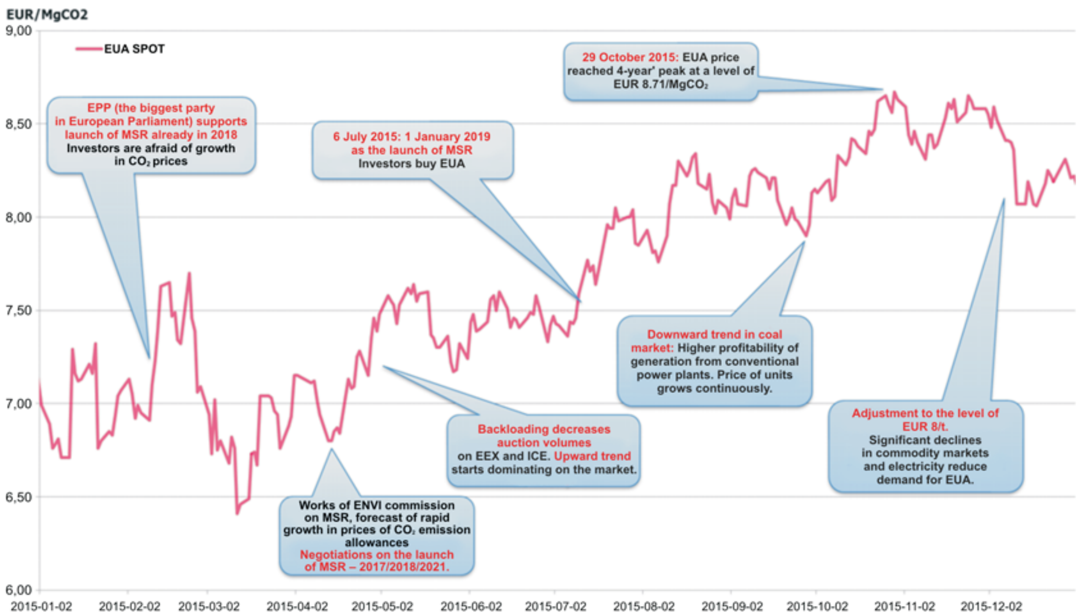
In 2015, EUA price on the SPOT market increased by approximately 30%, from the level of EUR 6.60/$MgCO_2$ at the beginning of January to the level of EUR 8.66/$MgCO_2$, which was reached at the end of November.

The declining steam coal price with the delivery at ARA ports has also contributed to the growth in prices of allowances. The low price of the commodity fostered contracting of electricity generated in conventional sources. It triggered the demand for allowances and growth in their prices. This situation was also not inhibited by information on verified emission levels in the EU ETS for 2014 which, in accordance with the EC data, dropped by over 4.5% YoY. In addition, it has turned out that the target of CO_2 emission reduction in the EU up to 2020 was already reached in 2014.

At the end of 2015 the 21st climate summit was held in Paris, whose conclusions resulted in the recovery of prices for the CO_2 emission allowances to the level of EUR 8/$MgCO_2$. During the aforementioned summit, the agreement was adopted, mainly aimed at maintaining the growth of global average temperatures markedly below 2 degrees Celsius above the pre-industrial level and the continuation of efforts oriented towards reducing temperature growth to 1.5 degrees.

The figure below presents the impact of political events and the environment on quotations of the forward product, EUA SPOT in 2015.

Figure no. 12 Impact of political events and the environment on quotations of the EUA SPOT product in 2015



2015 brought significant changes in the market of property rights, associated mainly with the amendments to the legal regulations. In the RES area, a new RES Act was adopted in February last year, changing the model of RES system support in Poland, by replacing the so-called "green" certificates system with the auction model based on reference prices. The Act entered into force on 4 May 2015, whereas its main elements related to the introduction of the auction system were to enter into force as of the beginning of 2016. However, the amendment to the Act of 22 December 2015 postponed the deadline for introduction of the auction system by half a year, due to the required finalisation of investment cycles in the RES sub-sector, simultaneously offering choice between the old and new RES support system for the investment under completion.

The continuing oversupply of PMOZE_A property rights on the market made average values of the OZEX_A index fall successively from January to July 2015, from the level of PLN 157.42/MWh in January to the level of PLN 105.17/MWh in July. In the corresponding period, the surplus on the PMOZE_A register increased to 21.3 TWh, confirming the inefficiency of the old RES support system which is unable to generate the adequate price signals to provide for the sustainable development of the sector. Starting from August 2015 the prices started to recover slowly, however the scale of growth was symbolic, and at the end of the year prices reached the level of PLN 115.60/MWh. As compared to 2014, the average value of the OZEX_A index dropped by almost PLN 63/MWh, amounting to PLN 123.61/MWh, whereas the value of PMOZE_A register balance increased throughout 2015 by 14.3 TWh to the level of 27.3 TWh which, considering the rights blocked for redemption, amounts to the value of over 17 TWh at the end of 2015.

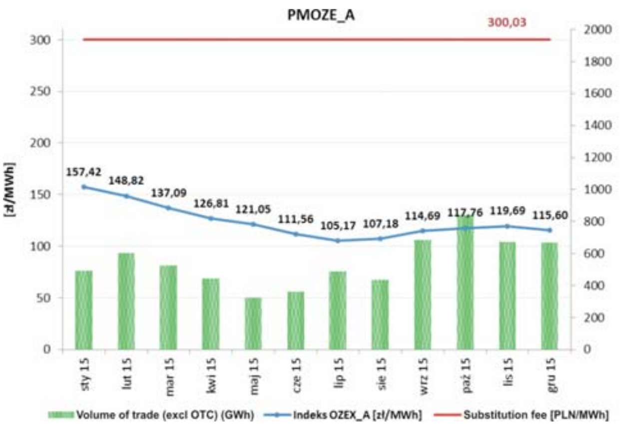
In the area of support to energy produced in high efficiency cogeneration, in 2015 a system introduced (in fact, extended) under the amendment to the *Act on Energy Law* back in 2014 was applicable. Due to the deadline for the fulfilment of cogeneration obligations, in commercial terms, 2015 was divided into two halves. Until the end of June 2015 trading in PMEC-2014 product was carried out, whose quotations were contained within a limited range, from PLN 10.59/MWh in January to PLN 10.35/MWh in. On the other hand, at the beginning of June 2015, quotations of the PMEC-2015 product started on the TGE, with the opening at a level of PLN 10.72/MWh. Until the end of 2015 also in case of this product, the volatility of the KECX index was symbolic, reaching only PLN 0.19/MWh in relation to monthly values, to conclude its quotations with the value of PLN 10.78/MWh at the end 2015. The level of market prices ranges slightly below the substitution fee determined in 2015 at a level of PLN 11/MWh.

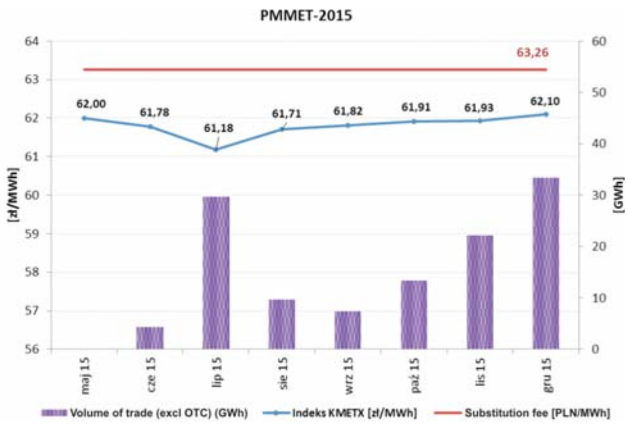
In the area of gas cogeneration the situation was similar. Until the end of June 2015, the PMGM-2014 product was still quoted which closed at a level of PLN 106.69/MWh. This level, similar to coal cogeneration, was determined by the substitution fee which was determined at a level of PLN 110/MWh for 2014. The PMGM-2015 product related to production of 2015, was already quoted in April 2015, when the average KGMX index amounted to PLN 110.28/MWh. Until the end of 2015 its value increased month by month, reaching the level of PLN 118.23/MWh in December. The average of 2015 quotations for the PMGM-2015 product reached PLN 118.35/MWh and it was only higher by approximately PLN 4.30/MWh than the substitution fee which increased to PLN 121.63/MWh for 2015.

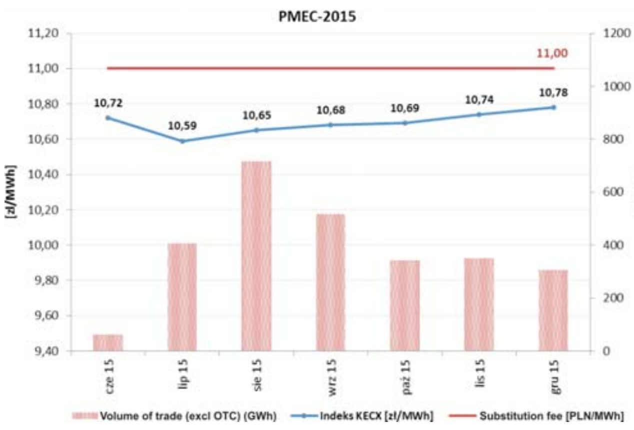
The situation on the market of property rights confirming energy production during methane combustion – PMMET, developed analogically to the high efficiency cogeneration. Until the end of June 2015, the PMMET-2014 product was still quoted, for which the average value of the KMETX index reached a level of PLN 61.84/MWh. The identical level of the substitution fee in 2014–2015, amounting to PLN 63.26/MWh determines the level of market prices. The PMMET-2015 product for last year production was quoted, on average, at PLN 61.76/MWh.

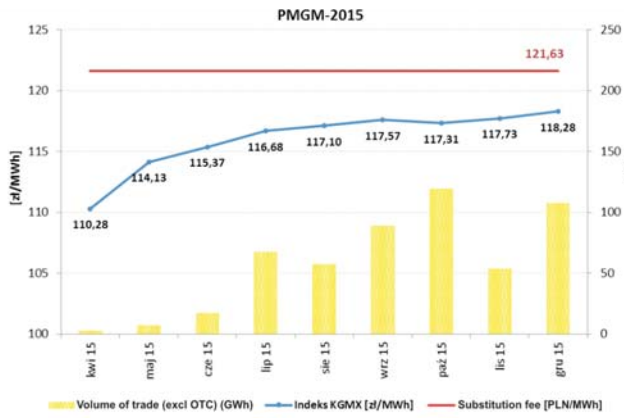
The figure below shows indices of property rights, the so-called "green", "violet", "red" and "yellow" certificates.

Figure no. 13 Indices of property rights









2.2.2.3. Regulatory environment

Changes in the regulations of the energy sector

In 2015 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

At present, Phase III of the European Union Emission Trading System is effective, lasting from 2013, to end in 2020. Contrary to Phase II, a possibility exists to transfer the surplus of allowances from the previous phase. The surplus transferred from Phase II, triggered mainly by the economic crisis and the reduced demand for EUA, has significantly decreased the price of units to the level below EUR 3/$MgCO_2$. In order to reduce the oversupply of allowances and increase their price, in 2014 the EC introduced the backloading mechanism to withdraw, respectively, 400, 300 and 200 million of allowances in the years 2014–2016 through reduced auction volumes. The backloading tool turned out insufficient in combating the oversupply. With the aim of further increase of CO_2 emission allowance prices, the EC proposed establishing of the stabilisation reserve on the market of property rights (MSR). The main role of this mechanism will focus on smooth regulation of the quantity of allowances in the market. The allowances will be withdrawn through annual transfers of maximum 12% of the surplus of allowances from n-2 year to the reserve. Once the surplus falls below 833 million, the mechanism will suspend the backloading of units. Should the quantity of allowances in the system be lower than 400 million, the stabilisation reserve will introduce additional 100 million of allowances to the market during a given year. The EC proposed that 2021 should be the first year in which the stabilisation reserve starts its functioning. Strong pressure of such countries as Germany, France and United Kingdom resulted in acceleration of the mechanism launch by two years, with the ultimate deadline set on 1 January 2019. During the plenary voting on 8 July 2015 it was additionally determined that the whole backloading volume of 900 million allowances would be transferred to the stabilisation reserve, including any allowances not allocated to this period, estimated at the total level of 700 million units. In accordance with the preliminary estimates, the stabilisation reserve will contain over 3 billion allowances. At the moment, the EC has no plans regarding any other intervention in the European Union Emission Trading System.

Entry into force of the Act on Renewable Energy Sources

On 4 May 2015 the *Act on Renewable Energy Sources of 20 February 2015* entered into force, excluding chapter 4, defining new rules of support for RES installations, envisaged to enter into force as of 1 January 2016. On 29 December 2015 the President of the Republic of Poland signed the *Act on the amendment to the Act on Renewable Energy Sources and the Act on Energy Law,* which, inter alia, postponed the date of entry into force of the provisions of chapter 4 to 1 July 2016.

The objective of the Act is to ensure the sustainable development of economy, with the simultaneous enhancement of energy security and environmental protection. The majority of the provisions of the Act refers to new forms of support for generators of energy from RES. One of the key changes in relation to the previously applicable regulations concerning RES support schemes is the replacement of the system based on energy certificates of origin with the auction system accessible for newly constructed RES installations. Installations which started energy production before 1 July 2016 will be entitled to continue using of the certificate system, or to transfer to the auction system. The duration of the support in both cases has been limited to the period of 15 years following the first production of electricity in RES, for which the aid was received. In addition, the RES Act introduced the support system for the smallest RES micro-installations (up to 10 kW) in the form of feed-in tariffs. In accordance with the Act, the government will decide on the quantity of renewable energy it needs. Subsequently, the ERO will announce auctions to be won by bidders offering the lowest price. Power plants winning the auctions will be subject to support. The support period will last 15 years.

The Act also introduces the so-called RES fee. In accordance with the Act, costs of subsidies to green energy production will be transferred to end consumers and added to electricity bills.

The RES Act has also verified the former rules concerning the acquisition of certificates of origin, which will result in the acquisition of lower volumes of property rights by energy generators (including TAURON Capital Group). The new Act has eliminated the support for hydroelectric power plants with the installed capacity over 5 MW. The support for multi-fuel combustion installations has been also limited. Such installations may acquire certificates of origin in the amount constituting the average quantity of electricity generated in the years 2011–2013, and installations commissioned after 31 December 2013 may acquire certificates of origin at a quantity not higher than the average annual quantity of energy generated in the period from 1 January 2014 to the day of entry into force of chapter 4. In addition, the certificates of origin issued to such installations will be adjusted by applying the 0.5 coefficient. The aforementioned provisions may result in significant decline of energy production based on co-firing. At the same time, due to the introduction of the lower redemption obligation for industrial consumers, the demand for property rights redeemed by sales companies in TAURON Capital Group will decrease.

Energy Law – the obligation of redemption of property rights from cogeneration

The support system for high efficiency coal cogeneration, gas cogeneration and methane cogeneration for the years 2014–2018 has been maintained. The respective levels of the obligation are as follows:

1) for “red” certificates the obligation amounts to 23.2% of the volume of energy sold in each year of the period 2014–2018,
2) for “yellow” certificates, this obligation shall increase from 3.9% in 2014 to 8% in 2018, which should contribute to the development of the cogeneration sources operating based on gas fuel,
3) for “violet” certificates the obligation shall grow from 1.1% in 2014 to 2.3% in 2018.

Certificates originating from production in cogeneration may be redeemed in individual years only within the settlement for a given year, i.e. until June of the following year. Certificates which are not redeemed shall become invalid.

The impact of this regulation on TAURON Capital Group occurs in various Areas and it is subject to partial set-off. In the Generation Area revenues on sales of “red” and “yellow” certificates arise, whereas in the Sales Area the need to purchase those certificates appears for the purpose of their redemption.

Change of conditions in the distribution sector

2015 was the last year of the period of regulation of five biggest Distribution System Operators (DSOs), since the President of ERO made the decision of introducing qualitative regulation elements. The introduction of qualitative regulation is aimed at improvement of the quality of distribution services provided to consumers, inter alia, through the improvement in quality and reliability of electricity supplies, improvement of customer service quality and ensuring the optimum level of effectiveness of the investment implemented.

The qualitative regulation will refer to five biggest DSOs and it will cover the years from 2016–2020, while in 2017 the verification of the applied assumptions and methods for the consecutive years, i.e. 2018–2020 will be performed. The indicators directly affecting DSO revenue will include indices of electricity supply interruption (SAIDI, SAIFI), appropriately adapted to the needs of the qualitative regulation and the indicator reflecting the implementation time of connection for consumers from connection group IV and V.

Amendments to the Act on Public Procurement Law

The Act on Renewable Energy Sources of 20 February 2015 has also introduced the amendment to the *Act of 29 January 2004 on Public Procurement Law,* allowing entities involved in sectoral activity to waive the application of the provisions of the Act on *Public Procurement Law* to award sectoral contracts for the delivery of certificates of origin, certificates of origin of agricultural biogas and certificates of origin from co-generation in order to fulfil the obligation of their redemption.

Implementation of the service of Operational Power Reserve (OPR)

2015 was the second consecutive period of operation of the payment mechanism due to ORM. The OPR refers to the generation capacity of active, centrally dispatched generation units, and its settlement is performed exclusively for the peak hours of demand, i.e. between 7:00 a.m. and 10:00 p.m. on all business days. Whereas in 2014 the growth in the level of SPOT prices was attributed to the fact of introduction of this mechanism, throughout 2015 the impact of ORM on the growth of electricity prices on SPOT and RB markets for peak hours was definitely lower.

Modification of OPR settlement rules

On 6 November 2014, with the effectiveness as of 1 January 2015, the ERO President approved the update card of the Instructions of transmission grid operation and maintenance (IRiESP) – Balancing of the system and management of system congestions, constituting the modification of the OPR settlement rules. The basic element of this modification is the adjustment of the method of developing the price for OPR (introduction of the hourly budget, the so-called BGOR), which should ensure the stability of accomplishment of OPR mechanism budget in the period of effectiveness of the TSO tariff and mitigation of external factors' impact on the performance of this mechanism. This change affected the decline of revenue due to OPR gained by the Generation Area in 2015.

On 15 December 2015 the President of ERO approved the consecutive IRiESP update card – Balancing of the system and management of system congestions, with the effectiveness as of 1 January 2016, constituting the next modification of the OPR settlement. The objective of this change is, inter alia, to ensure that the whole budget envisaged for the OPR service will be practically paid to generators providing this service. Along the growth of the budget for the OPR service, this change should definitely increase the revenue of the Generation Area in 2016.

Obligation of public sales of electricity by generators

In 2015, the so-called "exchange obligation" was still applicable, according to which the generating enterprises were obliged to sell the obligatory volume at TGE. In 2015, 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 electricity 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 an entity operating a regulated market on the territory of the Republic of Poland. It means that sales of electricity produced by the generation companies of TAURON Capital Group, for the needs of securing the sales position of TAURON Capital Group, may be conducted on the OTC market.

Implementation of the provisions of the Network Code on Gas Balancing of Transmission Networks

In accordance with the Commission Regulation (EU) (BAL NC), TSOs in the EU, including GAZ-SYSTEM, have been committed to adjust the gas balancing rules in transmission networks to the target model presented in the Regulation by 1 October 2015. The model assumed, inter alia, zero tolerance for imbalance of the fuel. GAZ-SYSTEM used a possibility to introduce the so-called temporary measures (permissible and transitional derogations from the rules of the Regulation), due to which the tolerance of imbalance was maintained at a level of 5% at least for the nearest gas year, maximum up to 2019. The provisions of the Regulation were adopted in case of the temporary fee for imbalance which, as of 1 October 2015 has been determined based on the system of marginal prices where the purchase price and the sales price are calculated based on transaction data derived from the Interday Market of gas on the TGE.

The overriding goal underlying the introduction of the aforementioned regulation is to accelerate the development of short-term gas fuel wholesale markets and closer integration of the UE gas market through the provision of coherence in transmission system balancing rules within the EU states.

Entry into force of the Act on the greenhouse gas emission allowance trading scheme

On 9 September 2015 the *Act on the greenhouse gas emission allowance trading scheme of 12 June 2015* entered into force. It introduced the provisions of the European Union Directive 2009/29/EC into the Polish law; the objective of the Directive is to improve and extend the European Union Emission Trading System. The Act enables the appropriate operation of the system in Poland in 2013–2020, i.e. during the so-called third stage of the ETS (the first stage covered the period 2005–2007, the second – 2008–2012). The third stage of the ETS stipulates establishing of a single pool of allowances for emission for the entire EU. Until 2020 it should decrease by 1.74% on an annual basis. This should enable CO_2 emission reduction in the EU by 20% by 2020.

The Act stipulates the gradual withdrawal from the free-of-charge allocation of greenhouse gas emission allowances in favour of the auction system. Among others, a possibility to sell greenhouse gas emission allowances through the domestic auction platform is introduced. In the Act, two exceptions from the auction system are envisaged: the "derogations for the energy sector" and the "domestic implementing measures". The objective of the first derogation is to enable entities operating installations generating electricity to obtain the specific number of free emission allowances. On the other hand, within domestic implementing measures it will be possible to apply for allocation of free emission allowances for production other than electricity production (e.g. cement plants, metallurgy). In both cases, installation operators will have to fulfil specific requirements, e.g. the annual settlement of investment tasks related, inter alia, to the modernisation of the existing energy infrastructure.

Amendment to the Act on Energy Law (application of the REMIT Regulation)

On 30 October 2015 the *Act on the amendment to the Act on Energy Law and certain other acts of 11 September 2015* enter into force, to ensure the application of the *Regulation of the European Parliament and the Council no. 1227/2011 of*

25 October 2011 on wholesale energy market integrity and transparency (the so-called REMIT Regulation). The main objective of the REMIT Regulation is the monitoring of wholesale markets of energy and gas, detecting manipulation on the market and combating market abuse consisting in inappropriate use of inside information. The solutions introduced will foster elimination of unfair exchange practices from the market and manipulation of wholesale prices of energy products. In particular, the competence of the ERO President was extended and the foundations for cooperation with ERO with other regulatory entities were created in the scope of compliance with the REMIT Regulation requirements. Moreover, the ERO President has been committed to submit information to the Agency for the Cooperation of Energy Regulators concerning the suspected energy market manipulation; it will also be able to impose financial penalties for the infringement of the provisions of REMIT Regulation. The Act also contains the amendments to Article 44 of the *Act on Energy Law*, referring to the methods of drawing up and storage of financial statements of electricity undertakings and aims at reducing the reporting obligations imposed on some electricity undertakings.

Draft Act on Energy Efficiency

In 2015 works concerning the draft to replace the applicable *Act of 15 April 2011 on energy efficiency* were continued. The aim of the draft is to maintain legal framework for the measures to improve energy efficiency of economy, defined by Directive 2006/32/EC of the European Parliament and the Council of 5 April 2006 *on energy end-use efficiency and energy services* and to create basis in the national legislation for new solutions envisaged in the new Directive 2012/27/EU *on energy efficiency*. The provisions of the new draft envisage measures in areas of increasing energy savings by end users and increasing energy savings in the scope of energy generation, transmission and distribution. Works on the draft are still continued as well as consultations of industry environments concerning individual provisions of the draft.

On 30 December 2015 the President of the Republic of Poland signed the *Act of 29 December 2015 on the amendment to the Act on Energy Efficiency*, aimed at extending the operation of the current support system for the pro-efficiency measures by one year.

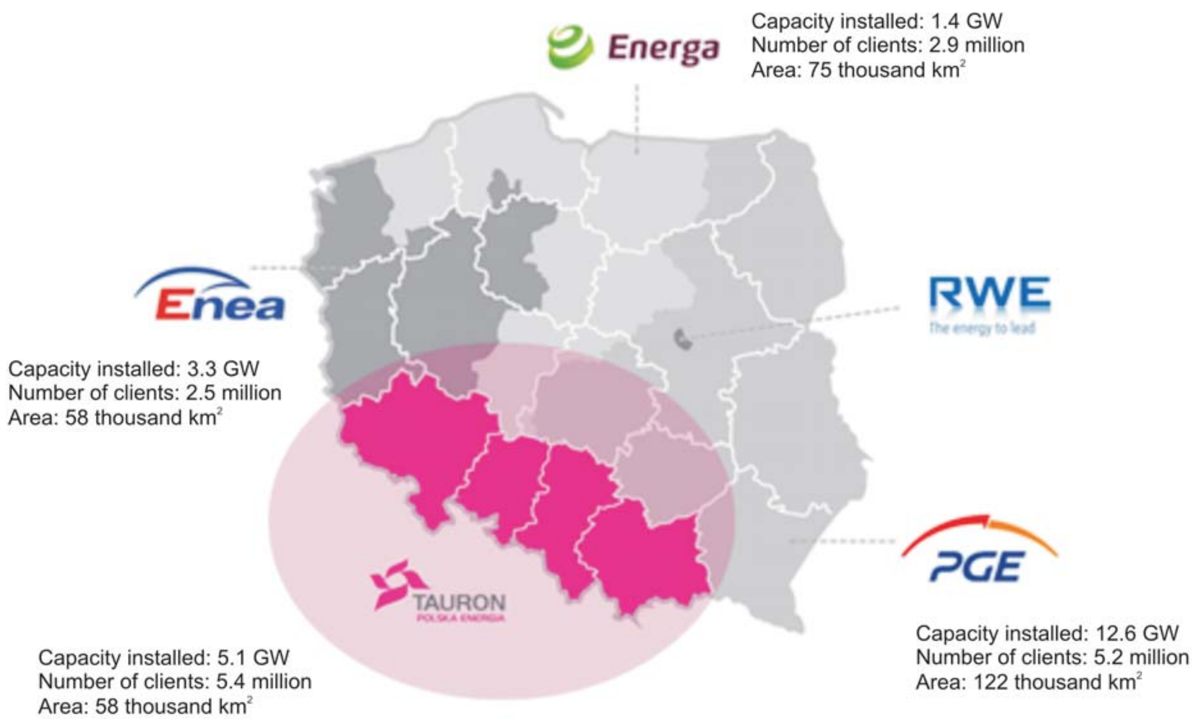
2.2.2.4. Competitive environment

Energy Groups in Poland

As a result of the reorganisation and consolidation of electricity undertakings conducted in Poland in the recent years, besides TAURON Capital Group, three large, vertically integrated energy groups currently operate: PGE, ENEA and ENERGA S.A. (ENERGA).

The figure below presents the competitive environment of TAURON Capital Group according to the available data, i.e. for 2014.

Figure no. 14 Competitive environment of TAURON Capital Group (data for 2014)



Owing to the vertically integrated structure, the above entities have a strong position on the domestic market. Moreover, foreign energy groups are also present on the Polish market.

According to the data for 2014 in the generation sub-sector the consolidated energy groups (PGE, TAURON, ENEA, ENERGA) held over 60% of market share. Moreover, smaller, although important entities on the Polish market of electricity included: EDF Polska Centrala sp. z o.o. (EDF) (9%), Zespół Elektrowni Pątnów – Adamów – Konin S.A. (ZE PAK) (7%) and Engie Energia Polska S.A. (Engie) (5%). The ZE PAK Group is the second generator of electricity from lignite in Poland, with the share of electricity generated based on lignite resources at a level of approximately 97%. On the other hand, EDF, besides the 9% share in the domestic electricity production, has the 15% share in the market of network heat. On the other hand, Engie occupies the leading position in the country in terms of biomass use.

In the electricity distribution sector the energy groups (TAURON, PGE, ENEA, ENERGA) held over 95% of share in the electricity distribution market. Among other electricity distributors, RWE Stoen Operator sp. z o.o. is one of the largest, supplying electricity to approximately 964 thousand clients in Warsaw and the neighbourhood.

TAURON Capital Group is the biggest distributor of electricity in Poland In 2014, share of TAURON Capital Group in electricity distribution to end clients amounted to approximately 38%. The distribution grids of TAURON Capital Group cover over 18% of the territory of the country. On the other hand, the share in the market of sales to end consumers amounted to approximately 26%.

TAURON Capital Group is the second biggest electricity producer in Poland. According to the data for 2014, both in terms of installed capacity and production of electricity, it was overtaken only by PGE. The share in the domestic electricity production market reached approximately 38% for PGE and 11% for TAURON. Share of both PGE in the Polish market of distribution and sales of electricity to end consumers reached 27% and 33%, respectively.

The third biggest energy enterprise in Poland is ENEA (data for 2014), with the share in the market of energy production reaching ab. 9%, in the distribution market – ab. 15% and in sales market – ab. 13%.

On the other hand, ENERGA holds share in the Polish market of electricity production reaching approximately 3% and, respectively, ab. 17% and 14% for each, distribution and sales.

The table below shows information on the capacity installed as of 31 December 2014 and electricity generated in 2014.

Table no 6. Capacity installed and production of electricity according to energy groups

No.	Group	Capacity installed		Generation*	
		Quantity (GW)	Share (%)	Quantity (TWh)	Share (%)
1.	PGE	12.6	32	62	38
2.	TAURON	5.1	13	22	11
3.	ENEA	3.3	8	12	9
4.	EDF	3.0	8	16	9
5.	PAK	2.5	6	11	7
6.	Engie	1.8	5	8	5
7.	ENERGA	1.4	3	5	3
8.	CEZ	0.7	2	3	2
9.	Other	9.1	23	25	16
	Total	**39.4**	**100**	**164**	**100**

** Quantity of gross electricity generated in 2014.*
Source: ARE, information of companies published on websites, own estimates in case of companies publishing net production

The table below presents the basic information concerning the share of individual energy groups in the scope of electricity distribution, according to the data for 2014

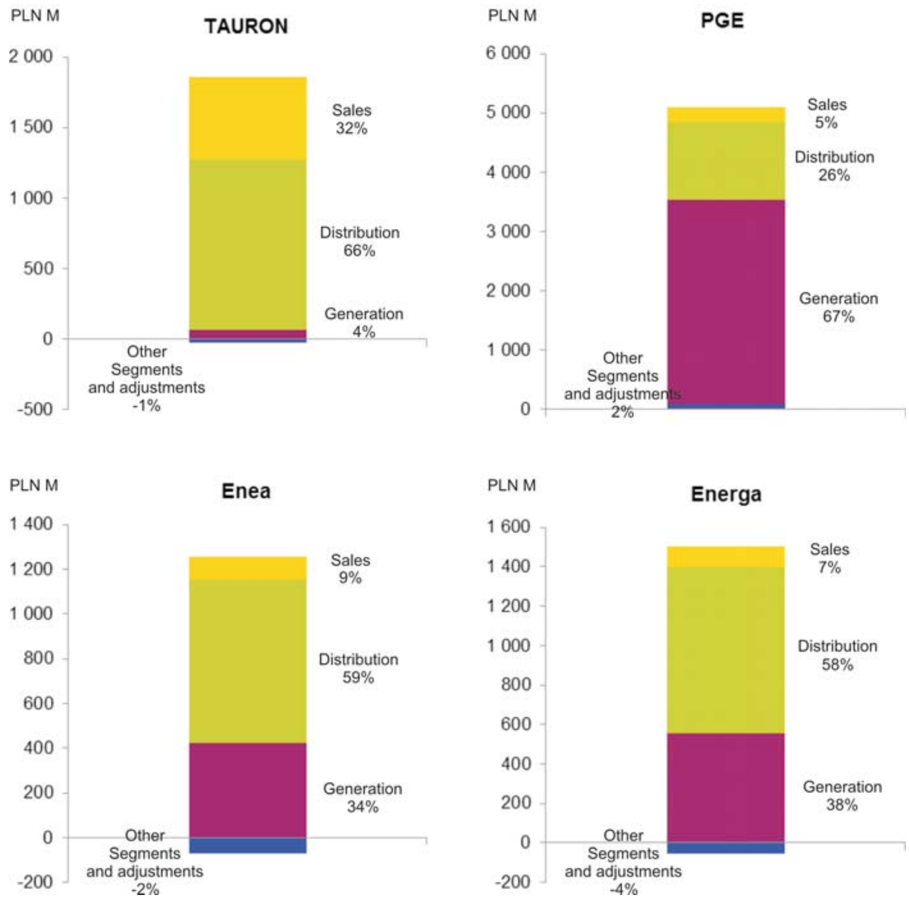
Table no 7. Distribution of electricity to end consumers, according to energy groups

No.	Group	Distribution	
		Quantity (TWh)	Share (%)
1.	TAURON	46	38
2.	PGE	33	27
3.	ENERGA	21	17
4.	ENEA	18	15
5.	Other	4	4
	Total	**121**	**100**

Source: ARE, information of companies published on the websites

The figures below show information concerning EBIT in the structure, according to main segments.

Figure no. 15 EBIT – estimated structure according to the main segments in 2014*



** In order to maintain comparability of the presented segments, in the Generation Segment, Mining, RES and Heat are also presented; in the Sales Segment: wholesale and retail sales is included.*
Source: Annual reports of Companies

The structure of assets held by TAURON Capital Group, with the considerable share of distribution activities, influences the stabilisation of revenues and results, which positively distinguishes TAURON Capital Group in comparison with other energy groups.

TAURON Capital Group is the energy enterprise fully integrated vertically, using synergies arising from the scale and scope of the activities carried out.

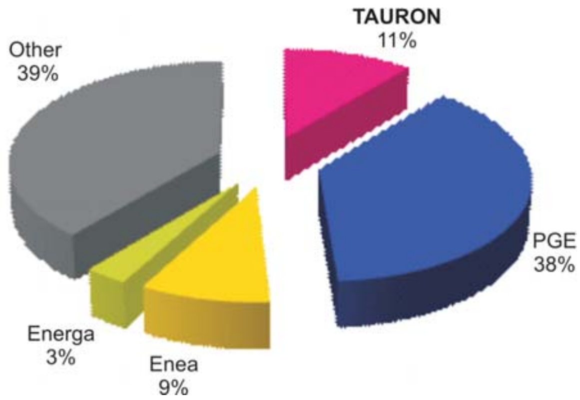
TAURON Capital Group controls the whole value chain, from coal extraction to the supply of electricity to end clients. It performs activities in all key segments of the energy market (excluding electricity transmission), i.e. in the area of coal mining, generation, distribution as well as trade of electricity and heat. The acquisition of KWK Brzeszcze by TAURON Capital Group, taking into consideration the assumed electricity production, will increase a possibility to cover the fuel demand of TAURON generation units by mining plants to almost 70%. Access to own coal resources and control of own generation assets increases the stability of revenues and margins of TAURON Capital Group.

In 2015, the decline of fuel prices continued, including coal in global markets and in the domestic market, as a result of which large energy facilities were forced to adapt to the level of electricity prices (the recorded decline in prices of electricity traded on the TGE), which are applicable on the wholesale energy market which, in turn, enforces the application of new sales techniques of products manufactured and the adjustment to the stringent market requirements.

Generation

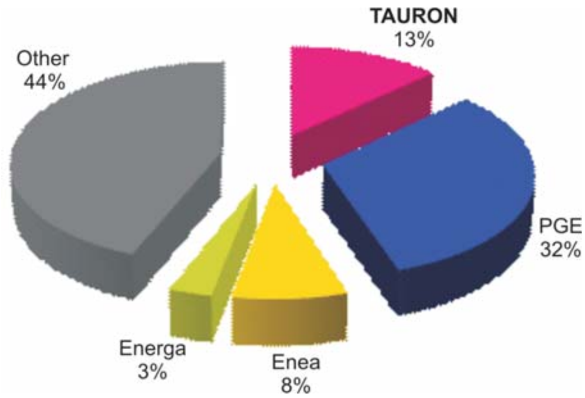
The figures below present information on electricity generated in 2014 and the capacity installed as of 31 December 2014.

Figure no. 16 Gross electricity output – estimated market share in 2014



Source: ARE, information of companies published on the websites

Figure no. 17 Installed capacity – estimated market share in 2014



Source: ARE, information of companies published on the websites

TAURON Capital Group is the second biggest producer of electricity in Poland, holding generation assets located in the attractive region of Poland, which enables it to participate actively in building of new generation capacity.

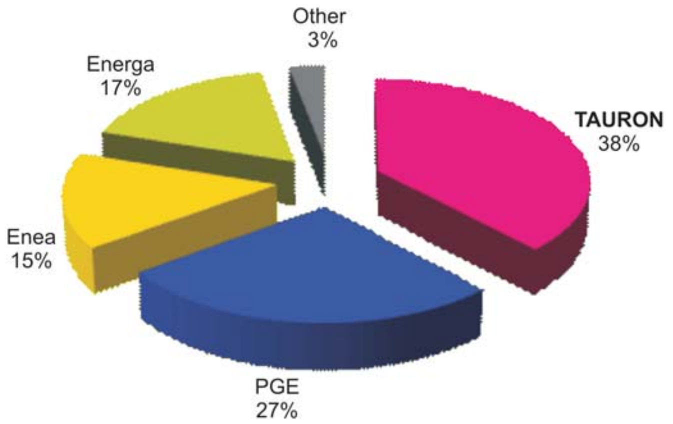
Based on ARE data for 2014, the share of TAURON Capital Group in the domestic market of electricity generation, measured by the gross electricity output, amounted to approximately 11%, which gives TAURON Capital Group the second position in Poland. The generation assets of TAURON Capital Group are concentrated in southern Poland. In this region, coal deposits are also located, used for combustion processes in power plants and co-generation plants of TAURON Capital Group. The location of generation assets of TAURON Capital Group in the vicinity of coal deposits allows for optimisation of costs associated with the transport of this raw material.

The generation assets of TAURON Capital Group, due to their location in southern Poland, have also access to the most developed part of the transmission system in the country, which has positive impact, among others, on enhancement of reliability of the activities carried out and on implementation of the planned investments in the scope of construction of new generation capacity. Thus, the location of assets of TAURON Capital Group in the area of well-developed transmission network and rich coal resources also influences the maintaining of the competitive advantage of TAURON Capital Group against other energy enterprises on the Polish market.

Distribution

The following chart presents the basic information concerning the share of individual energy groups in the scope of electricity distribution according to the data for 2014.

Figure no. 18 Electricity distribution – estimated market share in 2014



Source: ARE, information of companies published on the websites

TAURON Capital Group is the biggest distributor of electricity in Poland.

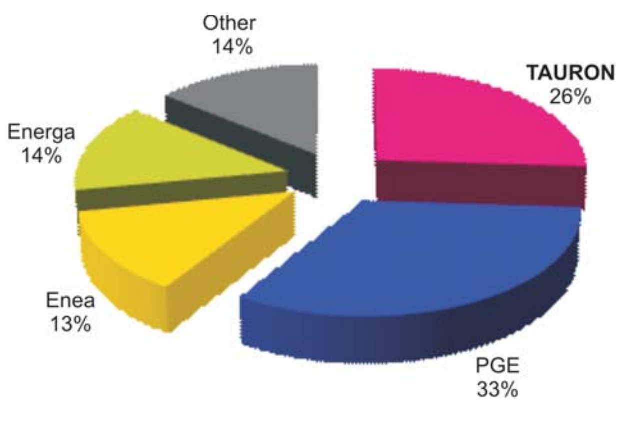
According to the data for 2014, 2013 and 2012 TAURON Capital Group, with the volume of electricity supplied to end clients, at the level of, respectively, 45.6 TWh, 45.2 TWh and 45.2 TWh, took the first position in terms of the quantity of electricity supplied. In 2015, the volume of energy supplied to end consumers amounted to approximately 47.1 TWh. TAURON Capital Group is the largest electricity distributor in Poland, also in terms of revenues gained from distribution activity.

It should be stressed that the distribution activity of TAURON Capital Group, due to the natural quasi monopoly at the indicated area, is the source of stable and predictable revenues, constituting the essential part of consolidated revenues of the whole TAURON Capital Group. The geographical area of electricity distribution, where the companies of Distribution and Sales Areas historically operate, is the area characterised by its high level of industrialisation and dense population, which influences the relevant demand for electricity, both among households and among enterprises. The number of clients of the Distribution Area exceeds 5.4 million.

Sales

The following chart presents the basic information concerning the share of individual energy groups in the scope of electricity sales to energy consumers, according to the data for 2014.

Figure no. 19 Sales of electricity to end consumers – estimated market share in 2014



Source: ARE, information of companies published on the websites

TAURON Capital Group, with the volume of electricity sales to end consumers at a level of 30.9 TWh in 2014, is the second electricity supplier in this segment in Poland. On the other hand, in 2014, retail sales of electricity reached the level of 38.6 TWh. In 2015, the volume of electricity retail sales reached the level of approximately 35.9 TWh, including about 29.5 TWh to end consumers. The number of clients of the Sales Area amounts to approximately 5.3 million.

Sources of competitiveness

Individual energy groups are associated with areas where they fulfil the function of DSO. Additionally, the broader and more open competition among the groups is limited by the G tariff regulation (individual clients). However, such limitations do not refer to clients using other tariffs, under which energy groups may compete much more flexibly, in accordance with the adopted assumptions of their market strategies.

The table below presents the main sources of competitiveness.

Table no 8. Sources of competitiveness

No.	Area of operations	Area of initiatives	Sources of competitiveness
1.	Mining, Generation	Reducing market risk and supply security risk	Own coal resources – security of supplies and strict control of mining costs
	RES, Heat	1) New investment projects 2) Operating expenses	1) Diversified portfolio of generation capacity 2) Improvement of operational effectiveness
2.	Distribution	1) Operating expenses 2) Investment effectiveness 3) Improvement of grid reliability indicators	1) Implementation of target business model 2) Cooperation with the ERO President in the scope of remuneration on investment 3) Implemented IT systems, separated processes, clear distribution of responsibilities
3.	Sales	1) Operating expenses 2) Margin on sales, development of products adjusted to clients' needs, development in new business areas	1) Maintained cost discipline 2) Brand, current client base, held sales channels, experience in the scope of product and procurement portfolio management

2.3. Timeline of key events

The figure below presents the timeline of selected key events associated with the operations of TAURON Capital Group which took place in 2015.

Figure no. 20 Timeline of key events

EVENTS IN TAURON CAPITAL GROUP IN 2015

JANUARY FEBRUARY

1. TAURON's acquisition of 100% of direct share in the share capital of Biomasa GT company.
2. Expression of preliminary interest in the acquisition of the whole assets of KWK Brzeszcze, or a part thereof, in response to the enquiry of Kompania Węglowa S.A. (Kompania Węglowa) and Spółka Restrukturyzacji Kopalń S.A. (SRK).
3. Commissioning of a new high voltage dispatch station in Gliwice by TAURON Dystrybucja.
4. Listing of TAURON bonds on the Catalyst market.

MARCH APRIL

1. The first listing of TAURON bonds with the total nominal value of PLN 1,750 million in the alternative trading system on the Catalyst.
2. Concluding of the agreement by TAURON, PGE, ENEA and KGHM for the purchase of shares in PGE EJ1 – a special purpose vehicle responsible for the preparation and execution of the investment consisting in the construction and operation of the first Polish nuclear power plant with the capacity of approximately 3 thousand MW_e.
3. Adopting of the resolution by the Ordinary TAURON GM on allocating a part of the profit for the financial year 2014 in the amount of PLN 262,882,409.10 for the dividend.

MAY JUNE

1. Signing of the letter of intent by TAURON and SRK, concerning the intention to undertake cooperation in the scope of potential acquisition of KWK Brzeszcze assets.
2. Implementation of the Central Billing System for mass clients in TAURON Capital Group.

JULY
AUGUST

1. Signing of the annex to the programme agreement by the Company and Bank Gospodarstwa Krajowego (BGK), increasing the amount of the bond issue programme by PLN 700 million.
2. Concluding of an investment agreement by TAURON Wytwarzanie with PIR, related to the implementation of the project on construction of the power unit with the capacity of 413 MW_e at Elektrownia Łagisza.
3. Confirmation of the long-term foreign and local currency ratings for the Company at “BBB” level, with stable outlooks by the Fitch rating agency.
4. Taking up 49,645 new shares by TAURON in the increased share capital of PGE EJ 1 company.
5. Commencement of pile founding for the foundation slab of a boiler house of the unit with the capacity of 910 MW_e at Elektrownia Jaworzno III (Power Plant II).
6. Commissioning of the new longwall 729 at ZG Janina in Libiąż (TAURON Wydobycie).

SEPTEMBER
OCTOBER

1. Registration of the increase in the share capital of TAURON Sweden Energy AB (publ) company to the amount of EUR 6,700.000.
2. Submission of the bid by R S G special purpose vehicle for the purchase of a part of KWK Brzeszcze assets in the proceedings announced by SRK.
3. Changes in the composition of the TAURON Management Board.
4. Registration of Łagisza GT special purpose vehicle with its registered office in Katowice for the implementation of the project on the construction of the power unit with the capacity of 413 MW_e at Elektrownia Łagisza.
5. Convening of the Extraordinary GM of TAURON with the purpose of increasing the share capital of the Company.
6. Concluding of the preliminary conditional agreement for sales of the designated part of KWK Brzeszcze between the subsidiary, R S G and SRK.
7. Registration of the change in the enterprise name of the special purpose vehicle “R S G sp. z o.o.” to “Nowe Brzeszcze Grupa TAURON sp. z o.o.”.
8. Confirmation of the long-term foreign and local currency ratings for the Company at BBB level, and the change of the outlook from stable to negative by the Fitch rating agency.
9. Granting the main award for *The Best Annual Report* to TAURON, for the best annual report for 2014.
10. Completing of the stage II construction of Marszewo wind farm with the capacity of 18 MW.

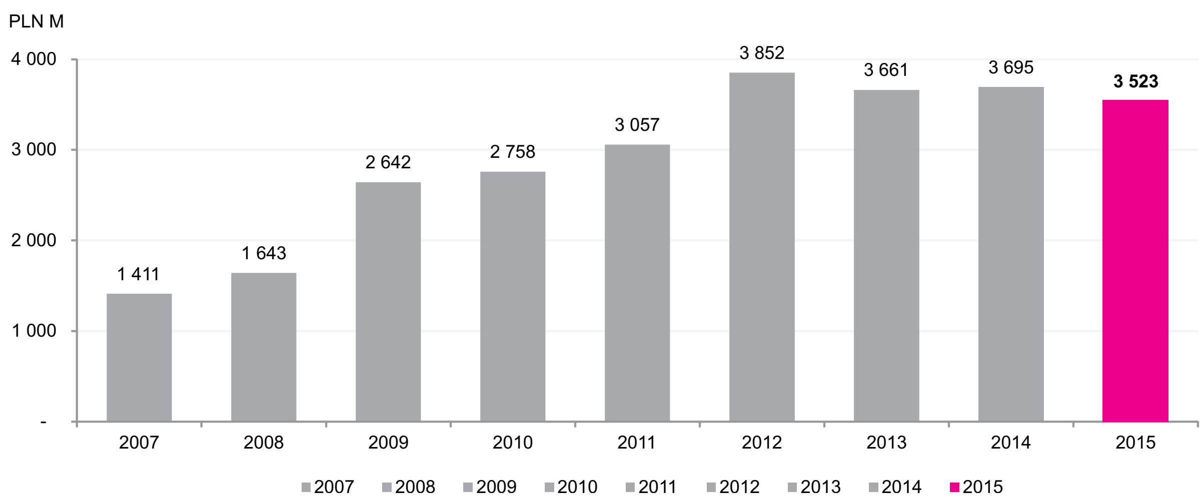
NOVEMBER
DECEMBER

1. Signing of agreements between the Company and selected banks concerning the bond issue programme at the total value of PLN 6.27 billion.
2. Issuance of the unconditional approval by the President of UOKiK (Office for Competition and Consumer Protection) for concentration consisting in the purchase of a part of KWK Brzeszcze assets by Nowe Brzeszcze GT.
3. Adopting the *Corporate Strategy for 2016–2018 with an outlook until 2020.*
4. Failure of the Extraordinary SM of TAURON to adopt the resolution concerning adopting of TAURON share capital.
5. Changes in the composition of the TAURON Management Board.
6. Finalisation of topping up foundations of the machinery room with concrete in the unit with the capacity of 910 MW_e at Elektrownia Jaworzno III (Power Plant II).
7. Concluding of the agreement by Nowe Brzeszcze GT and SRK for the sales of a part of KWK Brzeszcze assets.

2.4. Financial results of TAURON Capital Group

The figure below shows the EBITDA results of TAURON Capital Group in 2007–2015.

Figure no. 21 EBITDA of TAURON Capital Group in 2007–2015



The table below shows the EBITDA results of TAURON Capital Group, divided into individual Business Areas (Segments) of activity for the years 2013–2015. Data for individual Areas do not comprise consolidation exclusions.

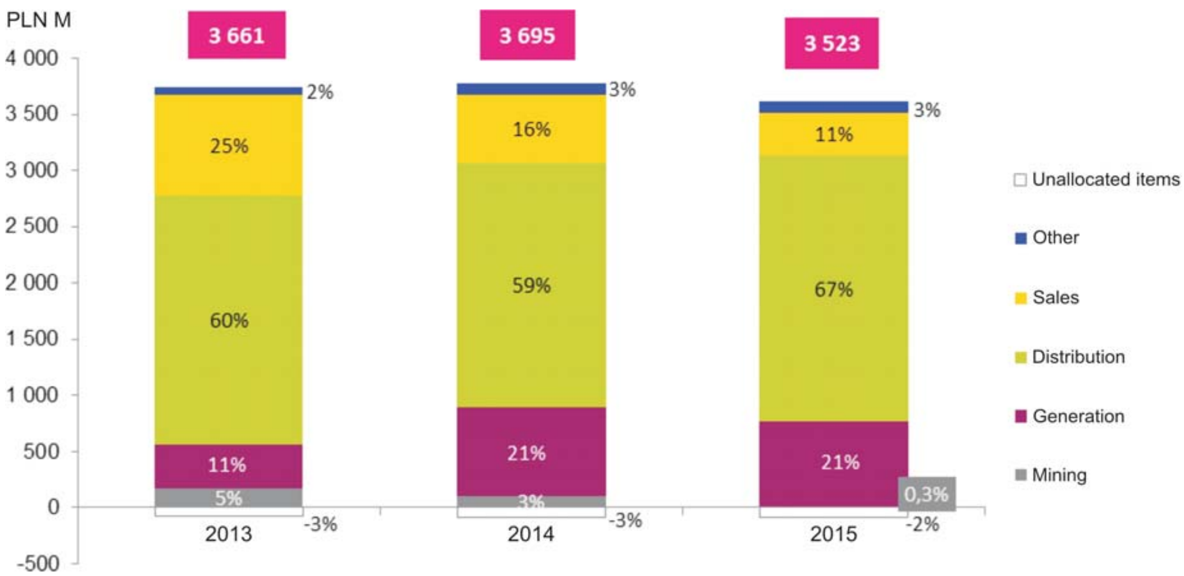
Table no 9. EBITDA results of TAURON Capital Group, divided into Areas of activity*

No.	EBITDA (PLN thous.)	2015	2014	2013	Dynamics (2015/2014)	Change (2015–2014)
1.	Mining	**9,137**	98,420	165,783	9.3%	(89,283)
2.	Generation	**754,751**	792,803	399,868	95.2%	(38,052)
3.	Distribution	**2,372,129**	2,172,288	2,208,381	109.2%	199,841
4.	Sales	**380,480**	608,213	899,208	62.6%	(227,733)
5.	Other	**100,320**	106,215	62,768	94.4%	(5,895)
6.	*Unallocated items*	*(93,514)*	*(83,395)*	*(74,524)*	*112.1%*	*(10,119)*
	Total EBITDA	**3,523,303**	**3,694,544**	**3,661,484**	**95.4%**	**(171,241)**

** The three-year period is presented due to transparency of information. The approximate (due to significant changes in the organisation of Operational Segments, as compared to the period before 2012) results in the five-year period are presented in subsection 4.7. of this report.*

The figure below presents the structure of EBITDA of TAURON Capital Group in 2013–2015.

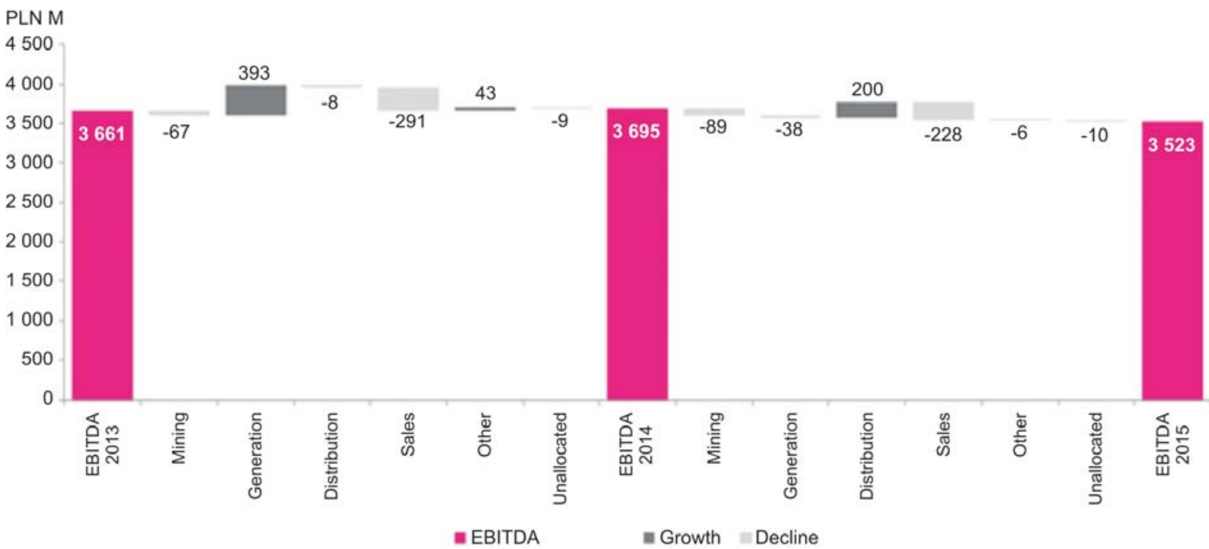
Figure no. 22 Structure of EBITDA of TAURON Capital Group in 2013–2015



The Distribution Area and Sales Area have the highest share in EBITDA of TAURON Capital Group.

The figure below presents the change in EBITDA result of TAURON Capital Group in the years 2013–2015.

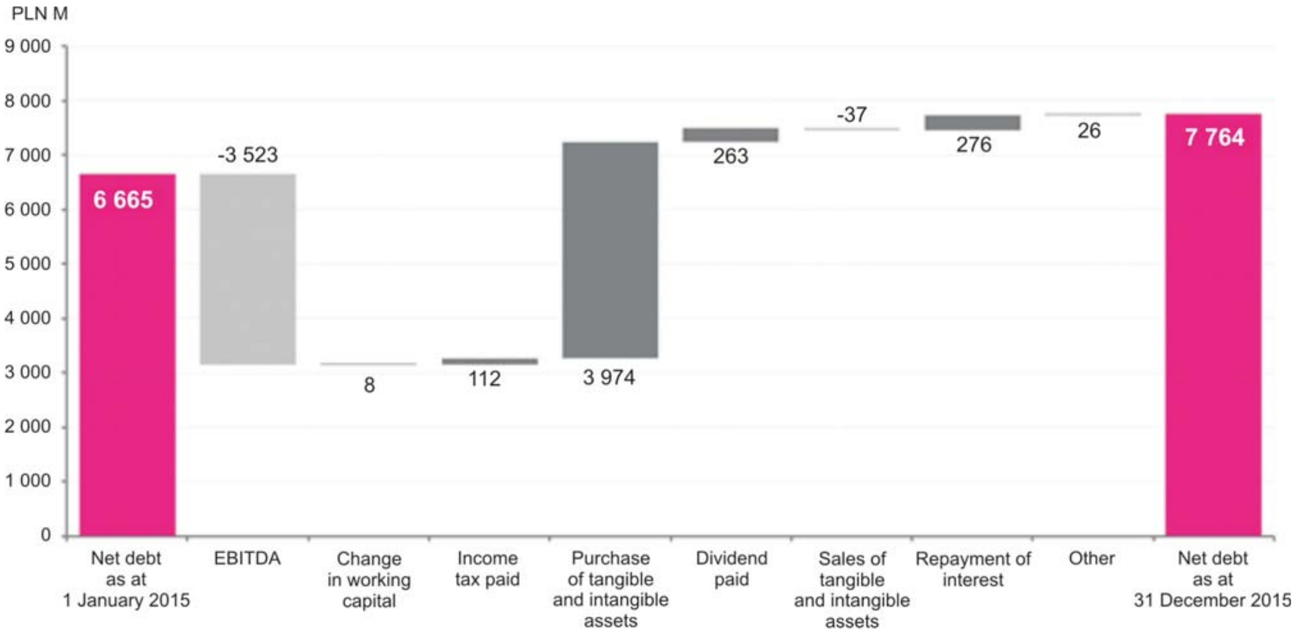
Figure no. 23 Change in EBITDA of TAURON Capital Group in 2013–2015



Cash flows of TAURON Capital Group in 2015

The figure below presents cash flows of TAURON Capital Group in 2015.

Figure no. 24 Cash flows of TAURON Capital Group in 2015



2.4.1. Mining Area

The table below presents the results of the Mining Area in the years 2013–2015.

Table no 10. Results of Mining Area*

Specification (PLN thous.)	2015	2014	2013	Dynamics (2015/2014)	Change (2015–2014)
Mining					
Revenue on sales	**1,205,944**	**1,194,024**	**1,397,506**	**101.0%**	**11,920**
coal – coarse and medium assortments	*346,778*	*359,857*	*525,419*	*96.4%*	*(13,079)*
steam coal	*836,772*	*803,647*	*835,355*	*104.1%*	*33,125*
other revenues	*22,394*	*30,520*	*36,732*	*73.4%*	*(8,126)*
Operating profit	**(104,328)**	**(6,829)**	**65,786**	**–**	**(97,499)**
Depreciation and write-offs	113,465	105,249	99,997	107.8%	8,216
EBITDA	**9,137**	**98,420**	**165,783**	**9.3%**	**(89,283)**

** The three-year period is presented due to transparency of information. The approximate (due to significant changes in the organisation of Operational Segments, as compared to the period before 2012) results in the five-year period are presented in subsection 4.7. of this report.*

The operating results, EBIT and EBITDA of the Mining Segment in 2015 reached a lower level than in 2014, which was affected by the following factors:

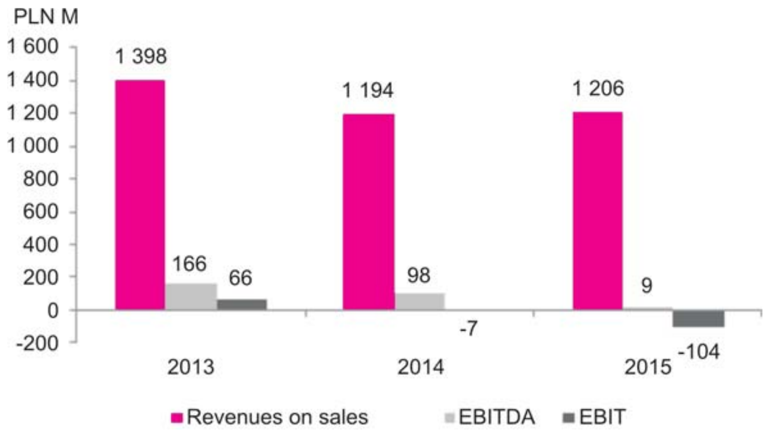
1) lower prices of sold coal of each assortment, on average, by 2.5%, of coarse assortments (by approximately 2.2%), medium assortments (by approximately 4.5%) and coal dust (by 2.3%), with the simultaneous increase of cheaper coal dust share in the structure of sales,
2) growth in the volume of the sold coal by 4.3%, which results from higher sales of fine coal (by 6.7%), and medium assortments (by 3.5%), with the simultaneous decline in sales of coarse assortments (by 2.5%),
3) growth of own cost of the sold coal, mainly as a result of the unfavourable relation of coal production and sales and the settlement of the preparatory works. The aforementioned factors have been partly mitigated through savings generated by the company of the Mining Area in the scope of costs of consumption of materials, energy, external services and labour as well as the reversal of the actuarial provision originally recognised in operating costs,

4) a lower result for other operating activity results from the reversal of the provision for the Liquidation Fund of Mining Plants and for future liabilities, incurring of costs by TAURON Wydobycie in relation to rescue action which took place in 2015, and the disposal of non-financial fixed assets at ZG Janina,
5) one-off events which took place at the turn of the semi-annual period of 2015, recognised in other operating costs were, to a certain extent, balanced by the reversal of the actuarial provision. In June and July 2015, TAURON Wydobycie recognised costs associated with:
   a) the adjustment of the status of commercial coal and semi-product inventories following the physical stocktaking,
   b) the verification of the real value of pre-payments of costs arising from works associated with drilling of production access workings and longwall reinforcement,
   c) longwall decommissioning at ZG Sobieski.

   In the 3rd quarter of 2015 the Company reversed the actuarial reserve related to coal benefit and the Company Social Benefit Fund for employees as future pensioners and other authorised employees, which enabled the neutralisation of the adverse effect of the aforementioned events.

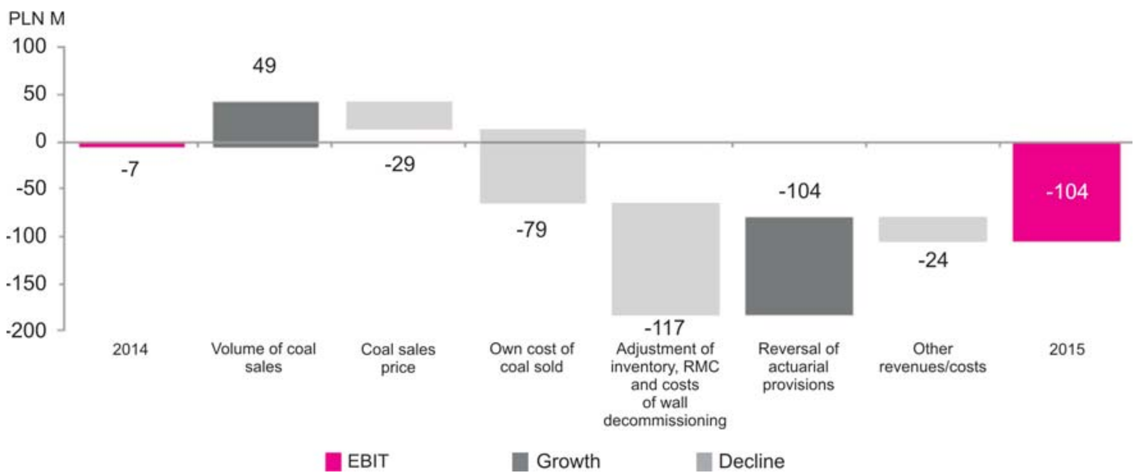
The figure below shows the financial data of the Mining Area for the years 2013–2015.

Figure no. 25 Financial data of the Mining Area for the years 2013–2015



The figure below shows the EBIT result of the Mining Area, including the significant factors influencing the YoY change.

Figure no. 26 EBIT result of Mining Area



Strategy and the strategic priorities

TAURON Capital Group is one of the largest hard coal consumers in Poland. The strategic goal of the Mining Area is to secure the availability of this key fuel for TAURON Capital Group using the natural synergies within TAURON Capital Group as well as to maximise the margin mass generated by sales of other products. The strategic priority in the nearest years will involve gradual growth of commercial coal production, strict control of coal mining costs, continuous enhancement of the Mining Area effectiveness and improvement of the quality of the products supplied.

Major investments

In 2015, in the Mining Area the total capital expenditure incurred reached approximately PLN 211 million, including the following strategic investment projects:

1) PLN 71 million for the purchase of an additional set of enclosure and equipment for longwalls in seam 207 for ZG Janina,
2) PLN 67 million for the construction of 800 m level at ZG Janina (the investment will be continued in the consecutive years).

Moreover, in 2015, approximately PLN 15.8 million was spent for the implementation of the strategic investment project on *The construction of Grzegorz shaft, including the infrastructure and the accompanying headings*.

The expenditure in the Mining Area is incurred for the preparation and operation of mining at ZG Sobieski and ZG Janina (mainly the purchase of machines and equipment, drilling of headings, longwall preparation).

Development perspectives

According to the available forecasts and analyses, the market conditions under which the producers of hard coal shall act, will continue to be difficult and demanding. Nevertheless, coal will still serve as the basic fuel used in the Polish energy sector, including TAURON Capital Group, and due to the aforementioned investments, the percentage share of coal from own coal mines in the structure of purchases of TAURON Capital Group will continue to grow, with the simultaneous increase in efficiency. Within the perspective of the effective Corporate Strategy, reaching of coal fuel supply to TAURON Capital Group from own sources at a level of 5.5 million Mg is assumed, which would constitute 50–70% of TAURON Capital Group demand. Increase of ecological fuel production (ekogroszek) is also considered. The acquisition of KWK Brzeszcze assets at the end of 2015 will allow for increasing of own resources in the supply of TAURON Capital Group with hard coal in the following years, up to approximately 70%.

2.4.2. Generation Area

The table below presents the results of the Generation Area in the years 2013–2015.

Table no 11. Results of the Generation Area*

Specification (PLN thous.)	2015	2014	2013	Dynamics (2015/2014)	Change (2015–2014)
Generation					
Revenue on sales	**5,376,280**	**4,963,651**	**6,116,608**	**108.3%**	**412,629**
electricity	*4,021,274*	*3,264,510*	*4,621,441*	123.2%	*756,764*
heat	*814,045*	*824,791*	*859,803*	98.7%	*(10,746)*
property rights arising from certificates of electricity origin	*480,698*	*574,291*	*286,521*	83.7%	*(93,593)*
wind of blast furnace	*0*	*159,422*	*147,565*	0.0%	*(159,422)*
compressed air	*56*	*71,122*	*70,322*	0.1%	*(71,066)*
other revenues	*60,207*	*69,515*	*130,956*	86.6%	*(9,308)*
Operating profit	**(3,477,076)**	**72,093**	**(255,067)**	**–**	**(3,549,169)**
Depreciation and write-offs	4,231,827	720,710	909,260	587.2%	3,511,117
EBITDA	**754,751**	**792,803**	**654,193**	**95.2%**	**(38,052)**

** The three-year period is presented due to transparency of information. The approximate (due to significant changes in the organisation of Operational Segments, as compared to the period before 2012) results in the five-year period are presented in subsection 4.7. of this report.*

In 2015 revenues on sales in the Generation Segment were higher by approximately 8% as compared to 2014. The increase in revenues on electricity sales is the result of both a higher sales volume to companies of TAURON Capital Group. The growth of the resulting revenue was partly compensated by lower revenue on operational power reserve.

Revenue on property rights to certificates of origin of energy generated from RES were lower as compared to the previous year (due to a lower volume of production and a lower price). The revenue of the Generation Segment in 2014 additionally included revenues on sales of wind of blast furnace and compressed air, accomplished by Zakład Wytwarzania Nowa (ZW Nowa), submitted as a contribution in-kind in December 2014 to TAMEH POLSKA company (the joint undertaking recognised in the consolidated financial statements by the equity method).

Revenue on heat sales was slightly lower than in 2014, mainly due to the failure to include the corresponding revenue of entities separated to TAMEH in 2015.

The operating results, EBIT and EBITDA of the Generation Segment in 2015 reached a lower level than in 2014, which was mainly affected by the following factors:

1) separation of assets of ZW Nowa and Elektrownia Blachownia to TAMEH POLSKA company (share in the EBIT result in the 1st half of 2014: approximately PLN 97 million),
2) a higher volume of electricity sales resulting from production of power plants and conventional combined heat and power plants,
3) lower unit variable costs of electricity and heat generation YoY, mainly due to lower fuel prices,
4) a higher margin on trading in electricity – as a result of both a higher volume of trade and a higher unit margin; a higher volume of electricity sales within trade in 2015 arises from the adopted sales strategies,
5) low revenues on OPR – the consequence of the lower level of prices of this service and the higher volume of contractual sales in relation to 2014,
6) higher costs of CO_2 reserve – in 2014 the number of free allowances for installations belonging to TAURON Wytwarzanie exceeded the emission for that year – TAURON Capital Group did not create a provision for liabilities due to emission of gases for those installations, with the exception of TAURON Ciepło (where the deficit of free allowances in relation to emission occurred). In 2015, in case of installations of both companies, emission exceeded the number of free allowances, consequently, the costs of CO_2 reserve were higher YoY,
7) lower fixed costs (mainly labour costs and costs of renovation),
8) impairment losses of tangible fixed assets, intangible assets and goodwill.

The results of the impairment test of assets, conducted as at 31 December 2015 indicated that a part of assets of the Generation Segment should be covered by the additional write-off in the amount of PLN 3,410,726 thousand. The write-off refers to the following entities generating cash flows: Elektrownia Jaworzno II, Elektrownia Jaworzno III, Elektrownia Łaziska, Elektrownia Siersza, Elektrownia Stalowa Wola, Zakład Wytwórczy Bielsko-Biała EC1, Zakład Wytwórczy Bielsko-Biała EC2, Zakład Wytwórczy Tychy.

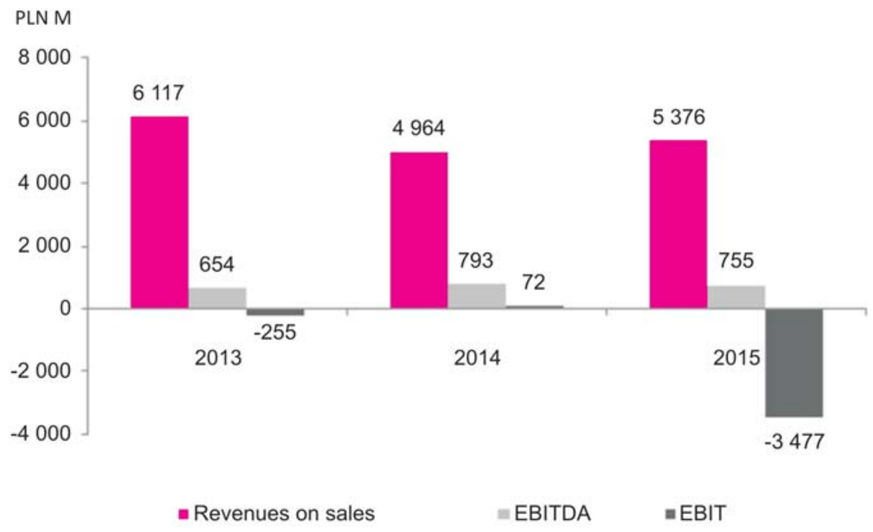
The requirement to apply the write-off arises from the following circumstances:

a) long-lasting, persistent market situation unfavourable for electricity generators, arising from adoption of more conservative forecasts of electricity price developments in the future,
b) adjustment of electricity production volumes (limiting their size) in the future to the expected continuation of the current unfavourable market situation,
c) faster decommissioning of older generation units than expected.

The impairment test conducted as at 31 December 2015 demonstrated the loss in the carrying amount of the goodwill related to the Generation Segment, concerning the CGU associated with the generation of heat and electricity (TAURON Wytwarzanie) as well as distribution and transmission (TAURON Ciepło). As a result of the foregoing, TAURON Capital Group applied the impairment loss due to the permanent loss of goodwill in the amount of PLN 154,998. The impairment losses charged own cost of sales. It should be mentioned that these are consequences of accounting nature, which do not generate cash effects.

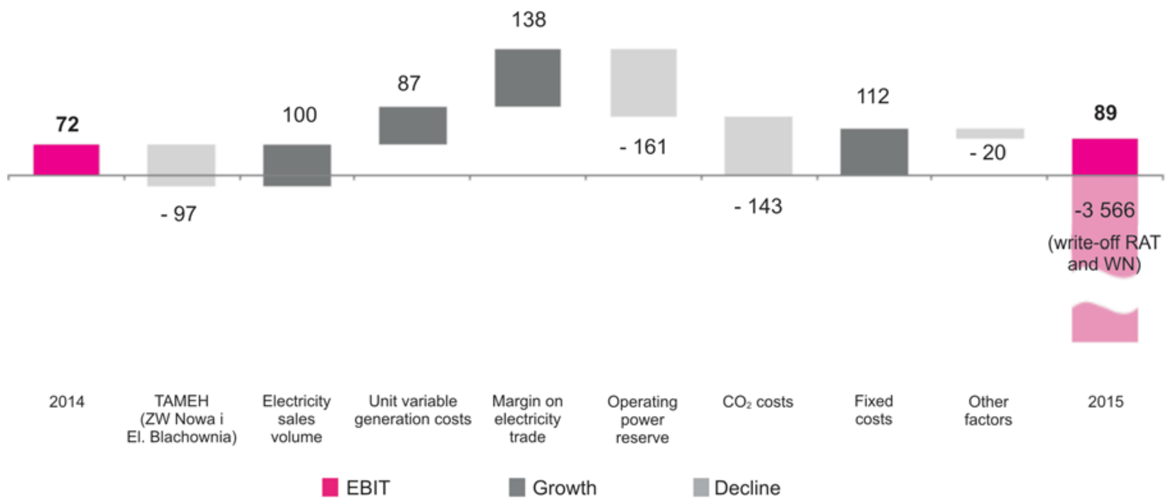
The figure below shows the financial data of the Generation Area for the years 2013–2015.

Figure no. 27 Financial data of the Generation Area for the years 2013–2015



The figure below shows the EBIT result of the Generation Area, including the significant factors influencing the YoY change.

Figure no. 28 EBIT result of the Generation Area



Strategy and the strategic priorities

The strategic goal of the Generation Area is the construction of the portfolio of generation assets, optimum in terms of its profitability and risk, and its effective exploitation. The strategic priorities in the forthcoming years will focus on investment in new generation capacity in diversified technologies (coal, gas) and optimisation of operating costs, market risk management as well as mitigation of risk arising from infringing the conditions of environment use.

Major investments

In 2015, in the Generation Area the total capital expenditures incurred reached PLN 1,934 million, including the following strategic investment projects:

1) PLN 248 million – construction of flue gas denitrification installations and modernisation of 200 MW blocks at Elektrownia Jaworzno and Elektrownia Łaziska,
2) PLN 643 million – construction of the coal-fired unit with the capacity of 910 MW at Elektrownia Jaworzno III,
3) PLN 352 million – construction of new capacity in cogeneration at EC Tychy (50 MW),
4) PLN 59 million – installation of supply of the Eastern and Southern Main from the Łagisza source,

5) PLN 94 million – construction of Marszewo wind farm with the capacity of 100 MW – stage II – 18 MW,
6) PLN 40 million – modernisation of hydroelectric power plants.

The investment project in Stalowa Wola is also under implementation, with participation of the strategic partner, PGNiG, comprising the construction of the CCGT unit of 449 MW_e capacity, with the heat generation component of 240 MW_t capacity. The completion of this investment is scheduled in 2018, whereas it will be possible to estimate the detailed date after project inventory is completed (in January 2016 contract with the General Contractor was rescinded). Moreover, works associated with the construction of the CCGT unit of 450 MW capacity in Łagisza Power Plant are in progress.

Development perspectives

The available forecasts and analyses indicate that the macroeconomic and sectoral conditions under which the producers of electricity will act will be unfavourable for them, mainly due to the projected conservative developments in electricity prices and limitation of production volumes from former generation units in the future. One of the problems in the sector of electricity generation in Poland is the insufficient number of constructed conventional generation sources required for stabilisation of the power system performance under the conditions of growing demand for capacity and securing of the system due to the growing share of electricity production from unstable renewable sources, as well as the necessity to decommission old, low efficiency generation units, non-compliant with the gradually tightened environmental requirements.

The results of electricity producers are positively affected by mechanisms introduced by the TSO due to the aforementioned, forecast deficit in power and electricity. In 2014 the TSO introduced the OPR based on the principle that the operator pays owners of generation sources for their readiness (preparedness) for generation. Another mechanism is the intervention cold power reserve IIRZ) to be introduced by the TSO as of 2016 based on the principle that the TSO shall pay owners of generation sources for maintaining their preparedness to start-up during the expected period of power deficit, on demand of the operator. The provision of the IRZ service is voluntary and consists in reporting of units planned for decommissioning, holding derogations within tenders announced by the TSO.

2.4.3. Distribution Area

The table below presents the results of the Distribution Area in the years 2013–2015.

Table no 12. Results of the Distribution Area*

Specification (PLN thous.)	2015	2014	2013	Dynamics (2015/2014)	Change (2015–2014)
Distribution					
Revenue on sales	**6,450,274**	**6,074,646**	**5,997,470**	**106.2%**	**375,628**
distribution services	*6,022,144*	*5,656,807*	*5,531,970*	*106.5%*	*365,338*
connection fees	*125,698*	*121,044*	*160,269*	*103.8%*	*4,654*
maintenance of street lightning	*116,042*	*111,634*	*105,952*	*103.9%*	*4,409*
other revenues	*186,389*	*185,161*	*199,279*	*100.7%*	*1,227*
Operating profit	**1,371,577**	**1,209,344**	**1,295,639**	**113.4%**	**162,233**
Depreciation and write-offs	1,000,552	962,944	912,742	103.9%	37,608
EBITDA	**2,372,129**	**2,172,288**	**2,208,381**	**109.2%**	**199,841**

** The three-year period is presented due to transparency of information. The approximate (due to significant changes in the organisation of Operational Segments, as compared to the period before 2012) results in the five-year period are presented in subsection 4.7. of this report.*

In 2015, as compared to 2014, the Distribution Segment recorded growth in revenue by approximately 6.2% and the growth in at the EBIT and EBITDA operating level by 13.4% and 9.2%, respectively. The following factors determined the growth of results.

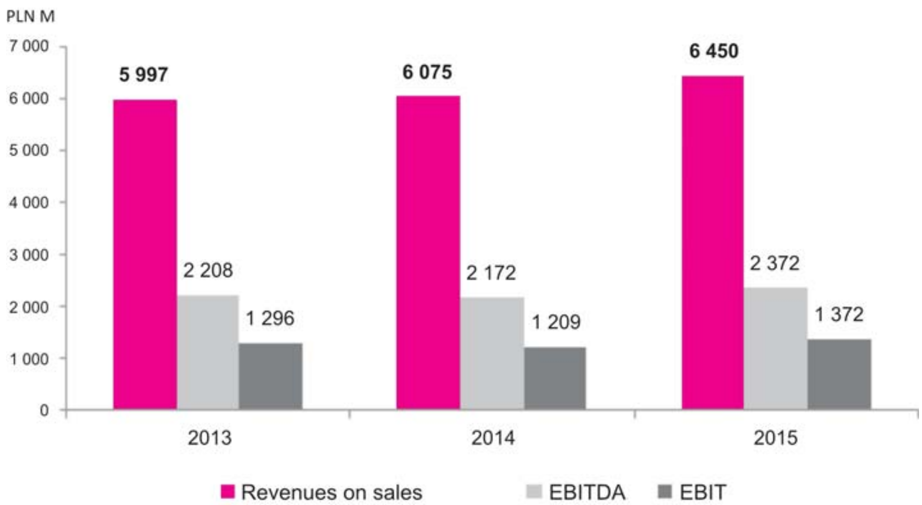
Revenues:

1) an increase of the average rate of the distribution service sales to end consumers by approximately 4%,
2) a growth of supplies in each tariff group, in particular, among industrial consumers from B and A group,
3) a growth of revenues and supplies as a result of additional accounting estimation of sales in G group in connection with the completed migration of complex agreements to the Central Billing System (in the 2nd quarter of 2015),

4) a decline of revenues on excessive reactive power uptake,
5) a growth in HV, MV connecting fees, decline in fees for connection and the number of LV connections,
6) a higher rate of the transitional and qualitative TSO fee,
7) a lower level of balance sheet difference in relation to the volume of supplies, including, as a result of additional accounting estimation (reduction) of the purchase volume in connection with the completed migration of complex agreements to the Central Billing System,
8) a significantly lower price of balancing of energy losses, as the resultant of purchase and resale prices in TAURON Capital Group,
9) lower remuneration costs (a lower cost of actuarial provisions – growth of discount rate, reduction of employment status, mainly as a result of the voluntary redundancy programme),
10) growth of depreciation costs and tax on grid assets as a result of the implemented investment projects,
11) higher costs of external services associated with the metering activity,
12) higher result on other operating activities (negative balance of reversal / creation of provisions, higher result on sales of tangible fixed assets),
13) a higher result on services in the framework of other core activity, inter alia, for street lighting.

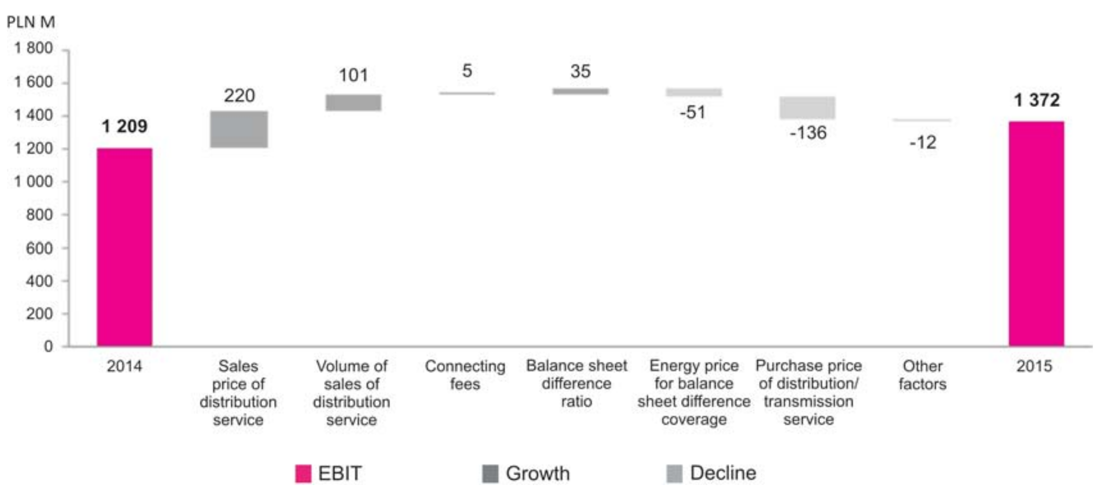
The figure below presents the financial data of the Distribution Area for the years 2013–2015.

Figure no. 29 Financial data of the Distribution Area for the years 2013–2015



The figure below shows the EBIT result of the Distribution Area, including the significant factors influencing the YoY change.

Figure no. 30 EBIT result of the Distribution Area



Strategy and the strategic priorities

The main goal of the Distribution Area is to generate stable revenue with simultaneous cost optimisation and improvement in the quality of the services provided. Management of the level of operating costs and investment effectiveness are the key areas of generating the financial result by operators of distribution systems.

As a result of cost optimisation, the Distribution Area implements the effectiveness improvement programme, which mainly focuses on employment reduction and elimination of duplicating functions, optimisation of external services and consumption of materials, as well as optimisation of the balance sheet difference through mitigation of the technical and commercial losses.

The Distribution Area aims at improvement in the quality of the services provided through the increase in the security of supplies and the effectiveness of the network performance. In order to achieve its goals, the Distribution Area will mainly implement investment in modernisation and replacement of the existing assets as well as connecting new consumers and new sources.

Major investments

In 2015, in the Distribution Area the total capital expenditures incurred reached PLN 1,925 million. The main directions of investment included:

1) PLN 591 million for investment associated with connecting of new consumers,
2) PLN 1,033 million for investments associated with the modernisation and replacement of the grid.

Moreover, in 2015 expenditure for the implementation of Strategic Investment Projects was incurred: *The System of Grid Assets Management* – approximately PLN 25 million (the project will be continued in the consecutive years), *The system of energy storage in the stationary and mobile infrastructure, supporting the stabilisation of power grid performance ("e-Bus")* – approximately PLN 2.5 million (a research and development project, the project will be continued in the consecutive years), *The construction of the Grid Management Centre in Kraków* – approximately PLN 3 million.

Development perspectives

The economic development in the region and the technological progress in the scope of telemechanics, automatic power system protection, communications and information technology, open new opportunities for the management of electricity distribution. The latest technical achievements enable instant response to changes in the distribution system in order to ensure the highest standards for the provision of distribution services. The *smart grid* and/or *smart metering* will be important for the continued development of the energy sector. Such solutions will introduce additional functionalities, both on the supplier and client side, and it will definitely influence the development of the sector. The quality of the distribution services provided in Poland, including the number and time of interruptions in supplies, significantly deviates against the European Union standards. In order to achieve the improvement of the quality, significant investment expenditure is required. The direction and pace of changes in the area of electricity distribution shall depend on the system of regulations and tariff calculation.

2.4.4. Sales Area

The table below presents the results of the Sales Area in the years 2013–2014.

Table no 13. Results of the Sales Area*

Specification (PLN thous.)	2015	2014	2013	Dynamics (2015/2014)	Change (2015–2014)
Sales					
Revenue on sales	**15,984,139**	**15,277,451**	**18,017,593**	**104.6%**	**706,688**
electricity, including:	*10,360,694*	*9,708,534*	*11,702,924*	*106.7%*	*652,160*
revenues on retail sales of electricity	*8,111,002*	*7,950,864*	*10,128,338*	*102.0%*	*160,138*
greenhouse gas emission allowances	*204,870*	*183,451*	*367,103*	*111.7%*	*21,419*
fuel	*1,847,534*	*1,935,135*	*2,337,073*	*95.5%*	*(87,601)*
distribution service (transferred)	*3,372,610*	*3,332,151*	*3,495,185*	*101.2%*	*40,459*
other revenues, including commercial services	*198,431*	*118,180*	*115,308*	*167.9%*	*80,251*
Operating profit	**369,604**	**582,307**	**864,579**	**63.5%**	**(212.703)**
Depreciation and write-offs	10,876	25,906	34,629	42.0%	(15,030)
EBITDA	**380,480**	**608,213**	**899,208**	**62.6%**	**(227.733)**

* *The three-year period is presented due to transparency of information. The approximate (due to significant changes in the organisation of Operational Segments, as compared to the period before 2012) results in the five-year period are presented in subsection 4.7. of this report.*

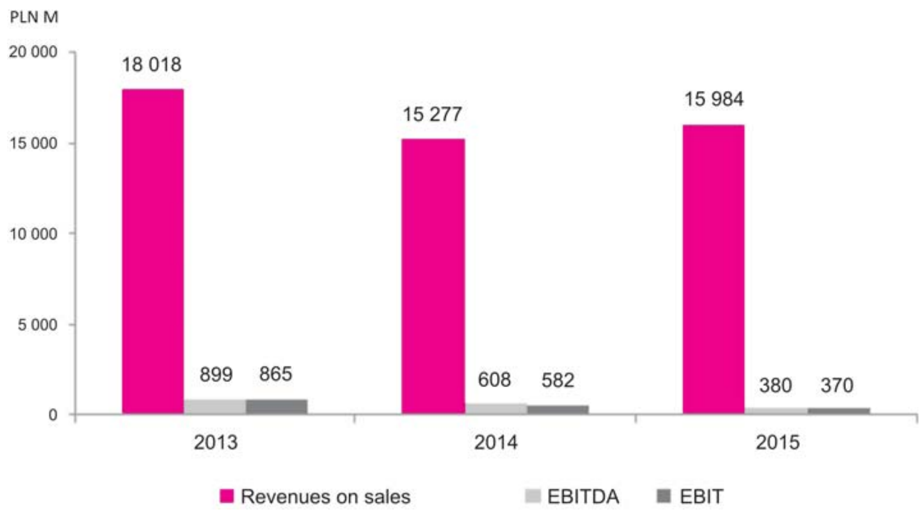
In 2015, revenues on sales reached a level higher by 4.6% as compared to 2014. The reasons directly affecting the level of revenues gained include high volatility of forward electricity prices in individual quarters of 2015. It enabled to increase the turnover and acquire the additional unplanned effectiveness on hedging transactions of energy supplies. The growth in revenues was also affected by the use of volatility in gas prices, due to which additional transactions were carried out, with the volume exceeding 50% of the planned volume, which translated into gaining of the additional effectiveness on transactions hedged by gas supplies. In 2015, as a result of effective contracting and exploitation of favourable commercial conditions, higher revenues on sales of allowances for greenhouse gas emission were also recorded. On the other hand, a lower level of revenue on sales of fuel is the effect of reorganisation in the scope of biofuel sales, where the transfer of competence in biomass sales to the separated Biomasa GT company has taken place since the 3rd quarter of 2015.

The operating results, EBIT and EBITDA in 2015 reached a lower level than in the previous year, which was mainly affected by the following factors:

1) a lower volume of electricity sales (by approximately 0.2 TWh) – the main reasons should be attributed to the slowdown in external expansion due to enhanced sales policy of competitive companies,
2) a lower unit margin on retail trade in electricity – the adverse impact results from securing loyalty of business segment clients – at prices resulting from market wholesale levels of prices of electricity and property rights, securing loyalty of clients (business clients, SMEs, individual clients) – from the tariff for the product and the change in the customer structure (a higher share of industrial clients) and by the growth in the purchase cost of electricity in connection with a higher level of conventional energy wholesale prices in forward transactions which are at a higher level for contracts with delivery in 2015 than the corresponding costs in 2014,
3) a growth in the level of revenues on fixed trading fees – the growth in the fee arises from conducting of active loyalty actions in the mass segment, aimed at mitigating the number of losses resulting from activity of competition on the area of companies' activity. Sales with the trading fee (reduction of the floating component of the price and transfer of this revenue to the fixed component) guarantees both the profitability of sales and market competitiveness,
4) a growth in costs of the redemption obligation of property rights for PMOZE from 13% to 14%, for PMMET from 1.1% to 1.3% and recovery of the obligation for PMEC to 23.2% and PMGM to 4.9%,
5) lower purchase costs for PMOZE – exploiting the favourable market situation (mainly through the decline in prices of green certificates at the TGE),
6) a lower level of fixed costs – the deviation arises mainly from lower costs of sales and marketing actions as well as lower depreciation costs due to the termination of depreciation of business client contract base in mid-2014,
7) provision for EC Stalowa Wola – in connection with the violation of the schedule and material technical conditions of the contract with the general contractor of the project concerning the construction of the CCGT Unit in Stalowa Wola, which affect both the security and reliability of unit performance as well as its future effectiveness and costs of its performance, on 29 January 2016 EC Stalowa Wola rescinded the contract with the general contractor. Analyses concerning further procedure and selection of the scenario for investment implementation are in progress. EC Stalowa Wola, jointly with partners and banks financing the project will determine the formula for completion of the investment. All parties agreed on the intention to continue the project. Activities aimed at resumption of financing are continued in cooperation with banks. The process of the site take-over from the general contractor as well as works in the scope of safeguarding and maintenance of equipment are ongoing. The Company conducts negotiations with PGNiG in the scope of amendments to the gas and electricity agreement.
8) a higher result on other operating activities, a higher balance of creation and reversal of impairment write-offs as well as higher margins on trading in property rights, CO_2 emission allowances and gas.

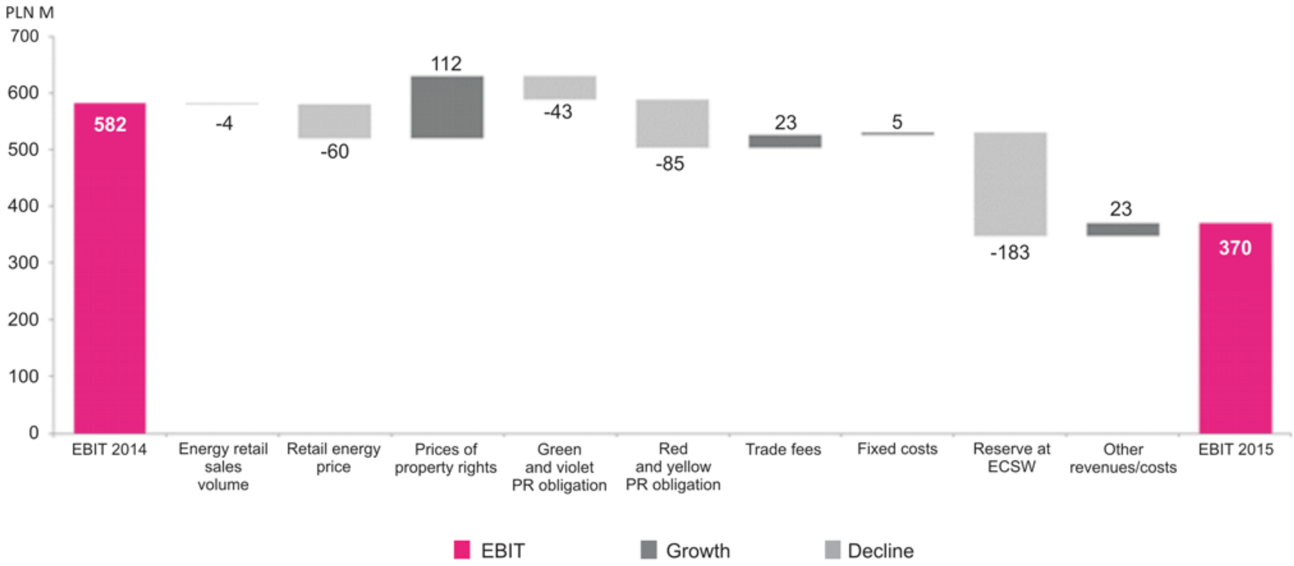
The figure below shows the financial data of the Sales Area for the years 2013–2015.

Figure no. 31 Financial data of the Sales Area for the years 2013–2015



The figure below shows the EBIT result of the Sales Area, including the significant factors influencing the YoY change.

Figure no. 32 EBIT result of the Sales Area



Strategy and the strategic priorities

The strategic priority of the Sales Area is to maximise the mass of margin from electricity sales, with the optimisation of the level of own costs. The key tasks of the Sales Area include: maintaining of the most profitable clients, creating channels for acquisition of new clients, as well as building of the effective sales organisation.

The basic and direct tool of the sales company to be used for margin generation is the relevant development of final prices, excluding sales prices in G tariff (i.e. in the household segment) for which the approval of prices by the ERO President is still obligatory. The Company shapes retail prices on the basis of costs associated with energy sales and considering the risk associated with the resignation of clients and lack of possibility to acquire new ones. The Sales Area optimises the results of its activities through maximising the mass of margin on electricity sales and other services, with the simultaneous management of the procurement portfolio and costs of the Area.

Development perspectives

In the area of sales competition of entities selling electricity is increasing, which leads to margin erosion. The additional factor that may influence the reduction of margins is the situation in the wholesale energy market. The wholesale energy market demonstrates significant volatility in prices, which makes both a threat and an opportunity for conducting sales activities. The threat is associated with the limited possibility to implement the rise in prices for end clients in case of the growth in wholesale energy prices. In addition, the volume is limited, which may not be covered by the change in price due to the contracts concluded with clients for a definite time, at a fixed price determined in advance.

The appreciable effect on the operating activities of energy undertakings is associated with the continuing liberalisation of the Polish energy market. The target is to liberalise prices in G tariff. The derogation from the obligation to submit the tariffs for approval will liberate the competitive activities in the household segment, which offers a considerable potential for implementation of the margin mass.

Besides the competition stimulated by the regulatory authorities, the competition between energy holdings is also developing in the product and marketing area. In 2014, TAURON Capital Group gained the opportunity of parallel offering of electricity and natural gas products to its business Clients. Activities aimed at launching projects consisting in combining electricity sales offers with other suppliers of utilities are under implementation.

2.4.5. Other Area

The table below presents the results of the Other Area in the years 2013–2015.

Table no 14. Results of Other Area*

Specification (PLN thous.)	2015	2014	2013	Dynamics (2015/2014)	Change (2015–2014)
Other					
Revenue on sales	**927,953**	**870,035**	**802,795**	**106.7%**	**57,918**
customer service, accounting and IT services	*581,050*	*604,118*	*486,247*	*96.2%*	*(23,068)*
electricity and property rights arising from certificates of electricity origin	*73,927*	*168,592*	*217,999*	*43.8%*	*(94,665)*
biomass	*171,326*			*–*	*171,326*
aggregates	*89,102*	*91,214*	*91,037*	*97.7%*	*(2,112)*
other revenues	*12,548*	*6,111*	*7,512*	*205.3%*	*6,437*
Operating profit	**32,596**	**56,593**	**37,653**	**57.6%**	**(23,997)**
Depreciation and write-offs	67,724	49,622	25,115	136.5%	18,102
EBITDA	**100,320**	**106,215**	**62,768**	**94.4%**	**(5,895)**

** The three-year period is presented due to transparency of information. The approximate (due to significant changes in the organisation of Operational Segments, as compared to the period before 2012) results in the five-year period are presented in subsection 4.7. of this report.*

Revenues of Other Area gained in 2015 increased by approximately 6.7% in relation to the corresponding period of the previous year, which is mainly the result of recognising of the financial data of Biomasa GT company as of 1 January 2015, due to increase of its turnover and significance level in TAURON Capital Group.

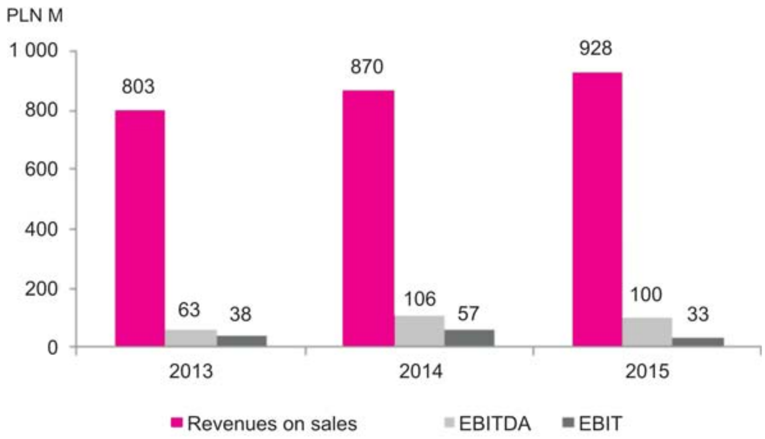
Lower results of Other Area YoY arise from accomplishing of a lower sales volume of property rights and electricity as well as achieving of a lower margin on main products presented in the aforementioned table. The growth in costs of activity conducted by the Area results from recognising of costs associated with biomass trading, which did not occur in the corresponding period of the previous year.

The decline in revenues on sales of customer service, accounting and IT services is the effect of reduced number of additional orders due to the lower demand from companies of TAURON Capital Group. The reduction of activity costs, mainly as a result of the implemented Effectiveness Improvement Programme had also a significant impact on the level of revenues (cleared in the “cost plus” formula). Accordingly, each action of TAURON Obsługa Klienta aiming at cost reduction will have a direct impact on revenue reduction, while maintaining the fixed margin.

The operating result of EBITDA of Other Segment reached a level lower than in 2014, as a result of achieving a lower margin and volume of sales of property rights and electricity. The relatively higher decline in EBIT result is caused by higher depreciation recorded in 2015, mainly in relation to TAURON Obsługa Klienta assets, which is associated with the ongoing investment projects.

The figure below shows the financial data of Other Area for the years 2013–2015.

Figure no. 33 Financial data of Other Area for the years 2013–2015



Strategy and strategic priorities

The main goal of the Customer Service Area is to provide services to the Sales and Distribution Area in the scope of contacts and settlements with clients, at a high qualitative level and cost effective as well as to provide the support function to Areas of TAURON Capital Group. The Area harmonises and centralises customer service processes, leading to cost optimisation and quality improvement, providing tools and services enabling business growth in the Sales Area. The Area is responsible for the effective centralisation of support functions for companies of TAURON Capital Group in the scope of accounting and IT, which will contribute to the growth in cost effectiveness of the whole TAURON Capital Group.

Major investments

In the Other Area the level of capital expenditures incurred in 2015 reached 88 million. They include mainly the expenditures on IT systems.

Development perspectives

The growing competition in the energy market requires undertaking of measures influencing further improvement of cost effectiveness and the quality of the services provided. Activities of Customer Service, through the professional and efficient customer service and adjustment of IT tools to business needs, will have a significant impact on the development of the Sales Area. The current market trends explicitly indicate transfer of customer service to alternative channels. The development of online service, the growth in use of Internet and mobile technologies systematically increases, which enforces continuous adjustment of service quality to clients' expectations and requirements. The Customer Service Area centralises common functions within a single entity, consequently improving the efficiency of performance and cost effectiveness of TAURON Capital Group.

2.5. Basic products, goods and services

The table below presents volumes of production and sales in TAURON Capital Group for the years 2015–2013.

Table no 15. Volumes of production and sales for the years 2015–2013

No.	Volumes of production and sales	Unit	2015	2014	2013	Dynamics (2015/2014)
1.	Commercial coal production	*M Mg*	**4.91**	5.40	5.45	90.9%
2.	Electricity generation (net production)	*TWh*	**16.64**	15.37	19.39	108.3%
	including generation of electricity from renewable sources	*TWh*	**1.59**	1.79	1.38	88.8%
3.	Heat generation	*PJ*	**11.51**	13.41	15.62	85.8%
4.	Distribution of electricity	*TWh*	**49.20**	47.90	47.90	102.7%

No.	Volumes of production and sales	Unit	2015	2014	2013	Dynamics (2015/2014)
5.	Retail sales of electricity* (in total, by Areas: Sales and Generation)	*TWh*	**35.94**	36.43	41.30	98.7%
6.	Number of clients – Distribution	*thous.*	**5,418**	5,378	5,334	100.7%

** The volume of retail sales for 2014 has been presented comparatively to 2015 in connection with reclassification of agreements of some consumers (from retail sales to wholesale).*

2.6. Sales markets and sources of supply

2.6.1. Sales markets

Mining Area

The TAURON Wydobycie company acting within the Mining Area is a producer of coal offered for sale on the market in coarse, medium coal assortments and as steam coal dust. Depending on the coal assortment, the coal has the following trade parameters:

1) calorific value from 19 MJ/kg to 23 MJ/kg,
2) ash content from 9% to 16%,
3) sulphur content from 1% to 1.4%.

TAURON Wydobycie conducts the sales of coal in two directions:

1) sales of fine coal and coal sludge to power plants and co-generation plants,
2) sales of thick, medium and small amount of fine coal sizes through the organized sales network all over the country.

Sales of coal from TAURON Wydobycie is mainly provided in the region of southern and central Poland, in particular, the following provinces: Śląskie, Małopolskie, Podkarpackie, Świętokrzyskie and Dolnośląskie.

In 2015, sales of hard coal by TAURON Wydobycie amounted to approximately 5.1 million Mg, including 3.8 million Mg (about 74%) to companies of the Generation Segment. As compared to 2014, it means a growth by approximately 4.3% – the highest in the scope of coal dust sold to companies of TAURON Capital Group and medium assortments sold outside TAURON Capital Group.

A higher level of sales results from the higher demand for steam coal from companies of TAURON Capital Group, which resulted from the growth in the volume of electricity of from conventional sources in 2015.

Generation Area

The basic activity of the Generation Area within TAURON Capital Group comprises generation of electricity and heat performed in:

1) coal-fired and biomass burning power plants and combined heat and power plants,
2) hydroelectric power plants,
3) wind farms.

Moreover, the activity of the Generation Area comprises trading, distribution and transmission of heat.

The total installed electric capacity of generation units of the Generation Area at the end of 2015 amounted to 5.1 GW_e of electric capacity and 2.5 GW_t of thermal input.

The figure below presents the structure of installed electric capacity of the Generation Segment as at 31 December 2015 and 31 December 2014.

Figure no. 34 Structure of installed electric capacity of the Generation Segment as at 31 December 2015 and 31 December 2014

In 2015, the Generation Area produced approximately 16.6 TWh of net electricity (including 1.6 TWh from RES), i.e. by about 8% more in relation to 2014 when the production of net electricity amounted to approximately 15.4 TWh (including 1.8 TWh from RES). In 2015, sales of electricity from own production, including energy purchased for trading purposes, reached approximately 21.6 TWh, which means an increase by approximately 32% in relation to 2014. It is mainly the consequence of the higher resale of energy purchased in relation to the previous year (4.8 TWh in 2015; 0.9 TWh in 2014).

The higher electricity production results mainly from the adopted trading strategy and the favourable wind conditions (on the other hand, unfavourable conditions in hydrological terms affected a lower level of production in hydroelectric plants). Trends in electricity markets were also favourable – in relation to the previous year, growth in the domestic energy demand by 1.7% occurred, with the simultaneous growth in overall electricity production by 3.32% and increase in production of coal-power plants by 1.99%.

In 2015 the electricity generated by the Generation Area was sold mainly to the Sales Area of TAURON Capital Group (77%), as well as to external consumers, including end consumers. In 2015, the share of energy sales on the balancing market was significantly lower in relation to 2014.

Heat sales of the Generation Area in 2015 amounted to 15.9 PJ and it was lower by approximately 7.8% in relation to the corresponding period of 2014, which results from including heat sales by entities separated to TAMEH POLSKA sp. z o.o. in 2014 (after bringing the results to comparability, the growth in heat sales by approximately 3% occurred, which resulted from a lower average temperature YoY). The share of heat produced in own sources in the total volume of heat sales amounted to about 62% in 2015.

Moreover, due to electricity generation from RES and in cogeneration, the Generation Area acquires certificates of origin, which are subsequently purchased by companies of the Sales Area and submitted to the President of ERO for redemption.

Distribution Area

The company TAURON Dystrybucja acts as the DSO, pursuant to the decision of the President of ERO. The Distribution Area provides services to approximately 5,418 thousand end consumers.

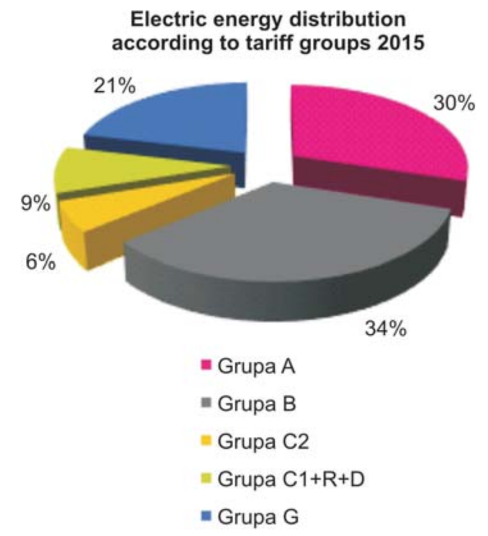
The activities of the Distribution Segment cover the area of about 57 thousand km^2, located mainly in the Śląskie, Małopolskie, Dolnośląskie and Opolskie provinces and, in addition, in the Podkarpackie, Łódzkie and Świętokrzyskie provinces. The operating functions are fulfilled by eleven branches of the company, located in: Bielsko-Biała, Będzin, Częstochowa, Gliwice, Jelenia Góra, Kraków, Legnica, Opole, Tarnów, Wałbrzych and Wrocław.

In 2015 the sales volume of electricity distribution services amounted to 49.2 TWh, i.e. it increased in relation to 2014 by approximately 2.7%.

In the volume of supply of the distribution services sales to tariff consumers in the scope of individual levels of voltage makes 95.5%: high voltage (A group), medium voltage (B group) and low voltage (C,G,R). The total quantity of electricity supplied in 2015 within sales of distribution services to tariff consumers connected to the TAURON Dystrybucja grid, amounted to 47 TWh (estimated) and it was higher as compared to 2014 by about 1.37 GWh, i.e. by 3%.

The figure below presents electricity distribution in 2015 according to tariff groups (the structure in relation to 2014 has not changed).

Figure no. 35 Distribution of electricity according to tariff groups [MWh]



Sales of distribution services is carried out on the basis of comprehensive agreements as well as agreements on provision of distribution services concluded with consumers. The first type of agreement covers both sales of electricity by the companies of the Sales Area and supply of this energy by the company acting as the DSO. The second type of agreement regulates only supplies of electricity by the company acting as the DSO. In case of this type of agreements, the purchase of electricity is regulated in separate agreements for electricity sales, concluded by a consumer with the seller it selects.

Share of sales value of distribution services under the comprehensive agreements in the total value of sales of distribution services to end consumers in 2015 reached about 57% whereas the volume of supplies in the total volume of supplies to end consumers amounted to approximately 39%.

Sales Area

The Sales Area comprises activities in the scope of retail sales of electricity and activity in the scope of wholesale trading in electricity and other products of the energy market. Activity in the area of retail sales comprise sales of electricity to end customers, including key accounts. On the other hand, operations within wholesale trading comprise mainly wholesale of electricity, trading and management of CO_2 emission allowances, property rights arising from the energy certificates of origin and trading in natural gas.

In 2015, the Sales Area operated in the market environment where the level of competitiveness in individual segments did not change significantly as compared to the previous years. In 2015, the market of households (individual clients), irrespective of its announced liberalisation, was still subject to the obligation of electricity sales price approval by the President of ERO.

According to the ERO data, from mid-2007 till the end of 2015, i.e. since the beginning of the liberalisation process of the energy market, approximately 391 thousand of households and approximately 159 thousand of institutional entities which changed their electricity supplier have been recorded.

In the segment of institutions and economic operators (business client), where the competition is high and companies have already been using liberalisation of electricity prices for several years, the progress of the liberalisation has resulted in the increasing awareness of business clients expecting competitive solutions. The enhanced sales activity of energy companies exerts increasing price pressure. New entities competing for clients have also appeared, and the transparency of energy market mechanisms is already the requirement in activities on this market, since business clients use a possibility to change the supplier more willingly. The high potential is perceived in the household segment where the number of supplier changes makes a minor percentage.

In 2015 over 139 thousand consumers of electricity changed their supplier (including approximately 36 thousand institutional clients and approximately 104 thousand households). In 2015 the dynamics of changes in case of households amounted to 68%, and in case of institutional entities – to 119%.

In 2015 the retail sales of electricity performed by the Sales Area to approximately 5.3 million clients reached about 35.9 TWh, i.e. 99.5% of the level gained in 2014 when the sales amounted to about 36.1 TWh (data for 2014 presented comparatively against 2015). The decline in the sales volume is mainly the result of the slowdown in the expansion rate on the external area, mainly due to the aggressive pricing policy of competitive companies aiming at acquisition of clients form the portfolio of sales companies of TAURON Capital Group (mainly, clients from the SME segment and medium-sized clients from the business segment).

The segmentation of clients used by TAURON Capital Group (strategic, business and mass clients), depending on the quantity of electricity consumed, is aimed adjusting the product offer, sales channels and marketing communication to the expectations in the specific segment of clients.

The table below presents categories of TAURON Capital Group end clients, resulting from the segmentation used and the specific nature of their business:

Table no 16. Categories of end consumers of TAURON Capital Group

No.	Group of clients	Description of clients
1.	Strategic clients	Clients with the annual potential energy consumption at a level not lower than 40 GWh or strategic business partners of TAURON Capital Group, i.e. mainly entities representing the sector of heavy industry, among others: metallurgical industry, chemical industry, mining industry, automotive industry
2.	Business clients	Clients with the annual potential energy consumption at a level above 250 MWh (not consumers), or purchasing energy based on the provisions of the *Act of 29 January 2004 on Public procurement law*, i.e. entities representing other sectors of industry, producers of equipment, consumers from food industry, public sector, construction sector and public utilities sector
3.	Mass clients – small and medium-sized enterprises	Clients dealing with sales, services, banking, catering and small entrepreneurs
4.	Mass clients – households	Households

The table below presents information concerning the quantity of electricity sold by companies of TAURON Capital Group, operating in the area of electricity sales to clients as well as the number of clients, divided into individual client segments, in 2015.

Table no 17. Quantity of electricity sold By the Sales Area and the number of clients in 2015

No.	Kind of clients	Quantity of electricity sold (in TWh)	Number of clients (in thousand)
1.	Strategic clients	9.4	0.1
2.	Business clients	11.3	133
3.	Mass clients, including:	11.8	5,115
	households	*9.6*	*4,822*
4.	Sales to TAURON Dystrybucja to cover balancing differences	3.3	0.001
5.	Other (export, own needs)	0.1	
	Sales Area	**35.9**	**5,248**

The process of the progressing liberalisation and the associated clients' rising awareness in the scope of mechanisms of energy market functioning is reflected in the level of loyalty in individual segments of purchasers. This situation results in activities in the scope of protection of own client base against the actions of the competition, through the introduction of loyal customer agreements. Clients from the business segment of TAURON Capital Group are most advanced in this process, where over 95% of the volume of the agreements concluded results from individually negotiated commercial terms.

In 2015, the sales offer of the TAURON Sprzedaż company to the business segment comprised two media – electricity and gas fuel. Due to clients' awareness in the scope of energy market mechanisms and the acquired skills of using those mechanisms, TAURON Sprzedaż focused its activities on the protection of the client base held. In particular, activities oriented towards client loyalty building were continued. It was recognised that particular attention would be paid to building of an offer meeting clients' expectations. Clients were offered a selection of a number of products taking into account their needs and the specific nature of electricity consumption, including ecological, exchange and technical products.

While expanding the offer in the developing gas fuel sales area, the *TAURON Gaz Giełda* (TAURON Gas Exchange) product was introduced, based on market prices determined in relation to quotations of TGE Forward Market indices. Moreover, for the purpose of intensification of electricity and gas contracting, the *TAURON Multipakiet* (TAURON Multipackage) product was introduced in June, which ensures simultaneous contracting of clients in the scope of both media within single business negotiations.

In 2015, the process of migration of mass segment clients (individual clients and small and medium-sized enterprises) from the tariff to the product area was continued. At the end of 2015, TAURON Capital Group sold energy to approximately 29% of clients in this segment under agreements with a guarantee of commercial terms and conditions in the specific period (loyalty agreements), and 71% of clients bought energy at tariff prices.

The key element of the commercial offer for mass clients in 2015 was the combined product called *Elektryk (Electrician),* based assistance functionality, used by over 380 thousand clients. Within products based on assistance, the product called *Serwisant* (Service provider) was also introduced and approximately 25 thousand clients used this offer. Within the framework of the campaign *TAURON means more than electricity,* in 2015 TAURON Sprzedaż conducted sales of gas to mass market clients.

These products will also constitute the background of the offer in 2016. Changes introduced in the consumer law had a significant impact on the organisation of sales and service processes in 2015. All sales activities in 2015 were conducted with the intention to maintain the expected level of sales margins and to build the potential for sales of other services and additional products in the subsequent years.

2.6.2. Supply sources – fuel

Coal

In 2015 the purchase of coal by TAURON for the needs of TAURON Wytwarzanie and TAURON Ciepło was continued, based on the multi-annual and annual agreements. In 2015, about 42% of the current demand of TAURON Capital Group for fuel required for generation of electricity and heat was satisfied by hard coal coming from own coal mines. The remaining part of the demand was covered from external sources, where Kompania Węglowa had the highest share (about 37.4% of the demand).

Biomass

In order to provide the supply of fuel for the needs of electricity and heat generation by units using biomass as a fuel in the technological process, the Company sourced biomass under the multi-annual and annual agreements and the general agreement concluded with Biomasa GT company for the purchase of biomass from national producers and suppliers. The said agreements effective until 31 August 2015 comprised the purchase of biomass for the co-burning process and for the needs of dedicated units 100% supplied with biomass. As of 1 September 2015 the overall process associated with the purchase and sales of biomass was taken over by Biomasa GT company.

In 2015, for the co-burning process, in total, approximately 824 thousand Mg of forest and agro biomass was purchased. In connection with low prices of certificates of origin of electricity occurring in 2015 and the high level of agro biomass prices, a significant decline in production of electricity and heat generated in biomass co-burning units was recorded.

Gas

Fuel purchases – Gas

In 2015 TAURON continued high-methane gas supplies to Oddział Elektrownia Stalowa Wola in Stalowa Wola – Elektrownia Stalowa Wola (TAURON Wytwarzanie) and to Zakład Wytwarzania Bielsko-Biała – Zespół Elektrociepłowni Bielsko-Biała EC1 (TAURON Ciepło) through TAURON Sprzedaż company. The supplied gas was purchased under bilateral agreements and exchange transactions concluded on the TGE.

Sales of gas to end clients

In 2015, TAURON Capital Group continued the development of high-methane gas sales to end clients (business and mass clients). Such sales took place through TAURON Sprzedaż company.

Securing of gas supplies to end clients was based on trading on European gas exchanges (including, to a considerable extent, on the gas market operated by the TGE), as well as based on OTC contracts.

Value of sales in the domestic and foreign markets

The activities of TAURON Capital Group are mostly conducted in the Polish market where the value of sales in the years 2015 and 2014, excluding the intra-group sales, amounted to PLN 17,905,468 thousand and PLN 18,090,026 thousand, respectively.

The value of sales to foreign clients in 2015 and 2014, excluding the intra-group sales, amounted to PLN 469,756 thousand and PLN 487,453 thousand, respectively.

2.7. Important events and achievements of TAURON Capital Group significant affecting its operations

The most important events with significant impact on operations of TAURON Capital Group, which occurred during the financial year 2015, as well as until the day of this report are listed below:

Important corporate events in 2015

Payment of Dividend

On 16 March 2015 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 2014, which means the amount of PLN 0.15 per share. At the same time, the Management Board indicated that the recommendation shall be subject to assessment by the Company Supervisory Board. Simultaneously, the Management Board decided to submit the recommendation to the Company Ordinary GM determining:

1) 22 July 2015 as the dividend record day,
2) 12 August 2015 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 implementation of investments, at the same time, reducing the demand for further financing and limiting the growth of debt ratio level.

On 23 March 2015 the Supervisory Board positively evaluated the aforementioned recommendation of the Management Board concerning the dividend.

On 23 April 2015 the Ordinary GM of the Company adopted the resolution on profit distribution for the financial year 2014, determining the amount allocated for payment of the dividend to shareholders as well as the dividend record day and the dividend payment day.

In accordance with the aforementioned resolution, the Ordinary GM allocated the amount PLN 262,882,409.10 for the payment of the dividend for shareholders from net profit for the financial year 2014, which means that the amount of the dividend per share is PLN 0.15. Simultaneously, the Ordinary GM determined the dividend record day for 22 July 2015 (dividend record day) and the date of the dividend payment for 12 August 2015 (dividend payment day).

The Company informed of the aforementioned events in current reports no. 6/2015 of 16 March 2015, no. 8/2015 of 23 March 2015, no. 9/2015-10/2015 of 26 March 2015, no. 13/2015 of 23 April 2015 and 14/2015 of 24 April 2015.

Changes in the Management Board composition

Changes in the personal composition of the Management Board performed in 2015 and until the day of drawing up of this report are described in subsection 6.11.1. hereof.

The Company informed of the changes in the personal composition of the Management Board in current reports no. 27/2015 of 01 October 2015, no. 32/2015 of 10 October 2015, no. 9/201557/2015 of 08 December 2015, no. 2/2016 of 08 January 2016 and 5/2016 of 29 January 2016.

Changes in the Supervisory Board composition

Changes in the personal composition of the Supervisory Board performed in 2015 are described in subsection 6.11.2. hereof.

The Company informed of the changes in the personal composition of the Supervisory Board in current reports no. 20/2015 and 21/2015 of 7 August 2015, no. 22/2015 and 23/2015 of 12 August 2015, no. 30/2015 of 6 October 2015, no. 51/2015 and 52/2015 of 3 December 2015 and 55/2015 of 8 December 2015.

Convening of the Extraordinary General Meeting (GM) of TAURON concerning the increase in the share capital and extending of the composition of the Supervisory Board

On 13 October 2015, the Management Board of TAURON, acting pursuant to Article 398, Article 399 § 1 and Article 402[1] of the Code of Commercial Companies (CCC) and § 30 item 1 of the Company Articles of Association, convened the Extraordinary GM of the Company for 9 November 2015.

The agenda of the Extraordinary GM comprised, inter alia, the adoption of the resolution concerning the increase in the share capital of the Company by way of the issuance of non-voting preferred C series shares, the exclusion of all the existing shareholder's pre-emptive rights to all of the C series shares, and the amendment of the Company Articles of Association.

In accordance with the provisions of the draft resolution on the increase of the share capital of the Company by way of the issuance of non-voting preferred C series [...] the share capital of the Company is to be increased by the amount of PLN 400 million, through the issuance of 80 million of new C series shares with a nominal value of PLN 5.00 each, which were to be registered non-voting shares (with voting rights excluded) preferred in terms of the dividend. The issuance of C series shares was to take place in the form of private placement with the meaning of Article 431 §2.1 of the CCC by way of the Company making an offer to one of the shareholders, the State Treasury, to subscribe for the C Series Shares and the State Treasury accepting the offer to subscribe for the C Series Shares. The State Treasury was to cover the increased share capital of the Company by way of a non-cash contribution comprising shares of a company publicly traded on the regulated market operated by the Warsaw Stock Exchange (GPW).

In the documentation for the GM, the rationale of the intended transaction was presented, including the justification of the increase in the share capital which was also published in the current report no. 34/2015 of 13 October 2015.

Moreover, in the agenda of the GM the adoption of the resolution concerning determining of the number of members of the Supervisory Board was envisaged as well as the supplementary elections to the Supervisory Board of the Company.

On 22 October 2015 the Management Board of TAURON received a letter from the Ministry of State Treasury saying that on 20 October 2015 the Council of Ministers had accepted the motion of the Minister of State Treasury requesting the Council of Ministers to approve the disposal, under the procedure other than defined in Article 33 item 1 of the *Act of 30 August 1996 on commercialisation and privatisation*, by making an in-kind contribution to TAURON of some shares held by the State Treasury in PKO BP S.A. (PKO BP) constituting up to 1.01% of the share capital, in exchange for taking up shares in the increased share capital of TAURON.

The Company informed of the aforementioned events in current reports: no. 34/2015 of 13 October 2015 and no. 40/2015 of 22 October 2015. The text of draft resolutions of the Extraordinary GM was provided with the current report no. 35/2015 of 13 October 2015. The Company informed of the intended amendments to the Articles of Association in the current report no. 36/2015 of 13 October 2015.

Failure of the Extraordinary GM of TAURON to adopt the resolution concerning adopting of TAURON share capital

The Extraordinary GM of the Company, convened on 9 November 2015 and continued on 23 November 2015, after two ordered adjournments of the meeting (until 23 November 2015 and until 8 December 2015), did not adopt the resolution concerning the increase in the share capital of the Company by means of issue of non-voting registered preferential C series shares, divesting the existing shareholders of the overall preemptive rights to C series shares and amendment to the Company Articles of Association. During the GM, none of the shareholders raised any objection to the minutes of the GM.

The Company informed of the aforementioned events in the current reports no. 43/2015 and 44/2015 of 9 November 2015, no. 46/2015 and 47/2015 of 23 November 2015 and no. 53/2015 and 54/2015 of 8 December 2015.

Important business events in 2015

Purchase of a part of KWK Brzeszcze assets

On 16 January 2015, in response to the inquiry of Kompania Węglowa and SRK regarding the potential purchase from SRK of all or part of mining assets belonging at that time to Kompania Węglowa, the Management Board of TAURON expressed initial interest in the acquisition of all or part of KWK Brzeszcze assets. It was stressed that the final decision regarding the purchase of all or a part of KWK Brzeszcze mining assets would be made following a detailed analysis, including economic and technical analyses, confirming the possibility of economically viable coal mining.

In March 2015, the team of technical and economic advisers appointed to perform the analysis of the KWK Brzeszcze assets, based on the conducted first stage of analyses, recommended the path for the purchase of those assets, in accordance with the variant assuming their takeover from SRK. The Management Board of TAURON approved the direction of this recommendation.

Until mid-May the works under the second stage of the comprehensive analysis of technical, geological, legal and economic-business aspects were continued. Within the framework of the team's work, the opportunities of potential cooperation with the financial or infrastructural partner were also analysed, including the terms of such cooperation supported by the conducted market research. Moreover, the analysis also focused on 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.

On 15 May 2015 TAURON and SRK signed the Letter of Intent concerning the intention of the Parties to start cooperation in the scope of possible purchase of KWK Brzeszcze mine assets.

In accordance with the provisions of the Letter of Intent, the Parties expressed their intention to start works aimed at defining the assets of KWK Brzeszcze that would be the subject of possible purchase by TAURON, followed by possible legal and actual steps the purpose of which would be to prepare and execute the transaction of assets purchase. It should be emphasised that TAURON was interested in purchasing of only those assets that could be used as a basis for the development of a new mining plant capable of running profitable and effective business in the scope of hard coal and methane extraction from deposits. The Parties declared also that they would start close cooperation on operation of KWK Brzeszcze in the transitional period, i.e. after the transfer of the mine to SRK and before potential purchase of KWK Brzeszcze assets by TAURON.

The prerequisite for TAURON to purchase the KWK Brzeszcze assets was the restructuring of the coal mine by SRK.

The Letter of Intent was signed for a definite period until 31 December 2015 with a possibility of its extension.

On 4 August 2015 the Management Board of TAURON, based on the results of the analyses conducted and the recommendations of the Company advisers, expressed its consent to submit an offer to purchase a part of assets of KWK Brzeszcze belonging to SRK, under a public procurement procedure and the following boundary conditions:

1. due to the risk of potentially having to return prohibited public aid, the offer will be submitted only if the assets are sold by SRK under a public procurement procedure,
2. the purchase price will be a “token sum” of PLN 1,
3. due to the necessity to recognise the assets purchase transaction by the Company as the off-balance sheet transaction, the offer to purchase the assets will be submitted by a Special Purpose Vehicle (SPV) to be established by Partners, including Małopolska Agencja Rozwoju Regionalnego S.A. (MARR),
4. the offer will be submitted provided that the Partners sign the Agreement defining the boundary terms and conditions of joint investment prior to the offer submission and then, before the day of concluding the final asset purchase agreement by the SPV, the partners to the SPV sign an agreement defining, in particular, their mutual obligations,
5. due to the business risk related to operation of the assets and the necessity to ensure profitability of this investment, before signing the final purchase agreement by the SPV, SRK should implement the asset restructuring programme, comprising, in particular:
    1) reducing the number of permanent employees to 828 FTEs,
    2) employing up to 715 outsourced employees,
    3) change of the existing remuneration system to a performance-related remuneration system (approx. PLN 5,000 of fixed remuneration plus variable remuneration depending on financial results),
    4) bearing the previously planned – due to the division of assets – required expenditure on the ventilation system.

The basis for filing the offer for the purchase of a part of assets are the opinions and reports prepared by the Company advisers defining the aforementioned underlying requirements for project viability as well as determining the level of capital expenditure for 2016–2018 at a level of PLN 253 million and assuming the target annual output of approximately 1.5 million Mg starting from 2017.

The Company informed of its preliminary interest in the purchase of assets of KWK Brzeszcze in the current report no. 2/2015 of 16 January 2015. The Company informed of the letter of intent with the SRK in the current report no. 16/2015 of 15 May 2015, whereas the issue of defining boundary conditions were communicated by the Company in the current report no. 19/2015 of 4 August 2015.

On 10 September 2015, in connection with the procurement procedure for the sale of a part of KWK Brzeszcze assets announced by SRK and the agreement concluded with MARR and Zespół Elektrowni Wodnych Niedzica S.A. (ZEW Niedzica) concerning defining of the basic boundary conditions of the joint investment, a bid was submitted for purchase of the assets under the public procurement procedure announced by SRK.

The bid for the purchase of assets was submitted by a special purpose vehicle – R S G whose sole partner, at that moment, was TAURON. According to the signed agreement, MARR and ZEW Niedzica undertook to take up shares in R S G so that the shareholding structure in R S G would be as follows: TAURON – 40%, ZEW Niedzica – 40% and MARR – 20% and the share capital of R S G would reach up to PLN 150 million.

The Company informed of submission of the bid in the current report no. 24/2015 of 10 September 2015.

On 24 September 2015, in reference to the agreement signed by TAURON, MARR and ZEW Niedzica an annex was concluded in which the parties agreed that the consecutive partner – FTF Columbus S.A. ("FTF Columbus") may join the R S G company. As a consequence, a new agreement (term sheet) was concluded between TAURON, MARR, ZEW Niedzica and FTF Columbus concerning defining of the basic terms and conditions for the purchase of a part of assets of KWK Brzeszcze from SRK and the joint conducting of economic activity by the special purpose vehicle.

In accordance with the signed Agreement, the parties undertook to increase the share capital of R S G to total amount of PLN 210 million and to take up shares in the increased share capital of R S G, so that the target shareholding structure in R S G would be as follows: TAURON – shares with the total nominal value of PLN 60 million, ZEW Niedzica – shares with the total nominal value of PLN 60 million, FTF Columbus – shares with the total nominal value of PLN 60 million and MARR – shares with the total nominal value of PLN 30 million.

The Company informed of the aforementioned event in the current reports: no. 25/2015 of 24 September 2015 and no. 25/2015/K of 25 September 2015.

Under the ongoing public procurement procedure, negotiation meetings were held in SRK in September, mainly aimed at presenting the positions of the Parties concerning individual issues being subject to the procedure and defining the wording of the preliminary conditional sales agreement. The settlement of the bidder's selection tentatively scheduled on 21 September 2015 was postponed by SRK to 30 September 2015.

In accordance with the communication of SRK, on 30 September 2015 negotiations between SRK and R S G concerning the agreement for sales of KWK Brzeszcze were suspended for an unlimited period, due to the failure to agree on the wording of the preliminary conditional agreement between SRK and R S G, related to the sales of the designated part of the mining plant in Brzeszcze.

On 2 October 2015, the Management Board of TAURON, having taken into account the progress of works associated with the executed project aimed at purchasing of the selected part of Brzeszcze mining plant from SRK, declared the willingness to continue negotiations with the purpose of purchasing the abovementioned assets.

The Company informed of the aforementioned event in the current report no. 28/2015 of 2 October 2015.

On 8 October 2015 the following agreements were signed: on termination of the agreement between TAURON and MARR and ZEW Niedzica on defining the basic terms and conditions for the purchase of some KWK Brzeszcze assets from SRK, referred to in the current report no. 24/2015, and the agreement (term sheet) between the TAURON, MARR, ZEW Niedzica and FTF Columbus S.A. on defining the basic terms and conditions for the purchase of some KWK Brzeszcze assets from SRK and the joint conducting of economic activity by the special purpose vehicle, referred to in current report No. 25/2015.

The parties to the agreements decided to resign from further joint execution of the project concerning the purchase of the aforementioned assets and unanimously agreed that the termination of the agreements does not generate and will not generate in the future, any claims of any of the parties against other parties.

At the same time, TAURON informed that the R S G special purpose vehicle whose sole partner was TAURON, would participate in the negotiation process aimed at purchasing of some of the KWK Brzeszcze assets.

The Company informed of the termination of the agreements in the current report no. 31/2015 of 8 October 2015.

As a result of the resumed negotiations held under the public procurement procedure for the sales of the designated part of the Brzeszcze mining plant announced by SRK, on 15 October the wording of the preliminary conditional agreement for the sales of assets was agreed.

The parties to the preliminary conditional sales agreement included: SRK, as the Seller and R S G sp. As the Buyer. The subject of the preliminary conditional sales agreement comprised the obligations of the Parties to conclude the final agreement for sales of the designated part of the Brzeszcze mining plant as an organised part of an enterprise. The purchase price of the Subject of Sale amounted to PLN 1.

The draft of the preliminary conditional sale agreement agreed by the Parties contained the following conditions precedent for concluding the Final Agreement that must be fulfilled jointly by 24 December 2015:

1. Submission by SRK of the approval of the SRK GM, at which the rights to vote under all shares are exercised by the Minister of State Treasury, as an attachment to the Final Agreement,
2. Submission by R S G, as attachments to the Final Agreement:
    1) approvals of the relevant bodies of R S G pursuant to the provisions of the CCC and the articles of association of R S G as well as approvals of the relevant bodies of TAURON,
    2) clearance of the President of UOKiK for concentration consisting in the purchase of the Subject of Sales by R S G,

3) the decision of the Minister of Environment to assign to R S G, as of the date of purchase of the Subject of Sales, the concession for extraction of coal and methane as accompanying fossil from the “Brzeszcze” deposit, and other related decisions.

The Parties also agreed that regardless of the above mentioned conditions, signing of the Final Agreement will take place under the condition precedent stating that Kompania Węglowa should reduce the amount of coal (approximately 600 thousand Mg) stored in coal bings on the premises belonging to the designated part of the Brzeszcze coal mine, by at least 100 thousand Mg by the day preceding the day of concluding of the Final Agreement, but not later than within 45 days following the day of signing the preliminary conditional sales agreement (whichever falls earlier) and the submission by Kompania Węglowa to R S G of a schedule of complete removal of coal from the bing within 6 months following the day of signing of the Final Agreement. The conditions precedent have been reserved in favour of the Buyer.

The Parties agreed that the Promised Agreement will be concluded by 31 December 2015.

Moreover, some of the boundary terms and conditions defined in the current report no. 19/2015 were waived. The preliminary conditional sales agreement did not define the number of employees or the remuneration of employees of the purchased organised part of an enterprise. The transfer of employees to the new employer was to take place pursuant to Article 23(1) of the Labour Code.

The Parties agreed that in view of the need for the correct and uninterrupted conducting activity by the Parties, they would define, at the latest by the date of singing the Final Agreement, in a separate agreement, the terms and conditions of cooperation between the Parties following the purchase of the Subject of Sales by R S G, in particular, the terms and conditions of mutual services pertaining to the ventilation of the Brzeszcze mining plant. The agreement will be in force until 31 December 2018.

The Company informed of the arrangements concerning the wording of the preliminary agreement in the current report no. 37/2015 of 15 October 2015.

On 19 October 2015 R S G and SRK concluded the preliminary conditional agreement for the sales of the designated part of the Brzeszcze coal mine.

The subject of the agreement are the obligations of the parties to conclude the agreement for the sales of the designated part of the Brzeszcze mining plant as an organised part of an enterprise, which comprises tangible and intangible assets used for extraction, production and sales of hard coal and methane; its major terms and conditions were presented in the current report no. 37/2015.

Moreover, on 19 October 2015 an agreement was concluded between R S G and trade unions operating at KWK Brzeszcze, under which R S G undertook to continue the economic activity conducted at the mine so far, maintaining the economic result. The transfer of the part of KWK Brzeszcze staff, i.e. approximately 1,500 employees, to the new employer will take place under Article 23^1 of the Labour Code. The Parties to the Agreement undertook to sign a new Corporate Collective Labour Agreement implementing an incentive employee remuneration system with payments depending on the results achieved by the company and task performance.

The Company informed of the aforementioned events in the current report no. 38/2015 of 19 October 2015.

On 1 December 2015 TAURON received the decision of the President of UOKiK of 27 November 2015, granting the unconditional approval for concentration consisting in the purchase by Nowe Brzeszcze GT, i.e. the 100% subsidiary of TAURON, previously acting under the enterprise name “R S G sp. z o.o.”, of a part of assets of SRK in the form of a designated part of the mining plant in Brzeszcze, in accordance with the motion of Nowe Brzeszcze GT.

Moreover, the corporate approvals were also obtained, i.e. the approval of the SRK GM and the approvals of the relevant bodies of Nowe Brzeszcze GT and TAURON, required to conclude the final agreement for the sales of a designated part of the mining plant in Brzeszcze, as an organised part of the enterprise.

The condition precedent concerning the reduction of quantities of hard coal stored in coal bings on the premises belonging to the designated part of the Brzeszcze mining plant by Kompania Węglowa, was partly fulfilled, which did not jeopardise concluding of the final agreement. The aforementioned condition was reserved in favour of Nowe Brzeszcze GT.

Nowe Brzeszcze GT undertook measures aimed at obtaining the decision of the Minister of Environment concerning the assignment of concession for extraction of hard coal and methane as an accompanying product from the “Brzeszcze” deposit in favour of Nowe Brzeszcze GT, and other related decisions.

The Company informed of the aforementioned events in the current report no. 50/2015 of 1 December 2015.

On 17 December 2015 Nowe Brzeszcze GT company obtained the decision of the Minister of Environment concerning the assignment to its benefit, as of 31 December 2015, of Concession No. 12/2004 dated 23 September 2004 granted to Kompania Węglowa, later transferred to SRK, for the extraction of hard coal and methane as an accompanying product from the "Brzeszcze" deposit located in the town and municipality of Brzeszcze and the municipality of Oświęcim in the Małopolskie Province and the municipality of Miedźna in the Silesian Province.

The Company informed of this event in the current report no. 60/2015 of 17 December 2015.

On 31 December 2015, Nowe Brzeszcze GT company and SRK concluded the agreement for the sales of a designated part of the Brzeszcze Mining Plant, as an organised part of an enterprise.

The sales agreement was concluded under the execution of the preliminary agreement of 19 October 2015 and pursuant to Article 8a item 4 of the *Act of 7 September 2007 on the functioning of hard coal mining industry*. The subject of the Sales Agreement was the purchase by Nowe Brzeszcze GT of a designated part of the Brzeszcze Mining Plant, as an organised part of an enterprise, including tangible and intangible assets used for mining, production and sales of hard coal and methane (subject of sales) for the price of PLN 1 (say PLN one). The parties agreed that the Subject of Sales will be handed over to Nowe Brzeszcze GT on 1 January 2016.

Due to the necessity to provide for smooth and uninterrupted conducting of the operations, the parties to the agreement defined, in separate agreements, the terms and conditions of mutual cooperation after the purchase of the designated part of the Brzeszcze Mining Plant by Nowe Brzeszcze GT, including, inter alia: the terms and conditions of providing mutual services in the scope of ventilation in the Brzeszcze Mining Plant, exchange of information as well as cooperation and mutual settlements in matters concerning claims and liabilities related to the designated part of the Brzeszcze Mining Plant, handing over the payroll and accounting services and other matters.

Due to the fact that the purchase of the designated part of the Brzeszcze Mining Plant is associated with the requirement to return public aid granted to SRK to cover current production losses at KWK Brzeszcze branch, Nowe Brzeszcze GT, to continue the operations conducted based on assets included in the subject of sale, would return the public aid in the amount determined in the final settlement of the public aid between SRK and the authority granting the aid, in any case, not higher than PLN 145,327,497 including any outstanding interest.

Nowe Brzeszcze GT will take over, under Article 23^1 of the Labour Code, as a party to the existing employment relations, 1501 employees involved in the functioning of the designated part of the Brzeszcze Mining Plant, who are a part of the Brzeszcze KWK staff.

Nowe Brzeszcze GT intends to continue the former operations conducted under the organised part of the enterprise.

The Company informed of the sales agreement in the current report no. 63/2015 of 31 December 2015.

Information provided to shareholder under Article 428 § 6 of the Code of Commercial Companies

On 30 October 2015, in response to questions asked by a shareholder of the Company outside the general meeting, pursuant to Article 428 § 6 of the CCC, the Management Board of TAURON presented the summary and provided more detailed information concerning the purchase of a part of KWK Brzeszcze assets.

The content of shareholders' questions and the response provided by the Company are presented in the current report no. 42/2015 of 30 October 2015.

Listing of TAURON bonds on the Catalyst market

On 18 February 2015 the Management Board of BondSpot S.A. adopted the resolution concerning the decision on listing 17,500 TPEA1119 series TAURON bearer bonds with the total nominal value of PLN 1,750,000 thousand and the unit nominal value of PLN 100 thousand, in the alternative trading system on Catalyst market. The resolution came into force as of the day of its adoption.

On 10 March 2015 the Management Board of BondSpot S.A., pursuant to resolution no. 43/15 decided to set 12 March 2015 as the first day of listing of 17,500 TAURON bearer bonds, TPEA1119 series, with the total nominal value of PLN 1,750,000,000 in the Catalyst alternative trading system. The bonds were assigned with code PLTAURN00037 by the Central Securities Depository of Poland (KDPW). The following details were also defined for the said bonds:

1) last day of listing – 22 October 2019,
2) trading unit – 1 bond,
3) obligatory unit – 1 bond
4) symbol – TPE1119.

The Company informed of the aforementioned events in current reports: no. 4/2015 of 18 February 2015 and no. 5/2015 of 10 March 2015.

Termination of contracts for the purchase of electricity and property rights by a subsidiary

On 18 March 2015 the subsidiary, PEPKH in liquidation filed notices to terminate long-term contracts for the purchase of electricity and property rights arising from certificates of origin of energy from renewable sources by PEPKH. The aforementioned contracts were concluded in the years 2009–2010 with the below listed partners – owners of wind farms:

1) "in.ventus spółka z ograniczoną odpowiedzialnością Mogilno I" Sp. k.,
2) "in.ventus spółka z ograniczoną odpowiedzialnością Mogilno II" Sp. k.,
3) "in.ventus spółka z ograniczoną odpowiedzialnością Mogilno III" Sp. k.,
4) "in.ventus spółka z ograniczoną odpowiedzialnością Mogilno IV" Sp. k.,
5) "in.ventus spółka z ograniczoną odpowiedzialnością Mogilno V" Sp. k.,
6) "in.ventus spółka z ograniczoną odpowiedzialnością Mogilno VI" Sp. k.,
7) Amon sp. z o.o.,
8) Talia sp. z o.o.,
9) Dobiesław Wind Invest sp. z o.o.,
10) Gorzyca Wind Invest sp. z o.o.,
11) Pękanino Wind Invest sp. z o.o.,
12) Nowy Jarosław Wind Invest sp. z o.o.

The reason behind the termination of the contracts by PEPKH was the breach of their provisions by the aforementioned customers, which consisted in the refusal to enter into renegotiations of the terms of contracts in good faith.

The Company informed of the aforementioned events in the current report no. 7/2015 of 19 March 2015, with reference to current reports no. 29/2014 of 2 July 2014, no. 41/2014 of 27 October 2014 and 42/2014 of 16 December 2014.

Exceeding of the 10% equity threshold of the Company within the trading turnover between TAURON Capital Group companies and PSE Group companies

On 10 April 2015, 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, no. 42/2013 of 15 October 2013 and no. 30/2014 of 8 July 2014, regarding trade turnover between companies of TAURON Capital Group and PSE. In accordance with the aforementioned documents, as of 8 July 2014, i.e. as of the day of submission of the current report no. 30/2014, the net trade turnover generated between companies of TAURON Capital Group and companies of PSE Group amounted to about PLN 2,025 million (including approximately PLN 1,272 million of cost items for TAURON Capital Group companies, and about PLN 753 million of revenue items), accordingly, the value of turnover exceeded 10% of the Company equity.

The turnover of the highest value, i.e. approximately PLN 1,170 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 an indefinite period of time, is the provision of transmission services by PSE, understood as the transport of electricity via the transmission grid. Its estimated value over a period of 5 years following its conclusion, is about PLN 7,478 million. The services are cleared in accordance with the rules and rates approved by the President of the ERO, defined in the tariff, and taking into account the provisions of the Instruction for Transmission System Operation and Maintenance. 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.11/2015 of 10 April 2015.

Signed agreement for the purchase of shares in PGE EJ 1

In reference to the Shareholders' Agreement signed on 3 September 2014 as a part of nuclear power plant preparation and construction project, and the consent to concentrate business granted on 7 October 2014 by the President of the Office for Competition and Consumer Protection (OCCP), on 15 April 2015, TAURON and PGE, KGHM and ENEA signed the agreement for the purchase of shares in PGE EJ 1 – a special purpose vehicle responsible for the preparation and execution of the investment covering the construction and operation of the first Polish nuclear power plant with the capacity of approximately 3,000 MW_e. TAURON, KGHM and ENEA purchased from PGE 10% of shares each in the special purpose vehicle PGE EJ 1, i.e. 30% of shares in total. TAURON paid the amount of PLN 16 million for the shares purchased.

Detailed information on the aforementioned event is included in subsection 1.4.1.3 hereof.

The Company informed of the aforementioned events in current reports: no. 12/2015 of 15 April 2015, no. 38/2014 of 3 September 2014 and no. 39/2014 of 9 October 2014.

Concluding of the investment agreement concerning the implementation of the project on the construction of the CCGT unit at Elektrownia Łagisza by the subsidiary

On 13 July 2015 in relation to the execution of the project on "Construction of 413 MW_e CCGT unit at TAURON Wytwarzanie Spółka Akcyjna Oddział Elektrownia Łagisza w Będzinie" (the "project"), the subsidiary – TAURON Wytwarzanie concluded an Investment Agreement with PIR.

The purpose of the Agreement was to determine the terms and conditions of joint execution of the project by TAURON Wytwarzanie and PIR, in particular, the obligation of the parties to make an investment by establishing a special purpose vehicle "Łagisza Grupa TAURON sp. z o.o.", whose purpose would be to execute the investment process and then operate the 413 MW_e class CCGT unit. TAURON Wytwarzanie undertook, under the terms and conditions defined in the aforementioned agreement, to ensure the achievement of the purpose of the project by the special purpose vehicle, which consists in launching regular commercial operation of the unit on the date defined by the parties, following the successful completion of the technological start-up and fulfilment of the foreseen requirements.

PIR plans to invest in the project up to PLN 750 million, taking over 50% less one share in the SPV. The total value of project is estimated at approximately PLN 1.5 billion.

PIR's obligation to join the special purpose vehicle depends on (apart from establishing the special purpose vehicle and contribution of initial capital by TAURON Wytwarzanie), among others, signing further agreements enabling the execution of the project (including shareholders' agreement between the parties, TAURON and the special purpose vehicle, the agreement for unit connection to the grid) and agreeing on all the issues related to the execution of the project (including, inter alia, management-related, organisational and technical matters), obtaining antimonopoly clearance and any other necessary permissions. A major breach of agreement by TAURON Wytwarzanie would be discontinuation or lack of electricity generation in the unit as well as discontinuation or lack of gas supply to the unit for a period exceeding 6 months. Other terms and conditions of the Agreement (including possible termination by the parties) arise from the characteristics of the project and do not vary significantly from standard provisions typical for such agreements. The Agreement was concluded for a period of 30 years, with a possibility of its extension.

The Project is in line with the Corporate Strategy of TAURON Capital Group, presented in the current reports no. 25/2011 and 28/2014, which stipulates building of the sustainable generation portfolio consisting of units based on coal, gas technologies and renewable energy sources. The investment in the construction of the generation unit at Elektrownia Jaworzno III will also contribute to securing TAURON Capital Group position as the second largest electricity generator on the domestic market.

The Company informed of this event in the current report no. 17/2015 of 13 July 2015.

On 17 July 2015 TAURON Wytwarzanie established the company Łagisza GT with its registered office in Katowice. Detailed information concerning establishing of the special purpose vehicle is included in subsection 1.3.2 hereof.

Fitch affirms TAURON ratings

On 16 July 2015 Fitch rating agency affirmed the following ratings of the Company:

1) international long-term local and foreign currency rating at "BBB" with stable outlook,
2) international short-term local and foreign currency rating at "F3",
3) national long-term rating at "A (pol)" with stable outlook,
4) national unsecured and unsubordinated debt rating at "A (pol)".

Affirmed ratings reflect high share of regulated distribution segment in the EBITDA result of TAURON Capital Group (approximately 60%), which translates into higher predictability of cash flows and helps stabilise cash flows in the unfavourable period for the generation segment. According to Fitch the ratings take into account the balance of risk related to the stable distribution segment and generation segment operating in difficult environment.

On 27 October 2015 Fitch rating agency affirmed the following long-term ratings for TAURON Polska Energia S.A. company at "BBB" and revised the outlook of those ratings from stable to negative:

1) long-term foreign and local currency rating at "BBB"; outlook revised from stable to negative,
2) short-term foreign and local currency rating at "F3",

3) national long-term rating at “A (pol)” outlook revised from stable to negative,

4) national unsecured and unsubordinated debt rating at “A (pol)”.

According to Fitch, the revision of the outlook reflects expected lower revenue of the TAURON Capital Group from distribution operations starting from 2016 (EBITDA lower by PLN 240 million in 2016 following WACC reduction by the regulator) and the planned acquisition of part of the assets of KWK Brzeszcze. The negative impact of these developments is partly mitigated by an increase of share capital proposed by the State Treasury. The Agency also emphasises that there is a risk of a breach of loan covenants by the Company that are embedded in existing financing agreements (breaking the 3x net debt/ EBITDA covenant in 2016–2019).

The Agency informs that the outlook could be revised back to stable if the Company CAPEX is reduced and adjusted to projected operating cash flows in the next few years. The outlook revision would also depend on an improvement in the Company’s medium-term liquidity position as well as reduced risk of breach of 3x net debt/ EBITDA covenant.

The Company informed of the aforementioned events in the current reports: no. 18/2015 of 17 July 2015 and no. 41/2015 of 28 October 2015.

Other events in 2015

Information concerning the impact of one-off events on results of TAURON Capital Group for the 4th quarter of 2014

On 18 February 2015, the Management Board of TAURON publicly informed about the forecast impact of non-monetary one-off events that will consist in recognising provisions and write-offs on assets in the amount of approximately PLN 150 million as costs of the 4th quarter of 2014, on consolidated financial result of TAURON Capital Group. The main reason behind increasing the provisions for employee benefits was the reduction of market interest rates, as a result of which the Company decided to reduce the discount rate. Actuarial gains and losses related to jubilee bonuses in the amount of approximately PLN 114 million have reduced the financial result of TAURON Group for the 4th quarter of 2014, whereas the amount of approximately PLN 322 million has been charged to “other comprehensive income” and has no impact on the financial result of TAURON Capital Group.

The Company informed of this event in the current report no. 3/2015 of 18 February 2015.

Winding up and liquidation of the subsidiary – TAURON Wytwarzanie GZE

In 2015, the winding up and liquidation of the subsidiary, TAURON Wytwarzanie GZE took place, described in subsection 1.3.2. hereof.

The Company informed of the aforementioned event in the current report no. 26/2015 of 30 September 2015.

End of bankruptcy proceedings of a subsidiary – Ośrodek Szkoleniowo-Wypoczynkowy “JAGA” sp. z o.o.

In 2015, the termination of the bankruptcy proceedings of the subsidiary, Ośrodek Szkoleniowo-Wypoczynkowy “JAGA” sp. z o.o. in liquidation bankruptcy, took place, as described in subsection 1.3.2.

The Company informed of the aforementioned event in the current report no. 39/2015 of 19 October 2015.

Approval of the tariff for electricity sales for TAURON Dystrybucja and TAURON Sprzedaż by the ERO President

On 17 December 2015 the Company was were informed that the tariff for electricity for TAURON Distribution had been approved by the President of ERO. The approved tariff rates for 2016 are higher than the rates applicable in 2015 by 1.90%, on average.

On the same day, the Company was informed of the approval of the tariff for electricity by the ERO President for the company TAURON Sprzedaż, for the period until 31 December 2016, related to consumers in G tariff groups (connected to the TAURON Dystrybucja grid excluding the Gliwice district), to which TAURON Sprzedaż provides a comprehensive service. The approved tariff takes into account the decline in energy sales prices, on average, by 0.88% for G tariff group.

In accordance with the applicable regulations, the new tariffs may come into force 14 days after they have been published in the bulletin of the ERO President, at the earliest. Decisions concerning the approval of new tariffs are announced in the bulletin of the ERO President, posted on the ERO website www.ure.gov.pl.

The Company informed of the aforementioned events in the current reports no. 61/2015 and no. 62/2015 of 17 December 2015.

Other events which occurred in 2015

Letter of intent concerning the joint development of renewable capacity

On 2 July 2015 TAURON and ENEA signed a letter of intent concerning joint implementation of the strategy ensuring the optimum method of increasing renewable capacity and financing the purchase transaction of wind assets. The letter of intent assumes establishing of working teams in order to develop the assumptions related to the cooperation, including, in particular, the schedule of activities and the financial model favourable for both parties. Any business decisions will be made only based on results of working teams' activity. The strategy of both companies assumes the development of RES, in particular, wind farms. TAURON decided to resign from the continuation of negotiations with investors concerning the sales of rights to a part of wind assets belonging to TAURON Capital Group. The reason of this decision is the significant change in market terms and conditions of the transaction, in particular, the low current level of prices, of the so-called "green" certificates and electricity and the expectations concerning the level of those prices in the future.

Increasing the value of the bond issue programme

In July 2015 TAURON signed the annex with Bank Gospodarstwa Krajowego (BGK) to the programme agreement regarding the organisation of the bond issue programme. The objective of the bond issue is the financing of capital expenditure, mainly in the areas: Distribution and Generation, in accordance with the development strategy of TAURON Capital Group. Participation of BGK in this project is implemented under the "Polish Investments" programme.

The level of the issue programme of bonds with the maximum maturity period of 15 years, with six-month interest payment period, pursuant to the concluded annex, amounts to PLN 1.7 billion. Within the amount by which the bond issue programme was increased (PLN 700 million), as at the day of concluding the annex, the amount of PLN 300 million was covered by the guarantee. The financial structure stipulates bond issue in series in the years 2015–2016, with redemption deadlines maturing from 2020 to 2029. In this project, BGK acts as the organiser, programme guarantor and depositary.

Obtaining free carbon dioxide emission allowances

In accordance with *Directive 2003/87/EC of the European Parliament and the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC*, TAURON Capital Group is entitled to receive free emission allowances pursuant to Article 10c of the aforementioned Directive ("derogation allowances").

In April 2015 the accounts of the installations were supplied with free allowances for heat production in 2015 and the allowances under the derogation due to electricity generation for 2014. In order to obtain free allowances under the derogation due to electricity generation for 2015, on 29 September 2015 TAURON Capital Group submitted the substantive and financial reports on implementation of the investment tasks contained in the KPI for the reporting period from 1 July 2014 to 30 June 2015, to the National Centre of Balancing and Emission Management. The settlement of the expenditures incurred for individual investment tasks contained in the KPI provides the background for applying for free CO_2 emission allowances. In connection with the entry into force of the new *Act of 12 June 2015 on the greenhouse gas emission allowance trading scheme companies of TAURON Capital Group*, as entities implementing investment tasks contained in the KPI and applying for free CO_2 emission allowances, were committed to submit applications for the approval of the compliance indicators, i.e. the parameters aimed at substantiating that a given investment task is implemented in accordance with the rules defined in the Commission Communication no. 2011/C 99/03. The applications for the approval of the compliance indicators for the investment tasks implemented by TAURON Capital Group were submitted to the Ministry of Environment on 9 October 2015. The process of submitting applications for the approval of the compliance indicators is a part of the process of acquisition of free emission allowances – the so-called derogations for energy industry.

Development of the Centre of Common Services – Accounting (CUW R)

In 2015 works commenced in 2012 under the Programme on *Integration of the Accounting Function* were continued, associated with the organisation of the CUW R in TAURON Obsługa Klienta, providing services in the accounting area. CUW R provides the financial and accounting services to the following companies: TAURON, TAURON Dystrybucja, TAURON Wytwarzanie, TAURON Ciepło, TAURON Sprzedaż, TAURON Sprzedaż GZE, TAURON Obsługa Klienta, TAURON Dystrybucja Serwis, TAURON EKOENERGIA, TAURON Wytwarzanie GZE, TAMEH POLSKA, TAMEH HOLDING, Enpower sp. z o.o., Nowe Brzeszcze GT, TAURON Ubezpieczenia sp. z o.o.

Under the aforementioned Programme, the mainstream of the works in 2015 referred to:

1) organisation of the migration process related to the service of financial and accounting processes for companies: TAURON Wydobycie and KW Czatkowice,
2) takeover of centralised accounting and tax reporting processes of TAURON Dystrybucja,
3) continuation of the implementation of electronic document flow systems.

Implementation of the Central Billing System for mass clients in TAURON Capital Group

In May 2015 the project launched in 2012 was terminated, whose main objective was to centralise billing systems for mass clients in TAURON Capital Group. Under the implementation of the project, data of 4.4 million clients were migrated, including the three-year history from 12 dispersed source systems, to the AUMS EDO central billing system. Its functional scope comprises all processes associated with customer service, including, inter alia, agreements, settlements, finance, debt collection, reporting and cooperation with the electronic Customer Service Office. The database of TAURON Capital Group provides services to approximately 5.4 million clients and it is the biggest database on the Polish energy market – it also means 3.5 TB of data and 4.6 million of invoiced generated monthly.

Events after 31 December 2015

Statement of the President of the Company Management Board

On 29 January 2016, Remigiusz Nowakowski – President of the Management Board of the Company – submitted a statement to the Company informing that in relation to his appointment, as of 29 January 2016, to the Supervisory Board of Polski Koncern Naftowy ORLEN S.A. with its seat in Płock, he had submitted his statement to PKN ORLEN S.A. notifying that he was a member of governing bodies at companies of TAURON Capital Group whose operations may be considered as competitive towards the operations of PKN ORLEN S.A. At the same time he informed that he had obtained consent of the Company Supervisory Board to sit on the Supervisory Board of PKN ORLEN S.A. To avoid any potential conflicts of interest he committed himself to abstain from discussing and voting on matters of PKN ORLEN S.A. related to the scope of operations that could give rise to such a conflict.

The Company informed of the aforementioned event in the current report no. 6/2016 of 29 January 2016.

Settlement of agreement with Kompania Węglowa

On 19 January 2016 the settlement of the agreement with Kompania Węglowa was carried out, whose signing was reported by the Company in the current report no 7/2013 of 1 March 2013, and whose subject was the purchase of hard coal by the TAURON. The Agreement was concluded for a period of three years from 1 January 2013 until 31 December 2015 and its estimated net value determined as at the day of concluding of the Agreement amounted to PLN 2.4 billion.

Pursuant to the settlement, the value of the turnover accomplished under the Agreement amounted to PLN 2.014 net, i.e. approximately 84% of the net value of the Agreement estimated initially and approximately 7% below the equivalent of 10% of Company equity used as the threshold value for material agreements as at the day of publication of the report.

The Company informed of the aforementioned event in the current report no. 4/2016 of 19 January 2016.

Convening Bondholders' Meeting – bonds series TPEA1119

The Management Board of TAURON, acting pursuant to the *By-laws of Bondholders' Meeting* constituting the attachment to the Terms and Conditions of the issue of bonds series TPEA1119, designated by the Central Securities Depository of Poland with the code PLTAURN00037 and listed in the Alternative Trading System on the Catalyst market organised by BondSpot S.A., with maturity falling on 4 November 2019, convened, on their own initiative, the Meeting of Bondholders to take place on 3 March 2016. The subject of the Bondholders' Meeting will be adoption of the resolution on the amendments to terms and conditions of the bonds' issue through amending of the definition of "Financial Debt" included in item 1.1 of the Terms and Conditions of the Bonds' Issue and the amendment to the provisions of Grounds for Early Redemption contained in item 9.1(e) of the Terms and Conditions of the Bonds' Issue.

The detailed description of the amendments to the Terms and Conditions of the Bonds' Issue is contained in the current report no. 8/2016 of 10 February 2016.

On 3 March 2016, Bondholders representing 91.44% of votes appeared at the Bondholders' Meeting, accordingly, the Bondholders' Meeting was unable to adopt the resolution concerning the amendments to the terms and conditions of the bond issue. Considering the foregoing, TAURON, as the Issuer, proposed Bondholders who attended the Bondholders' Meeting to sign, against agreed remuneration, bilateral agreements under which Bondholders who sign these agreements commit irrevocably with respect to the Issuer, to take part in every bondholders' meeting concerning the bonds during the effective term of a given agreement and vote at every bondholders meeting, with all bonds, against the resolution allowing bondholders to submit to the Issuer a request for early redemption in the event of a potential breach, i.e. if the debt ratio defined in the terms and conditions of the bond issue exceeds 3.0x but does not exceed 3.5x, taking into consideration the new definition of financial debt and the principles for calculation of the financial ratio included in the agreement. In addition, Bondholders will undertake to refrain from disposing of the bonds until their maturity date. The Issuer set the deadline for submitting of the signed agreements by Bondholders on 21 March 2016. At the same time, the Bondholders who did not appear at the Bondholders' Meeting on 3 March 2016, may read the text of the agreement and sign it in accordance with the aforementioned deadline. The text of the agreement is available at Dentons Europe Oleszczuk sp. k. Law Firm and the condition to obtain access to the text of the agreement is to present to the Law Firm a valid bond deposit certificate pertaining to the bonds which are subject to the aforementioned agreement. TPEA1119 series bonds were issued on 4 November 2014 in the amount of 17,500 pieces, as bearer, uncollateralized, coupon bonds with floating interest rate and nominal value of PLN 100,000 each.

The Company informed of the aforementioned event in the current report no. 12/2016 of 3 March 2016.

Information about planned write-off of impaired generation assets of the Generation Segment in financial statements for 2015

On 15 February 2016, following the completion of main works related to impairment tests on assets, in line with the requirements of the International Accounting Standard 36, the Management Board of TAURON publicly announced information on the expected impact of non-cash one-off event in the form of a write-off of unprofitable generation units in the Generation Segment. The Generation Segment comprises companies generating electricity and heat from conventional and renewable sources.

For testing purposes, the recoverable amount has been determined based on analysis of discounted cash flow generated by individual cash-generating centres. Key business assumptions affecting the evaluation of the recoverable amount included the adopted curves of electricity and fuel prices, CO_2 emission limits for electricity generation, tariff revenue of heat companies and maintenance of generation capacity of existing fixed assets as a result of executing capacity replacement investments.

The reason behind the write-offs lies primarily in market conditions that have been unfavourable for electricity generators and the resulting application of more conservative forecasts of electricity prices and reduced generation volumes in future.

To partially set off the impact of negative market conditions and improve the situation of the TAURON Capital Group over longer perspective, the Company Management Board has launched works on Corporate Strategy update. Within that process a review of the investment portfolio has been initiated to verify investment projects. The Company is also finalising works on the new Effectiveness Improvement Program for 2016–2018 which should bring further savings. In addition, synergies are expected to be achieved inside the Group thanks to simplification of the management model. The Company indicates that market trends are essential in terms of development of long-term perspective for planning electricity generation profitability, which may lead to further write-offs is the unfavourable trends persist.

In relation to consolidated financial statements of TAURON Capital Group for the financial year ended on 31 December 2015, the conducted tests have indicated that it was necessary to write-off major part of the TAURON Capital Group's generation assets in the electricity and heat generation segment due to partial or full impairment – including generation units of various capacities (in particular, 200 MW and 150 MW), biomass-fired units and cogeneration units. The total value of estimated write-offs resulting from impairment of tangible and intangible assets and company value in the Generation Segment charged to prime costs amounts to PLN 3,564 million and their impact on net result amounts to PLN 2,916 million. The write-offs will have no impact on EBITDA understood by TAURON Capital Group as EBIT increased by depreciation and write-offs for non-financial assets.

In relation to separate financial statements of TAURON for the financial year ended on 31 December 2015 the conducted test indicated that it was necessary to write-off the impairment of shares in TAURON Wytwarzanie and TAURON Ciepło in the total amount of PLN 4,931 million. The expected impact of these write-offs on the net result in separate statements amounts to PLN 4,931 million.

The Company has reserved that the values presented above represent estimated values and may be subject to change. The final results of tests and amounts of impairment write-offs will be presented in the financial statements of TAURON and TAURON Capital Group for 2015, to be published on 9 March 2016.

Detailed information concerning the aforementioned issue is included in the current report No. 9/2016 of 15 February 2016.

Exceeding of the 10% equity threshold in trade turnover between companies of TAURON Capital Group and companies of PSE Group

On 29 February 2016, the Company received documents concerning the mutual provision of services to companies of TAURON Capital Group enabling the settlement with companies of PSE Group, in reference to current reports no. 1/2012 of 5 January 2012, no. 37/2012 of 7 November 2012, no. 42/2013 of 15 October 2013, no. 30/2014 of 8 July 20144 and current report no. 11/2015 of 10 April 2015, regarding trade turnover between companies of TAURON Capital Group and PSE. In accordance with the aforementioned documents, as of 10 April 2015, i.e. as of the day of submission of the current report no. 11/2015, the net trade turnover generated between companies of TAURON Capital Group and companies of PSE Group amounted to approximately PLN 2,180 million (including approximately PLN 1,500 million of cost items for TAURON Capital Group companies, and about PLN 680 million of revenue items), accordingly, the value of turnover exceeded 10% of the Company equity.

The turnover of the highest value, i.e. approximately PLN 1,400 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 an indefinite period of time, is the provision of transmission services by PSE, understood as the transport of electricity via the transmission grid. Its estimated value over a period of 5 years following its conclusion, is about PLN 7,478 million. The services are cleared in accordance with the rules and rates approved by the President of the ERO, defined in the tariff, and taking into account the provisions of the Instruction for Transmission System Operation and Maintenance. 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. 10/2016 of 29 February 2016.

Purchasing of own bonds by TAURON and issue of bonds under the bond issue programme

On 29 February 2016 the Company purchase, with the intention to redeem, 22,500 bonds (“Bought Back Bonds”) out of 30,000 tranche C bonds (“Tranche C Bonds”) issued on 12 December 2011 under the bond issue programme of 16 December 2010. TAURON informed of the issue of the said bonds in the current report no. 60/2011. The early buyback does not cover the remaining 7,500 Tranche C Bonds which, according to the terms and conditions of the bond issue, will be redeemed on 12 December 2016.

The Bought Back Bonds were purchased at the issue price of PLN 100,000, thus the total nominal value of bought back and redeemed bonds amounts to PLN 2,250,000,000. The amount of buy-back was increased by interest due from the first day of the last interest period preceding the buy-back until the day of that buy-back (excluding that day). The purchase with the intention to redeem was executed based on bilateral agreements concluded between TAURON and bondholders of Tranche C Bonds and the main purpose of the transaction is to extend the maturity of debt incurred by the Company in the form of bonds. Funds to refinance the Bought Back Bonds were obtained by TAURON under a new bond issue programme (TAURON informed of signing of the agreement for the new bond issue program in the current report No. 49/2015 of 24 November 2015), under which, on 29 February 2016 the Company issued 22,500 bonds with the total nominal value of PLN 2,250,000,000 (“Bonds”) with the maturity date on 29 December 2020. The Bonds were issued in PLN as uncollateralized, dematerialized, coupon securities and taken up at the issue price equal to the nominal value amounting to PLN 100,000. The interest rate on bonds was determined based on WIBOR 6M rate increased by a fixed margin. The Bonds will be redeemed at the issue price on the maturity date and interest will be paid in arrears at the end of each interest period to bondholders who hold the Bonds on the record date. Interest payable under the Bonds will be paid in semi-annual periods (subject to the first, four-month period). On account of Bond holding, the Bondholders will be entitled to cash payments only. The Bonds have been taken up by financial institutions that are parties to the bond issue programme, i.e. Bank BGŻ BNP Paribas S.A., Bank Handlowy w Warszawie S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) BV, Bank of Tokyo-Mitsubishi UFJ (Polska) S.A., Bank Zachodni WBK S.A., CaixaBank S.A. (Spółka Akcyjna) Oddział w Polsce, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, ING Bank Śląski S.A., mBank S.A. (mBank) and PKO BP. As a result of the transaction TAURON improved its debt structure by moving the maturity date of the bonds in the amount referred to above by five years, which has a positive impact on the Issuer’s financial and economic standing in view of investment expenditures planned for the coming years. As of the day of bond issue, the Management Board of the Company does not recognise any threats in relation to complying with the commitments resulting from the Bonds. The Company informs that as of 31 December 2015 the value of its liabilities amounted to PLN 9.7 billion. At the same time due to, inter alia, the execution of its investment program, the Issuer anticipates that the debt level may increase during the period until the maturity date of the Bonds.

The Company informed of the aforementioned event in the current report no. 11/2016 of 29 February 2016.

Other important events

In addition, events resulting from the contracts and agreements concluded, significant for the operations, described in subsection 2.8.1 of this report should be also considered as important events with material impact on operations of TAURON Capital Group in the financial year 2015.

2.8. Information on agreements concluded by companies of TAURON Capital Group

2.8.1. Agreements significant for operations of TAURON Capital Group

In the financial year 2015 the companies of TAURON Capital Group concluded the following agreements significant for operations of TAURON Capital Group:

Signing material agreements concerning the bond issue programme

On 24 November 2015, TAURON and Bank Handlowy w Warszawie S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) BV, Bank of Tokyo-Mitsubishi UFJ (Poland) S.A., Bank Zachodn WBK S.A. (BZ WBK), CaixaBank S.A. (Joint Stock

Company) Oddział w Polsce, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, ING Bank Śląski S.A. and PKO BP signed the following agreements: agency agreement, depository agreement and underwriting agreement, under which a bond issue program has been established with the total value of PLN 6.27 billion.

The funds that will be obtained under the aforementioned programme will be used to cover expenses related to the execution of TAURON Capital Group investment programme, debt refinancing or to finance Group's general corporate expenses. The value of the programme may be increased up to PLN 6.5 billion.

Within the aforementioned programme, the Company may organise multiple bond issues within the period until 31 December 2020. The bonds will be uncollateralised, coupon, bearer securities, with the floating interest rate, nominal value of PLN 100 thousand each and maturity of 1, 3, 6, 12, 24, 36, 48 or 58 months.

The bonds will be underwritten, i.e. Programme Underwriters (banks that are parties to the underwriting agreement) will be obliged to purchase the bonds issued by the Company under the Programme.

To enable the transfer of funds under the bond issue, TAURON should repurchase bonds from B tranche (PLN 300 million) issued under the existing bond issue programme concluded in December 2010 and each Underwriter should be provided with standard documents including: the execution statement for the amount up to 120% of the total nominal value of the bonds that the Underwriter is obliged to purchase under the programme, original version of Terms and Conditions of the Issue signed by the Company, copy of resolution of the Company's Management Board granting approval for signing the agreements under the programme and bond issue, legal opinions of the Company's legal advisor and the Underwriters' legal advisor issued in connection with concluding of the aforementioned programme, and the statutory documents of the Company.

The fact that the value of the aforementioned programme exceeds 10% of the Company equity has been recognised as a criterion for considering the above mentioned agreements as material.

The Company informed of the aforementioned event in the current report no. 49/2015 of 24 November 2015.

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 than the agreements mentioned above, including the agreements concluded between shareholders (partners), insurance agreements, cooperation or collaboration agreements.

2.8.2. Significant transactions with affiliated entities concluded under conditions other than on arm's length basis

All transactions with affiliated entities are concluded on arm's length basis.

Detailed information on significant transactions with affiliated entities has been provided in note 48 of the consolidated financial statements for the year ended on 31 December 2015.

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

Working capital credits and 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 TAURON Capital Group the real cash pooling structure operates, implemented under the agreement for cash management concluded with PKO BP. The cash pooling structure is based on daily limits granted to individual participants by the agent managing the service, i.e. TAURON. As a result of implementation of the cash pooling mechanism, cash transfers are performed between accounts of participants of the service and the agent's account. Within the operation of the cash pooling the Company uses the overdraft limit at PKO BP in the amount of PLN 300,000 thousand, based on the Overdraft Agreement concluded with the bank in December 2014, with the repayment date maturing on 29 December 2017 and the intraday limit in the amount of PLN 500,000 thousand, effective until 17 December 2017 (the intraday limit is a daily limit which must be fully repaid by the end of each day on which it was used).

In 2015, the Agreement was effective in TAURON Group for granting an overdraft up to the amount of EUR 25,000, concluded with PKO BP, with the repayment deadline until 31 December 2015, and the Company was the party to this agreement. The loan was allocated for financing of the collateral margin and transactions of purchase/ sales/ exchange of CO_2 emission allowances on the European exchanges, as well as for financing of trading in electricity. As of 31 December 2015 the said loan agreement expired and the loan was repaid on time.

In connection with the termination of effectiveness of the aforementioned agreement, on 30 December 2015 the Overdraft Agreement was signed with BGK, up to the amount of EUR 25,000 thousand, for financing of the transactions of purchase/ sales/ exchange of CO_2 emission allowances, trading in electricity and gas on the European exchanges, with the repayment deadline until 31 December 2017, and the Company is the party to this agreement.

On 15 April 2015 TAURON concluded the overdraft agreement with mBank for the maximum amount of USD 2,000 thousand, allocated for financing of current activity, in particular, for financing of the collateral margin and commodity transactions, with the repayment deadline until 14 April 2016.

The table below presents detailed specification of working capital loan and credit agreements effective in TAURON Capital Group at the end of 2015.

Table no 18. Specification of working capital loan and credit agreements effective in TAURON Capital Group as at 31 December 2015

No.	Type of agreement	Parties to the agreement	Interest rate	Amount of credit/loan (in thousand)	Effective term	Balance as at 31 December 2015 (in thousand)
1.	Overdraft facility	TAURON – mBank	LIBOR 1M + fixed margin	USD 2,000	14.04.2016	USD 404
2.	Overdraft facility	TAURON – PKO BP	EURIBOR 1M + fixed margin	EUR 25,000	31.12.2015	EUR 0
3.	Overdraft facility	TAURON – BGK	EURIBOR 1M + fixed margin	EUR 25,000	31.12.2017	EUR 2,025
4.	Overdraft facility	TAURON – PKO BP	WIBOR O/N + fixed margin	PLN 300,000	29.12. 2017	PLN 0
5.	Intraday Limit	TAURON – PKO BP	None	PLN 500,000	17.12. 2017	PLN 0

Moreover, within the internal financing in TAURON Capital Group, on 27 July 2015 the Company concluded a loan agreement with TAURON Sweden Energy for the amount of EUR 6,600 thousand, allocated for the general economic purposes of TAURON. The repayment deadline of the loan falls on 30 July 2016.

Investment credits and loans

In July 2015 TAURON raised funds in the amount of PLN 295,000 thousand from the facility at the European Investment Bank (EIB) under the agreement signed on 18 July 2014.

The table below presents the detailed specification of investment credit and loan agreements as at 31 December 2015.

Table no 19. Specification of investment credit and loan agreements effective in TAURON as at 31 December 2015

No.	Type of agreement	Type and level of interest rate	Amount of credit/loan (in thousand)	Effective term	Balance as at 31 December 2015 (in thousand)
1.	EIB facility	fixed margin	PLN 210,000	30.01.2012 – 15.12.2021	PLN 126,000
2.	EIB facility	fixed margin	PLN 300,000	20.02.2012 – 15.12.2021	PLN 180,000
3.	EIB facility	fixed margin	PLN 450,000	16.07.2012 – 15.06.2024	PLN 347,727
4.	EIB facility	fixed margin	PLN 200,000	25.01.2013 – 15.09.2024	PLN 163,636
5.	EIB facility	fixed margin	PLN 250,000	22.02.2013 – 15.09.2024	PLN 204,545
6.	EIB facility	fixed margin	PLN 295,000	17.07.2015 – 15.03.2027	PLN 295,000

Moreover, within the internal financing in TAURON Capital Group, the Company holds the effective investment loan agreement concluded with TAURON Sweden Energy for the amount of EUR 166,572 thousand, with the term of effectiveness from 3 December 2014 to 3 December 2029.

The table below presents detailed specification of investment loan agreements concluded by companies of TAURON Capital Group as at 31 December 2015, whose party is the Regional Fund of Environmental Protection and Water Management in Katowice and the Regional Fund of Environmental Protection and Water Management in Kraków (WFOŚiGW in Katowice / in Kraków).

Table no 20. Specification of investment loan agreements effective in companies of TAURON Capital Group as at 31 December 2015

No.	Type of agreement	Parties to the agreement	Interest rate	Amount of credit/loan (in thousand)	Effective term	Balance as at 31 December 2015 (in thousand)
1.	Loan	TAURON Wytwarzanie – WFOŚiGW	base rate + fixed margin	PLN 40,000	15.12.2022	PLN 28,000
2.	Loan	TAURON Ciepło – WFOŚiGW	fixed margin	PLN 30,000	15.12.2022	PLN 19,217
3.	Loan	TAURON Ciepło – WFOŚiGW	fixed margin	PLN 1,180	01.05.2016	PLN 131
4.	Loan	KW Czatkowice – WFOŚiGW	fixed margin	PLN 513	30.06.2018	PLN 257
5.	Loan	KW Czatkowice – WFOŚiGW	fixed margin	PLN 128	30.09.2018	PLN 70
6.	Loan	KW Czatkowice – WFOŚiGW	fixed margin	PLN 154	30.09.2018	PLN 85
7.	Loan	KW Czatkowice – WFOŚiGW	fixed margin	PLN 256	30.09.2018	PLN 141
8.	Loan	KW Czatkowice – WFOŚiGW	fixed margin	PLN 94	15.12.2018	PLN 57

In 2015, companies of TAURON Capital Group did not terminate any credit and loan agreements.

2.8.4. Information on loans and sureties granted as well as sureties and guarantees received

Loans granted

In 2015 the Company granted financing to its subsidiary, EC Stalowa Wola in form of the following loans:

1) On 25 November 2015 the Company signed a loan agreement with EC Stalowa Wola for the amount of PLN 2,600 for the current operating activity. The loan, including the accrued interest, will be repaid in a one-off payment, by 30 November 2016 at the latest. The loan is secured with a blank promissory note including the promissory note declaration.
2) On 14 December 2015 the Company signed a loan agreement with EC Stalowa Wola for the amount of PLN 15,850 thousand, for the repayment of the first instalment of the principal amount of the credits maturing on 15 December 2015. The loan, including interest accrued on a quarterly basis, will be repaid in a one-off payment on 31 December 2027. The loan is secured with a blank promissory note including the promissory note declaration.
3) Under the agreement concluded on 20 June 2012 between the Company, PGNiG and EC Stalowa Wola, TAURON granted two tranches of the VAT loan to EC Stalowa Wola; the funds raised were allocated for financing of the VAT due in connection with implementation costs of the investment involving the construction of the CCGT unit at Stalowa Wola, with the capacity of 449 MW_e and 240 MW_t. Both tranches of the loan were repaid in 2015.

On 27 February 2015 the Company signed a loan agreement with its subsidiary, TAURON EKOENERGIA in the amount of PLN 1,120,000 thousand, with the repayment deadline falling on 26 February 2016. The loan was allocated for the repayment of debt (intra group bonds) arising from the purchase and construction of wind farms.

Moreover, TAURON Sweden Energy granted a loan to the Company, as described in subsection 2.8.3.

The table below presents the specification of loans granted by TAURON in 2015.

Table no 21. Specification of loans granted by TAURON in 2015

No.	Type of agreement	Type and level of interest rate	Amount of credit/loan (in thousand)	Effective term	Balance as at 31 December 2015 (in thousand)
1.	VAT loan EC Stalowa Wola	WIBOR 1 M + fixed margin	PLN 30,000	25.06.2012 – (date of project completion)	PLN 0
2.	Loan EC Stalowa Wola	WIBOR 6 M + fixed margin	PLN 2,600	02.12.2015 – 30.11.2016	PLN 2,100
3.	Loan EC Stalowa Wola	WIBOR 3M + fixed margin	PLN 15,850	15.12.2013 – 31.12.2027	PLN 15,850
4.	Loan TAURON EKOENERGIA	fixed margin	PLN 1,120,000	27.02.2015 – 26.02.2016	PLN 1,120,000

In 2015 companies of TAURON Capital Group did not grant any loans to external institutions.

Sureties and guarantees granted and received

The guaranties and sureties effective in 2015 arise from the adopted financing model of TAURON Capital Group and they were provided in connection with the conducted trading operations and as the collateral for repayment of loans granted, among others by WFOŚiGW in Katowice and WFOŚiGW in Kraków.

The table below presents detailed specification of guaranties and sureties effective as at 31 December 2015.

Table no 22. Specification of agreements on sureties and guarantees effective as at 31 December 2015

No.	Beneficiary	Agreement	Amount (in thousand)	Date of effectiveness
1.	WFOŚiGW	Collateral agreement	PLN 40,000	15.12.2022
2.	WFOŚiGW	Aval agreement	PLN 30,000	15.12.2022
3.	WFOŚiGW	Aval agreement	PLN 1,180	01.05.2016
4.	WFOŚiGW	Surety agreement	PLN 513	31.07.2018
5.	WFOŚiGW	Surety agreement	PLN 256	31.10.2018
6.	WFOŚiGW	Surety agreement	PLN 128	31.10.2018
7.	WFOŚiGW	Surety agreement	PLN 154	31.10.2018
8.	WFOŚiGW	Surety agreement	PLN 94	15.01.2019
9.	Bondholders	Corporate guarantee	EUR 168,000	03.12.2029
10.	SPP CZ a.s.	Collateral agreement	EUR 300	31.01.2016
11.	PSE	Collateral agreement	PLN 5,000	04.08.2019

On 31 October 2015, as a result of the agreement signed, the surety of the guarantee issued by Bank BGŻ BNP Paribas S.A. expired, for securing of claims of Abener Energia, with the initial validity deadline until 12 September 2018.

In TAURON Capital Group the following agreements are binding, concerning issuing of bank guarantees where the Company is a party:

1) The General Agreement of 22 September 2011, including its subsequent annexes, for granting bank guarantees, concluded with PKO BP, with the effective term until 31 December 2016 for the amount of PLN 100,000 thousand, to be used by TAURON and its subsidiaries,
2) The General Agreement of 8 June 2015 for the bank guarantee limits, concluded with BZ WBK, with the effective term until 7 June 2018, and the limit up to PLN 150,000 thousand, to be used by TAURON and its subsidiaries in favour of Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House) (IRGIT).

At the same time, on 6 May 2015 the general agreement of 6 May 2013, with the subsequent annex expired, for the limit on bank guarantees with BZ WBK.

The table below presents the specification of bank guaranties and re-guarantees under the agreements effective as at 31 December 2015.

Table no 23. Specification of bank guaranties granted under the agreements effective as at 31 December 2015

No.	Bank	Company	Beneficiary	Type of guarantee	Amount (in thousand)	Date of starting point	Date of effectiveness
1.	BZ WBK	TAURON	IRGIT	payments	PLN 20,000	14.07.2015	15.01.2016
2.	PKO BP	TAURON	CAO	payments	EUR 1,000	01.01.2012	05.02.2016
3.	PKO BP	TAURON	PSE	performance bond	PLN 6,300	01.01.2015	11.02.2016
4.	PKO BP	TAURON	GAZ-SYSTEM	performance bond	PLN 3,864	01.12.2015	30.11.2016
5.	PKO BP	TAURON Dystrybucja Serwis	Eurovia Polska	performance bond	PLN 23	21.12.2013	04.01.2016
6.	PKO BP	TAURON Dystrybucja Serwis	Strabag Infrastruktura Południe	performance bond	PLN 387	02.10.2015	30.04.2016
7.	PKO BP	TAURON Dystrybucja Serwis	Dragados Oddział w Polsce	performance bond	PLN 96	01.04.2014	31.12.2016

No.	Bank	Company	Beneficiary	Type of guarantee	Amount (in thousand)	Date of starting point	Date of effectiveness
8.	PKO BP	TAURON Dystrybucja	City Jelenia Góra	performance bond	PLN 97	01.07.2015	31.12.2016
9.	PKO BP	TAURON Wydobycie	PKP	performance bond	PLN 76	15.10.2015	31.12.2016
10.	PKO BP	TAURON Sprzedaż	Dąbrowskie Wodociągi	performance bond	PLN 224	15.04.2015	30.01.2016
11.	PKO BP	TAURON Sprzedaż	PSE	performance bond	PLN 369	01.01.2015	30.01.2016
12.	PKO BP	KW Czatkowice	PGE GiEK	performance bond	PLN 436	18.12.2013	30.01.2016
13.	PKO BP	KW Czatkowice	PGE	bid bond	PLN 350	21.10.2015	19.01.2016
14.	PKO BP	KW Czatkowice	PGE	bid bond	PLN 126	30.11.2015	29.01.2016

Within TAURON Capital Group, in order to secure the transactions executed by the Company on the TGE in electricity markets and participation in the system of securing the liquidity of transaction settlement, in 2015 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:

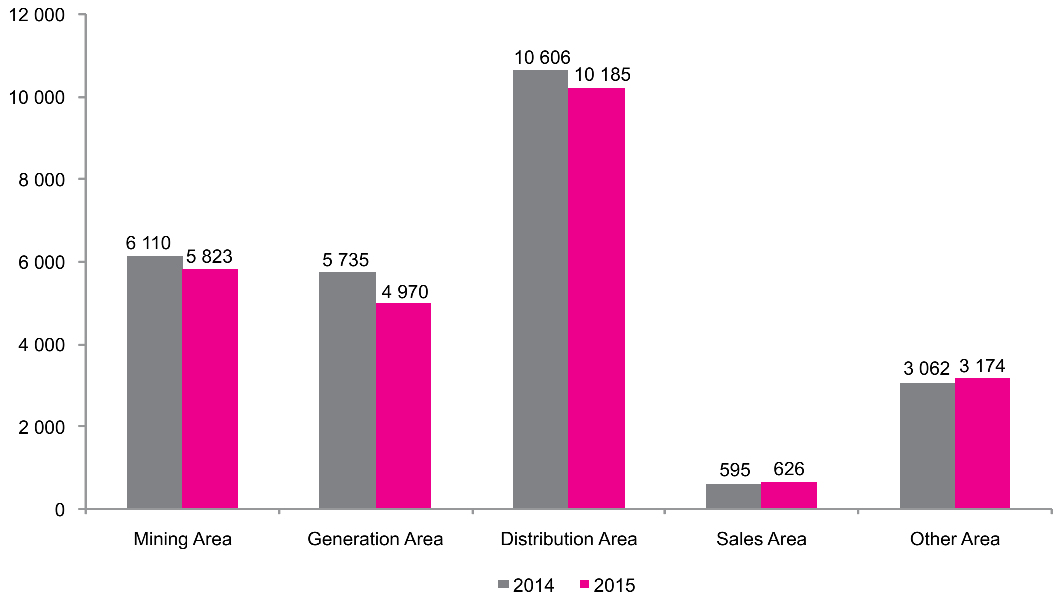
1) the agreement concluded on 6 October 2014 up to the amount of PLN 80,000 thousand, effective from 13 October 2014 until 31 March 2015,
2) the agreement concluded on 14 October 2015 up to the amount of PLN 123,000 thousand, effective from 15 October 2015 until 31 March 2016.

2.9. Information concerning employment

In 2015 the average employment in TAURON Capital Group in FTEs reached 24,778 FTEs, which means the decline in relation to the average employment in 2014, which amounted to 26,108 FTEs.

The levels of average employment in TAURON Capital Group in FTEs (rounded up to the full FTE), divided into Segments of operations in the years 2014–2015, are presented in the figure below.

Figure no. 36 Average employment in TAURON Capital Group in 2014 and 2015 (FTEs)



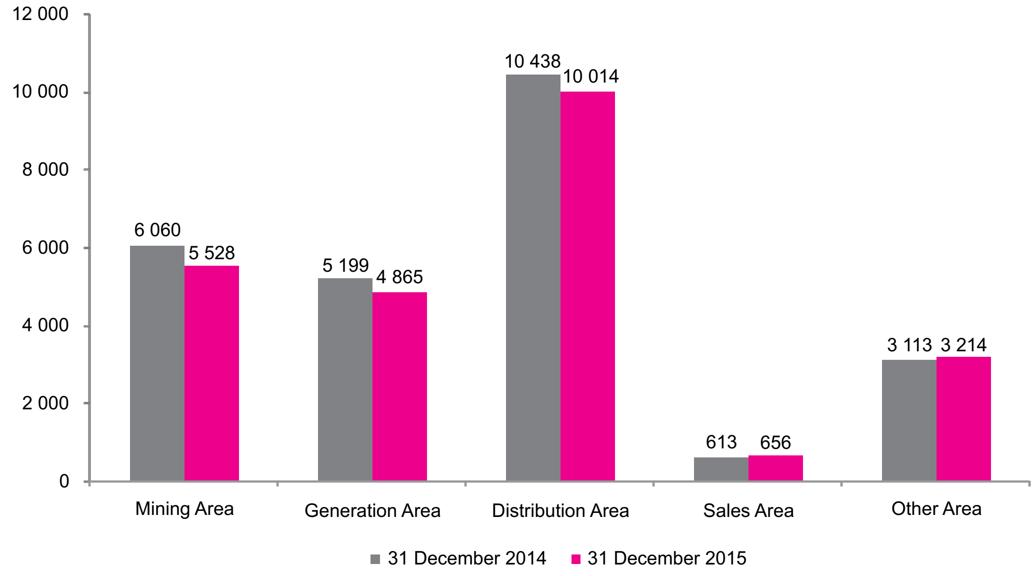
Changes in the level of the average employment in individual Areas in 2015, as compared to the average employment in 2014, result, among others, from the voluntary redundancy programmes implemented, among others, in the following Areas: Distribution, Generation and Mining, as well as from employees resigning and leaving TAURON Capital Group, and covering Biomasa GT company within the consolidated reporting in 2015.

At the same time, in 2015 the change of data presentation occurred, in the scope of dividing into Segments of activity, i.e. inclusion of companies constituting the RES Area and Heat Area in 2014 to the Generation Area and the company representing the Customer Service Area to Other Area, which resulted in the change of average employment levels in the Generation and other Areas in relation to the values presented in the reporting for 2014.

As at 31 December 2015, 24,277 persons were employed in companies of TAURON Capital Group. In relation to the employment status as at 31 December 2014, amounting to 25,423 persons, a decline in employment by 1,146 persons was recorded.

The figure below presents the employment in TAURON Capital Group in persons according to the status as of 31 December 2014 and 31 December 2015

Figure no. 37 Employment in TAURON Capital Group as at 31 December 2014 and 31 December 2015 (persons)

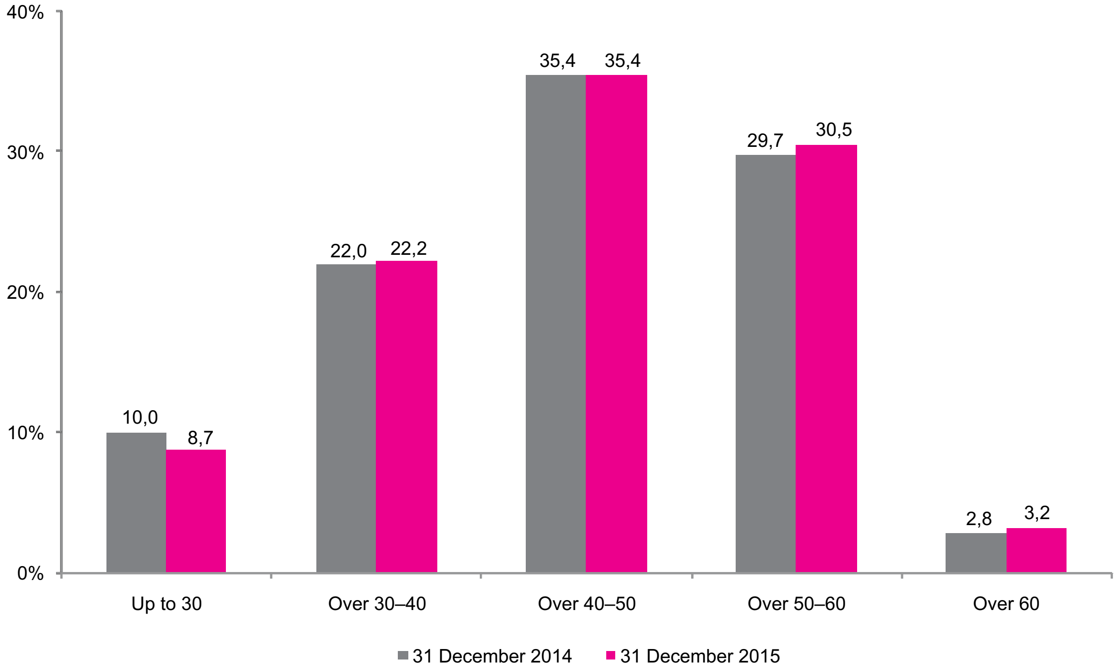


The figure below presents the structure of employment in TAURON Capital Group according to education as at 31 December 2014 and 31 December 2015.

Figure no. 38 Employment structure in TAURON Capital Group as at 31 December 2014 and 31 December 2015 (education)

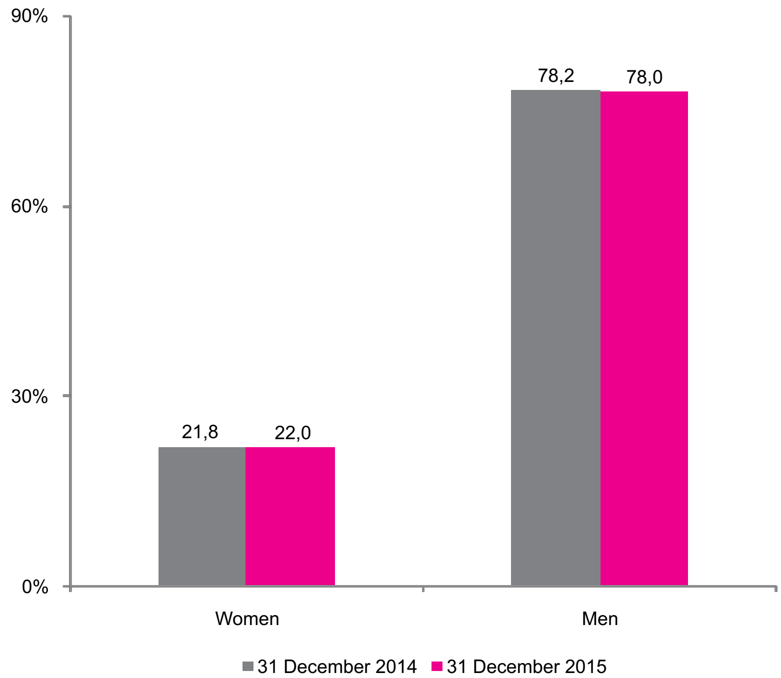
The figure below presents the structure of employment in TAURON Capital Group according to age as at 31 December 2014 and 31 December 2015.

Figure no. 39 Structure of employment in TAURON Capital Group as at 31 December 2014 and 31 December 2015 (age)



The figure below presents the structure of employment in TAURON Capital Group according to gender as at 31 December 2014 and 31 December 2015.

Figure no. 40 Structure of employment in TAURON Capital Group as at 31 December 2014 and 31 December 2015 (gender)



3. RISK MANAGEMENT IN TAURON CAPITAL GROUP

Risk and threat factors

Taking care for implementation of the Corporate Strategy, the Company implements the risk management process in relation to operations of TAURON Capital Group. This process, particularly important for the implementation of the strategic goals, identifies potential deviations against the planned result of TAURON Capital Group and increases the predictability of its accomplishment, enabling risk level control to provide for its possibly neutral impact on the implementation of strategic goals. The risk management system comprises all elements of the value chain implemented of TAURON Capital Group and all the employees participate in the risk management process.

Risk management should ensure stable value creation owing to the effective control of risk-taking, enhancing the transparency of risk-taking, independent risk assessment and increasing business concentration on optimisation of the relations between profits and the risk assumed.

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

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

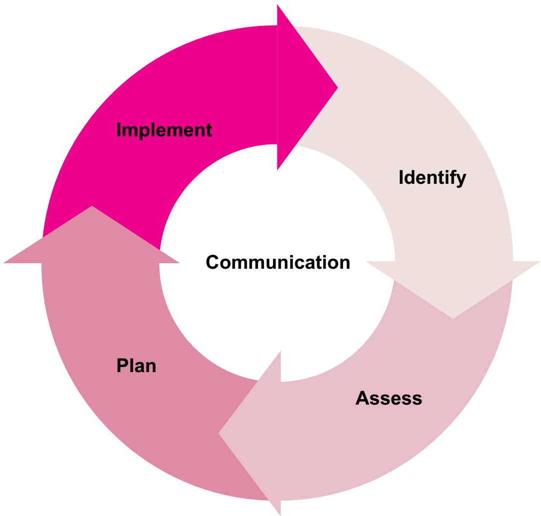
The comprehensive enterprise risk management system (ERM) in TAURON Capital Group supports the implementation of the strategic goals through:

1) a possibility to predict deviations against the planned levels (material and financial plan) and, at the same time, a possibility to prepare effective instruments of response to such risk,
2) assessment and identification of risks 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 their materialisation,
3) development of effective and adequate measures against the specific risk,
4) harmonisation of the risk management process in the entire TAURON Capital Group.

In 2015, the risk management process in the regulatory area was improved by introduction of risk limits for individual Areas of TAURON Capital Group and for individual operational risks within such limits. For individual key risks, early warning indicators were defined and acceptance, mitigation and escalation thresholds were determined for those indicators. The conducted measures within risk response were made conditional on the current value of the indicators.

The figure below shows stages in the process of enterprise risk management in TAURON Capital Group.

Figure no. 41 Stages in enterprise risk management in TAURON Capital Group



The risk management process includes the hereunder continuous measures comprising:

1. **Risk identification** – based on determining the 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 implementation 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 assigned to them.

Table no 24. 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 the monitoring of the effectiveness of the risk management system existing in TAURON Capital Group.
3.	Company Management Board	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 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 responsibilities, 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.	Executor of risk response	1) provides and manages the resources, 2) performs tasks included in the risk response plan, for which he/she has been appointed, 3) bears responsibility for the quality and timeliness of implementation of those tasks.
12.	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 2015 the identification and valuation of new risks was performed as well as the valuation of risks identified earlier was updated, in particular, those which may significantly affect the implementation of strategic goals adopted by the Company.

Commercial risk management

The Company manages the commercial risk based on the developed and adopted *Policy of risk management in the commercial activities of 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 electricity 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 electricity 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, commercial 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 essential element of commercial risk management structure is the classification of commercial activities 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 the security of commercial activity and the transparency of the supervision over risk-taking 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, financial and commercial risk management in TAURON Capital Group is decentralised, however, financial and credit risk controlling in TAURON Capital Group is performed centrally from the Company level, which ensures the appropriate supervision over risk-taking and the required transparency of exposure to financial and 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 of 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 subsection 4.9.2. hereof.

Specification of the most significant risks associated with the performance of TAURON Capital Group

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

Table no 25. Description of risk factors

No.	Types of risks	Risk description
I.	**Strategic risks**	
1.	Risk of growth in prices of CO_2 emission allowances	The risk associated with the establishment of MSR in the market of emission trading, introducing the instrument for maintaining of the high level of prices by reduction of allowances pool. The growth in costs of CO_2 emission allowances may have an adverse effect on the operations of TAURON Capital Group, through the increase in costs and margin reduction.
2.	Risk of failure to allocate CO_2 emission allowances	The risk of failure to allocate free emission allowances included in the plan for 2019 and the growth in prices of allowances available in the market, triggering the necessity to incur additional costs for the fulfilment of regulatory obligations.
3.	Risk of fund raising and financial services	Risk associated with the lack of possibilities to raise funding for operational and investment needs or high costs of acquisition of such financing, arising from tightening of the crediting policy of banks, unfavourable market conditions, unstable macroeconomic situation, which may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities due to the lack of resources for projects included in the Corporate Strategy and in investment plans, and for operations.

No.	Types of risks	Risk description
4.	Market risk	Risk associated with the unfavourable change in prices in the energy market and related markets as well as other markets, where transactions are performed by individual areas of TAURON Capital Group operations, exerting adverse impact on the financial result of TAURON Capital Group.
5.	Concession risk	The risk associated with the withdrawal, failure to extend the validity term, or limiting the scope of any of the concessions held, causing the lack of possibility to conduct the activities in the planned scope, resulting in the loss of revenues and, consequently, the deterioration of the financial result of TAURON Capital Group.
6.	Risk of changes in the rules of Balancing Market functioning	The risk associated with a possibility of changes in the Balancing Market functioning and, consequently, the development of negative prices on this market and finally, on the SPOT market, which may consequently have an adverse impact on the financial result of TAURON Capital Group.
7.	Risk of change in the tariff development method for distribution	The risk associated with the change in tariff development for distribution, planned as of 2018, through introduction of qualitative regulations, which may consequently have an impact on the reduction in the level of revenues due to the activity conducted and on the financial result of TAURON Capital Group.
8.	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.
9.	Risk of loss of Tax Capital Group (PGK) status	Risk associated with a possibility to lose the status by the PGK due to the failure to comply with the statutory requirements (e.g. Insufficient profitability of TAURON Capital Group, ownership changes infringing the required levels in the capital structure of PGK companies), challenging of the settlements between PGK and other affiliated entities, unsettled tax liabilities of the PGK companies. The materialisation of the risk may result in the loss of tax optimisation, increased costs of fiscal year closing, the requirement to prepare additional documentation of transfer prices.
10.	Risk of resource base identification	Risk associated with poor identification of the perspective resource base arising from the lack of economic, technical and organisational capacity of the Company. Risk materialisation creates threat for the implementation of tasks and production plans, causing the adverse impact on the financial result of TAURON Capital Group.
II.	**Operational risks**	
1.	Commercial risk	The risk is associated with the volatility of prices of electricity, 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 of 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 electricity 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 discharge of CO_2 into ambient air as well as the need to redeem the relevant quantity of CO_2 emission allowances. The risk factors may have adverse impact on operations of TAURON Capital Group, its financial standing or results of its activities, through the fines imposed for each unit of unredeemed allowance, or decreasing the planned electricity sales profitability and the increase in costs associated with the failure to issue free allowances and their incorrect redemption.
3.	Risk of failure to maintain availability of generation units	The risk arises from the inadequate adjustment of units and distribution of loads in the scheduling process of units, emergency conditions of generation equipment, unplanned unit shutdowns, changes (enforced) in operating plans by the TSO, changes in fuel prices other than adopted in the assumptions, failures of the transmission system, control systems and ICT systems. 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 electricity production.

No.	Types of risks	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 adverse impact on TAURON Capital Group operations, its financial situation or results of its activities through the lack of optimum use of the assets, its faster wear arising from inadequate maintenance, the need to incur costs of remedying failures arising from wrong asset management.
6.	Weather risk in the Heat Area	Risk related to fluctuations of air temperatures which have significant impact on the demand for electricity and heat at a longer term, causing the significant increase or decrease of this demand, respectively, which may result in the failure to achieve the production plan in the assumed period or limitation of the possibility to satisfy the demand due to hydraulic constraints of the connection network, fixtures and the increased failure rate of sales.
7.	Compliance risk	Risk associated with the failure to comply with the legal regulations, wrong interpretation of new provisions and regulations, requirements imposed by ERO/UOKiK/KNF, the requirements of the Act on personal data protection as well as risk associated with the failure to observe procedures associated with the external control conducted in TAURON Capital Group, which may result in imposing such sanctions by authorised entities.
8.	Risk of lack of coverage of activity costs in the period subject to the tariff	Risk associated with the lack of possibility to cover the overall costs of conducting the activity by the Company in the tariff for electricity, in particular, operating costs included in the tariff for a given year negatively affecting the financial result of TAURON Capital Group.
9.	Risk of sales of distribution services	The risk associated with the reduction of revenues for the provision of distribution services to individual groups of consumers in relation to the level included in the operating plan, arising, in particular, from the change in consumers' demand for electricity or the change of capacity they order.
10.	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 an 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.
11.	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).
12.	Risk of economic slowdown	Risk associated with the decline in revenues of TAURON Capital Group as a result of the economic slowdown translating into the reduced electricity demand, in particular, in the segment of business clients, and the generally lower energy prices in the market.
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 against 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 electricity infrastructure, which may result in the lack of possibility of their performance over a longer period of time, leading to the deterioration of financial results through the decline in revenues and the necessity to incur additional costs to recover their efficiency.

The Company actively manages all risks aiming at maximum reduction or elimination of their potential adverse effects, in particular on the financial result of TAURON Capital Group.

4. ANALYSIS OF FINANCIAL AND ECONOMIC SITUATION OF TAURON CAPITAL GROUP

4.1. Principles of preparation of the annual consolidated financial statements

The financial statement has been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU.

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

Companies of TAURON Capital Group and the parent entity keep their books and prepare their financial statements in accordance with the IFRS, excluding Biomasa GT, TAURON Czech Energy and TAURON Sweden Energy, keeping their books and preparing their financial statement in accordance with the accounting principles applicable, respectively, in Poland, the Czech Republic and in Sweden.

The consolidated financial statement contains adjustments which are not included in the ledgers of TAURON Capital Group entities, introduced in order to bring the consolidated statement into compliance with IFRS.

The consolidated financial statement has been prepared with the assumption of continuation of business operations by the TAURON Capital Group companies in the foreseeable future, excluding the company PEPKH in liquidation. As at the date of approval of the consolidated financial statement for publication, no circumstances have been recognised, indicating any risk for business continuity by the TAURON Capital Group companies.

The accounting principles (policy) adopted for drawing up of the consolidated financial statement are presented in note 9 of the Consolidated financial statement for the year ended on 31 December 2015.

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

Consolidated statement of financial standing

The table below presents the annual consolidated statement of financial situation – **assets**.

Table no 26. Annual consolidated statement of financial standing – assets (significant items)*

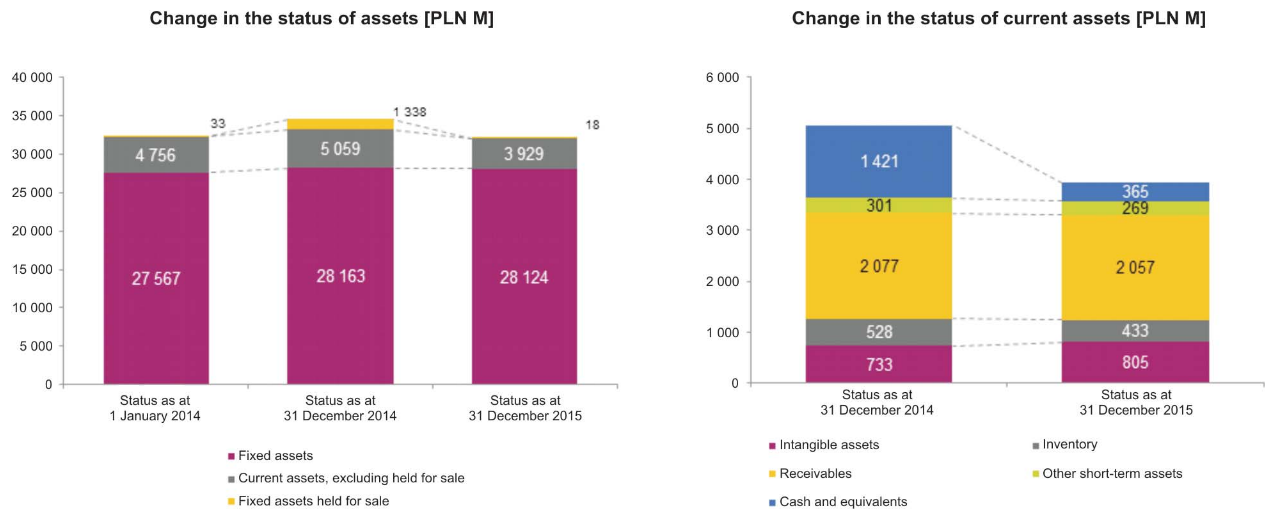
Statement of financial standing (PLN thous.)	Status as at 31 December 2015	Status as at 31 December 2014 *(data converted)*	Status as at 1 January 2014 *(data not converted)*	Dynamics (2015/2014)
ASSETS				
Fixed assets	**28,124,185**	**28,162,749**	**27,567,008**	**99.9%**
Tangible fixed assets	24,882,817	24,850,942	25,127,639	100.1%
Current assets	**3,947,248**	**6,396,444**	**4,788,562**	**61.7%**
Cash and equivalents	364,912	1,420,909	636,909	25.7%
Fixed assets and assets of TAURON Capital Group for disposal, classified as held for trade	17,898	1,337,705	33,041	1.3%
TOTAL ASSETS	**32,071,433**	**34,559,193**	**32,355,570**	**92.8%**

** Due to the limited comparability of earlier periods, data are presented in a three-year horizon. Data comprising earlier periods are presented in Table no. 32 of this report.*

As at 31 December 2015 the statement of financial situation of TAURON Capital Group indicates the balance sheet total lower by 7.2%.

The figure below shows the change in the status of assets and current assets.

Figure no. 42 Change in the status of assets and current assets



In 2015, considering the overall unfavourable situation in the energy market and the premises related to the long-term persistence of the market value of net assets at a level below the carrying amount, TAURON Capital Group performed impairment tests for tangible fixed assets. The results indicated that some assets of the Generation Segment should be covered by the additional write-off in the amount of PLN 3,410.7 million. The requirement to apply the write-off resulted from:

a) adopting of more prudent forecasts of developments in electricity prices in the future, in connection with the long-lasting persistent market situation, unfavourable for electricity generators,
b) the necessity to reduce the volume of electricity production in the future to the level of expected maintaining of the current market situation,
c) faster decommissioning of older generation units than assumed earlier.

Despite the applied impairment losses for tangible fixed assets with the value of PLN 3,410.7 million, the value of fixed assets decreased only by 0.1% YoY, due to the impact of:

1) numerous investments in tangible fixed assets in companies of TAURON Capital Group (mainly in TAURON Wytwarzanie, TAURON Dystrybucja and TAURON Ciepło) and intangible assets (mainly TAURON Dystrybucja and TAURON Obsługa Klienta),
2) acquisition of property rights for certificates of origin off electricity and greenhouse gas emission allowances by companies of the Generation Segment,
3) applying of the impairment loss for the goodwill, in connection with the balance sheet loss of the goodwill, related to CGUs associated with the generation of electricity and heat by TAURON Wytwarzanie as well as distribution and transmission of heat by TAURON Ciepło. The necessity to apply the write-off arises from the long-lasting, persistent market situation in the scope of prices, unfavourable for electricity generators, and the requirement to adopt more prudent forecasts in the relation to their development in the future,
4) re-classification of a part of TAURON EKOENERGIA assets, separated in 2014 as held for trade, from the group of assets held for sale, in connection with the fact that wind assets do not fulfil the requirements of IFRS 5 as at the balance sheet day. As at 31 December 2014, TAURON Capital Group classified assets and liabilities of four existing wind farms as held for sale. Due to the implemented concept of off-balance sheet financing of assets, leading to the sales of share blocks in existing wind farms in favour of the external investor. Due to the change of the transaction market conditions, the Company abandoned the negotiations with the potential investor. On 2 July 2015 a letter of intent was signed with ENEA, concerning joint implementation of the strategy ensuring the optimum method of increasing renewable capacity and financing of the purchase transaction of wind assets. The analysis of premises conducted as at the balance sheet day indicated that the group of disposable fixed assets did not fulfil the criteria of classification as held for sale in accordance with IFRS5,
5) settlement of a part of pre-payment for tangible fixed assets under construction and a lower value of preparatory works activated in the balance sheet than in the previous year.

The following factors had an impact on the decline in the value of current assets by 38.3%:

1) performance of the re-classification to wind tangible fixed assets with the value of PLN 1,320.9 million, in connection with the fact of the failure to fulfil the requirements defined in IFRS5, as described above,
2) growth in the level of cash by PLN 1,056 million (the reasons of the change are described in the subsection related to cash flows),
3) insignificant decline in receivables from consumers by PLN 87 million, set off, to a major extent, by the growth of tax receivables by PLN 67.5 million (growth in the share of receivables due to VAT, with the decline in receivables due to income tax),
4) decline in the value of inventory by PLN 94 million, as a result of liquidation of a part of coal stocks, due to the lower production of TAURON Wydobycie and the increased demand from companies of TAURON Capital Group, as a consequence of growth in electricity production. In addition, the following factors had an impact on the decline in the value of inventory: the deficit of commercial coal stocks and semi-products in TAURON Wydobycie, detected as a result of physical stocktaking,
5) growth in the value of certificates of origin of electricity and greenhouse gas emission allowances – CO_2 by PLN 72 million, in connection with the statutory requirement to submit them for redemption to the relevant public administration authorities (in 2016, due to the fulfilment of the redemption obligation for 2015).

The table below presents the annual consolidated statement on financial situation – **liabilities**.

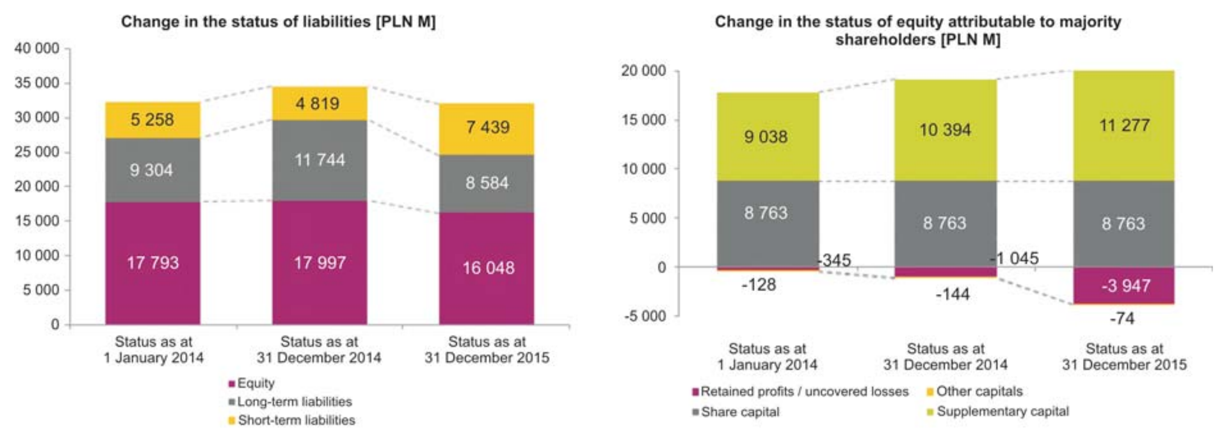
Table no 27. Annual consolidated statement of financial standing – liabilities (significant items)*

Statement of financial standing (PLN thous.)	Status as at 31 December 2015	Status as at 31 December 2014 *(data converted)*	Status as at 1 January 2014 *(data not converted)*	Dynamics (2015/2014)
LIABILITIES				
Equity attributable to parent entity shareholders	**16,018,328**	**17,966,448**	**17,327,165**	**89.2%**
Non-controlling shares	**29,829**	**30,116**	**466,334**	**99.0%**
Long-term liabilities	**8,583,950**	**11,744,092**	**9,304,341**	**73.1%**
Loans, credits and debt securities	4,924,127	7,468,775	5,500,532	65.9%
Short-term liabilities	**7,439,326**	**4,818,537**	**5,257,730**	**154.4%**
Current portion of interest-bearing credits, loans and debt securities	3,214,520	644,991	284,633	498.4%
TOTAL LIABILITIES	**32,071,433**	**34,559,193**	**32,355,570**	**92.8%**

** Due to the limited comparability of earlier periods, data are presented in a three-year horizon. Data comprising earlier periods are presented in Table no. 32 of this report.*

The figure below shows the change in the status of liabilities and equity.

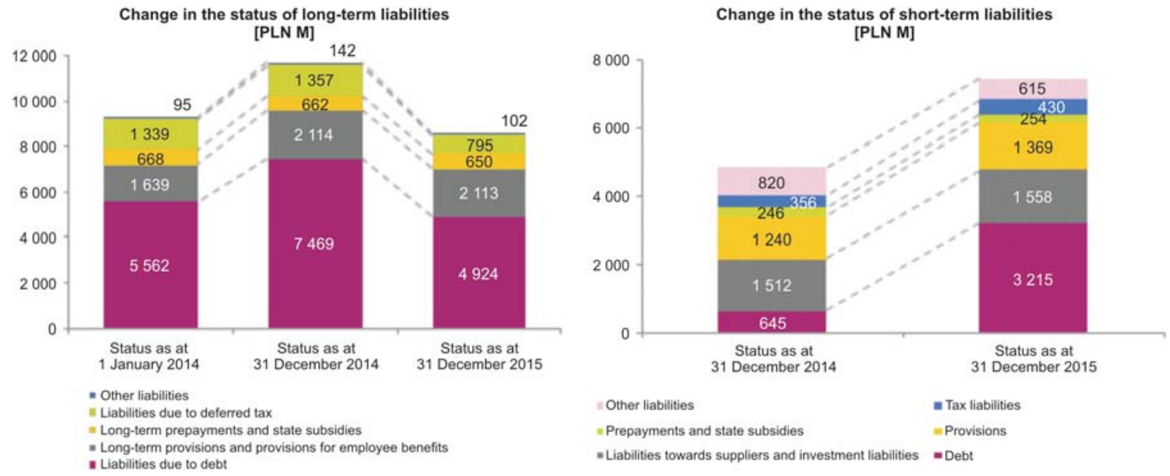
Figure no. 43 Change in the status of liabilities and equity



Similar to the previous years, in 2015 the dominating source of assets financing was equity whose share in the total liabilities amounted to 50.0%.

The figure below shows the change in the status of liabilities.

Figure no. 44 Change in the status of liabilities



The value of short-term liabilities of TAURON Capital Group decreased by 26.9%, due to the following factors:

1) the decline in the value of debt by PLN 2,544.6 million, in connection with re-classification to short-term liabilities, due to the maturity term in 2016 for bonds issued in the previous years,
2) the decline in liabilities by PLN 562.0 million due to deferred tax, which is related to the creation of the impairment write-off for assets of the Generation Segment and the provision for the agreement generating charges with the joint venture, and the necessity to recalculate the deferred tax.
3) creating of the provision for the amount of PLN 182.9 million for agreements generating charges with the joint venture, which is connected with the violation of the schedule and material technical conditions of the contract with the general contractor of the CCGT unit in Stalowa Wola, affecting both the security and reliability of the unit performance as well as its future effectiveness and costs of its performance.

The value of short-term liabilities of TAURON Capital Group increased by 54.4%, due to the following contributing factors:

1) growth in the value of debt by PLN 2,569.5 million, which is associated with the maturity term of bonds in February and December 2016, for bonds issued in the previous years,
2) decline in the value of trade liabilities by PLN 126 million, with the simultaneous growth in investment liabilities by PLN 171.3 million, which is associated with investments carried out in companies of TAURON Capital Group. The highest growth in liabilities was recorded in TAURON Wytwarzanie and TAURON Dystrybucja companies,
3) the value of the created provision for redemption of CO_2 emission allowances, higher by PLN 145 million, which is associated with the receipt of a pool of free CO_2 emission allowances in 2014, which TAURON Capital Group recognised in the first calculation of the provision,
4) decline by PLN 49.9 million of the provision due to the obligation to submit electricity certificates of origin for redemption, which is the combined effect of the change in the structure of consumers (a higher share of industrial clients), the decline in the purchase price of certificates of origin of electricity from RES, and the growth in the cost of redemption obligation in connection with the increase of the statutory percentage redemption rates,
5) growth in other provisions by PLN 19.7 million, which is associated with the provisions for agreements generating charges with the joint venture, which is connected with the violation of the schedule and material technical conditions of the contract with the general contractor of the CCGT unit in Stalowa Wola, affecting both the security and reliability of the unit performance as well as its future effectiveness and costs of its performance.
6) decline by PLN 110.9 million of other financial liabilities, due to the lower value of settlements in TAURON Sprzedaż GZE company as a result of electricity imbalances,
7) growth of tax liabilities by PLN 74 million, mainly due to income tax.

Consolidated statement of comprehensive income

The table below presents the annual consolidated statement of comprehensive income. Due to the changes in Business Areas and in order to maintain the comparability, the results are presented for three years.

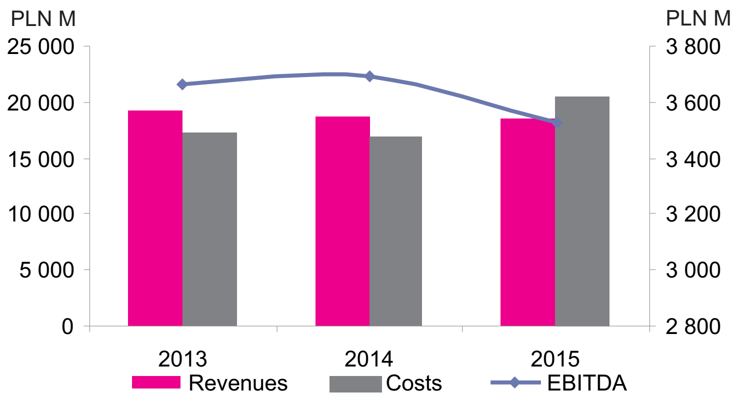
Table no 28. Annual statement of comprehensive income for 2013–2015*

Statement of comprehensive income (PLN thous.)	2015	2014	2013 *(data not converted)*	Dynamics (2015/2014)
Revenue on sales	**18,375,224**	**18,577,479**	**19,131,122**	98.9%
Own cost of sales (including sales costs and overheads)	(20,248.603)	(16,862,130)	(17,189,369)	120.1%
Other operating revenues and costs	(27,762)	114,764	(7,687)	–
Operating profit (loss)	**(1,901.141)**	**1,830,113**	**1,934,066**	–
Operating profit margin (%)	*(10.3)%*	*9.9%*	*10.1%*	–
Financial revenues	73,452	85,906	99,257	85.5%
Financial expenses	(368,015)	(416,868)	(346,993)	88.3%
Share in the profit (loss) of joint venture	7,933	(936)	(2,709)	–
Gross profit (loss)	**(2,187.771)**	**1,498,215**	**1,683,621**	–
Gross profit margin (%)	*(11.9)%*	*8.1%*	*8.8%*	–
Income Tax	383.556	(312,655)	(337,136)	–
Net profit (loss) for the financial year	**(1,804.215)**	**1,185,560**	**1,346,485**	
Net profit margin (%)	*(9.8)%*	*6.4%*	*7.0%*	–
Other comprehensive income for financial year including tax	122,076	(290,384)	43,488	–
Total income for financial year	**(1,682.139)**	**895,176**	**1,389,973**	–
Profit attributable to:				
Shareholders of the parent company	**(1,807.317)**	**1,180,893**	**1,308,318**	–
Non-controlling interests	3,102	4,667	38,167	66.5%
EBIT and EBITDA				
EBIT	**(1,901.141)**	**1,830,113**	1,934,066	–
EBITDA	**3,523.303**	**3,694,544**	3,661,484	95.4%

** Due to the limited comparability of earlier periods, data are presented in a three-year horizon. Data comprising earlier periods are presented in Table no. 32 of this report.*

The figure below presents the financial results of TAURON Capital Group for 2013–2015.

Figure no. 45 Financial results of TAURON Capital Group for 2013–2015



In the reporting period ended on 31 December 2015, TAURON Capital Group gained revenues on sales lower by 1% as compared to the values achieved in 2014.

The lower level of revenues was affected by separation from the structure of companies belonging to the Generation Segment, ZW Nowa and Elektrowni Blachownia, which consequently contributed to the loss of revenues on sales of compressed air and wind of blast furnace, and a partial loss of revenues on sales of electricity and heat.

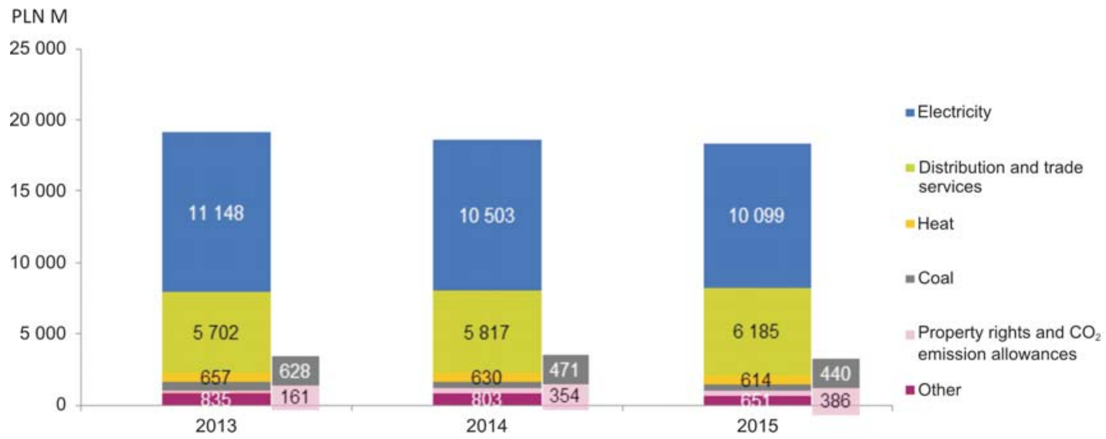
Moreover, in 2015, revenues on regulatory systemic services and a power reserve were lower (by 44.6%), the volume of electricity sales was also lower in case of TAURON Wytwarzanie, for sales outside TAURON Capital Group (by 18.9%).

Another factor significantly affecting the level of revenues of TAURON Capital Group achieved in 2015 is the decline in revenues on sales of coal, as a result of a lower demand from consumers of TAURON Capital Group (a decline in the volume by 2.2%), despite lower coal sales prices (by approximately 2.0%), which results from the oversupply on the domestic coal market and the aggressive pricing policy of the biggest coal producer in Poland.

The aforementioned factors were partly set off by higher revenues on sales of the distribution service and other goods and materials accomplished in 2015. The growth in revenues on sales of the distribution service is the result of the growth in average rate of distribution service sales to end consumers, and a higher volume of supplies in each tariff group.

The figure below presents the structure of revenues of TAURON Capital Group in the years 2013–2015.

Figure no. 46 Structure of revenues of TAURON Capital Group in the years 2013–2015*



** The three-year period is presented due to transparency of information. The approximate (due to significant changes in the organisation of Operational Segments, as compared to the period before 2012) results in the five-year period are presented in subsection 32. of this report.*

As compared to 2014 TAURON Capital Group gained higher revenues on sales in each of the Segments. The highest growth was achieved by companies of the Generation Segment (by 8.3%) – as a result of gaining higher revenues on sales of electricity and Distribution (by 6.2%) – as an effect of gaining higher revenues on sales of the distribution service.

The dynamics of revenues on sales of products outside TAURON Capital Group was as follows: Mining (94.4%), Generation (75.1%), Distribution (112.3%), Sales (102.0%) and Other (89.6%).

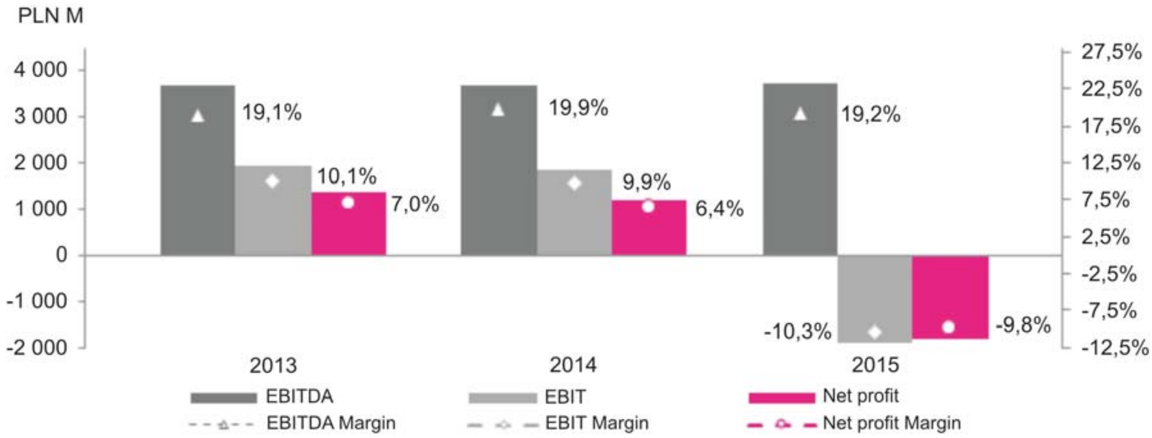
In 2015, costs of operations of TAURON Capital Group amounted to approximately PLN 20,248.6 million and they were higher by approximately 20.1% than the costs incurred in 2014. The main reason of the growth is the impairment write-off applied for a part of assets of the Generation Segment in the amount of PLN 3,410.7 million and the creation of the provision for agreements generating charges with the joint venture in the amount of PLN 182.9 million. If the above events were not considered in costs, the level of costs of TAURON Capital Group would be lower by approximately 1.2%. The decline of costs was recorded in almost each cost type, and the growth refers only to costs of distribution services, which is associated with the higher volume of the distribution service sales and a higher rate of transmission and distribution service purchase.

The decline in costs by type, as the decline in revenues, results from the separation of ZW Nowa and Elektrownia Blachownia from structures of companies of TAURON Capital Group, which contributed to the lower consumption of fuel, materials for renovation and exploitation, lower costs of external services and labour costs. The decline in costs by type was also affected by reduction of costs of materials and energy consumption due to the lower quantity of drilled headings.

The additional factor influencing the level of labour costs is the reduction in the employment status in each company of TAURON Capital Group (the decline in the average employment YoY by 1,330 FTEs) and the change in the level of actuarial provisions, due to the change in the discount rate from 2.25% to 2.75%.

The figure below shows the financial results of TAURON Capital Group and the level of accomplished margins.

Figure no. 47 Financial results of TAURON Capital Group and the level of accomplished margins*



** The three-year period is presented due to transparency of information. The approximate (due to significant changes in the organisation of Operational Segments, as compared to the period before 2012) results in the five-year period are presented in subsection 32. of this report.*

In 2015 TAURON Capital Group achieved the EBITDA result at a level lower than in 2014 and the EBITDA margin reached a level lower by 0.7%. As a result of the application of the impairment write-off in TAURON Capital Group due to the permanent loss in value of some assets of the Generation Segment, the EBIT result, gross profit and net profit recorded negative values.

Statement of Cash Flows

The table below presents the statement of cash flows

Table no 29. Statement of Cash Flows (significant items)*

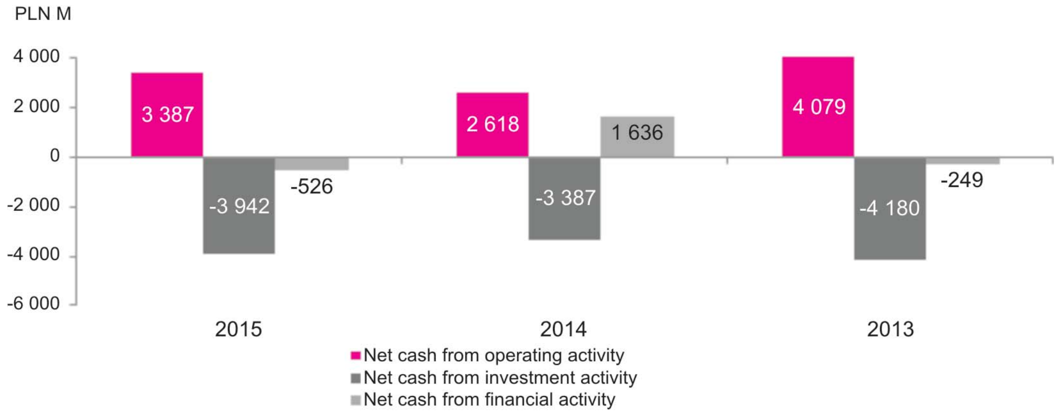
Statement of Cash Flows (data in PLN thousand)	Year ended 31 December 2015	Year ended 31 December 2014 *(data converted)*	Year ended 31 December 2013 *(data not converted)*	Dynamics (2015/2014)
Cash flows from operating activities				
Gross profit/(loss)	(2,187,771)	1,498,215	1,683,621	–
Adjustments	5,575.229	1,119,692	2,395,461	497.9%
Net cash from operating activities	**3,387,458**	**2,617,907**	**4,079,082**	129.4%
Cash flows from investment activities				
Purchase of tangible fixed assets and intangible assets	(3,973,510)	(3,464,578)	(3,933,673)	114.7%
Net cash from investment activities	**(3,942,122)**	**(3,386,733)**	**(4,180,488)**	116.4%
Cash flows from financial activities				
Cash inflows due to loans/credits	295,000	–	452,325	–
Repayment of loans/credits	(140,585)	(169,971)	(141,226)	82.7%
Issue of debt securities	310,000	3,653,234	–	8.5%
Redemption of debt securities	(450,000)	(1,148,200)	–	39.2%
Dividends paid to shareholders of the parent company	(262,882)	(332,984)	(350,510)	78.9%

Statement of Cash Flows (data in PLN thousand)	Year ended 31 December 2015	Year ended 31 December 2014 *(data converted)*	Year ended 31 December 2013 *(data not converted)*	Dynamics (2015/2014)
Net cash from financial activities	**(525,692)**	1,635,749	(249,100)	–
Increase/(decrease) in net cash and equivalents	**(1,080,356)**	866,923	(350,506)	–
Cash opening balance	**1,408,071**	541,148	891,654	**260.2%**
Cash closing balance	**327,715**	1,408,071	541,148	**23.3%**

** Due to the limited comparability of earlier periods, data are presented in a three-year horizon. Data comprising earlier periods are presented in Table no. 32 of this report.*

The figure below presents the cash flows in the years 2015–2013.

Figure no. 48 Cash flows in the years 2015–2013



The accomplished positive value of cash flows on operating activities in 2015 was higher than the stream of cash accomplished in the previous year by approximately PLN 770 million. The following factors had the most noticeable impact on the change in this position of cash flows account:

1) decline in the gross financial result (no impairment write-off taken into account) and depreciation as a non-cash factor by PLN 141 million,
2) positive change of working capital in the amount of PLN 506 million, resulting from:
   a) positive change in the status of inventory (growth by approximately PLN 134 million) as a result of the decline in the value of inventory due to its consumption and finding the deficit under the physical stocktaking conducted in TAURON Wydobycie,
   b) positive change in the status of liabilities – a decline in the stream of operating expenses by PLN 53 million,
   c) purchase of property rights in 2015 with the lower value than in the previous year – a decline in the stream of operating expenses by PLN 143 million,
   d) incurring of substitution fee in 2015 in the amount higher than in 2014 – a growth in the stream of operating expenses by PLN 62 million,
   e) positive change in the status of provisions which has an impact on the growth in value of the cash flow stream by PLN 306 million, which includes the creation of the provision for agreements generating charges with the joint venture – EC Stalowa Wola – in the amount of PLN 182.9 million.
3) payment of a lower income tax than in 2014 – a decline in the stream of operating expenses by PLN 197 million.

The value of cash flows on investment activity in 2015 was negative and it was higher by 16.4% than the investment expenses accomplished in 2014. The growth of expenditures on the purchase of fixed assets and intangible assets in the Generation and Distribution Segment by 14.4% had the highest impact on the change in this item of cash flow account.

In 2015, TAURON Capital Group accomplished the negative value of cash flows on financial activity, which resulted from the lack of the necessity to acquire higher external financing, since only PLN 14 million was acquired from the market. In 2015, TAURON Capital Group issued securities and incurred loans in the amount of PLN 310 million and PLN 295 million, respectively. The repayments performed in 2015 due to the issued bonds and incurred loans amounted to PLN 450 million and PLN 141 million, respectively. In addition, in the reporting year the Company paid the dividend to shareholders of the parent entity in the amount of PLN 263 million, and paid interest, mainly due to the acquired external financing, in the amount of PLN 276 million.

The nature of individual cash streams recognised in each item of cash flow account indicates strengthening of the company position on the market through its further development. The structure of cash flows shows that the investment expenditure incurred is financed from operating funds and the external funding sources raised.

TAURON Capital Group effectively manages cash flows, using the implemented central model of financing and the central policy of financial risk management. In order to minimise the potential disturbances in cash flows and the risk of loss of liquidity, the cash pooling mechanism was used. TAURON Capital Group uses various sources of funding, such as, for example, overdraft, bank facilities, loans from environmental funds, issue of bonds, financial leasing contracts and lease contracts with purchase option.

4.3. Characteristics of assets and liabilities of the consolidated balance sheet

Structure of the annual consolidated statement of financial standing

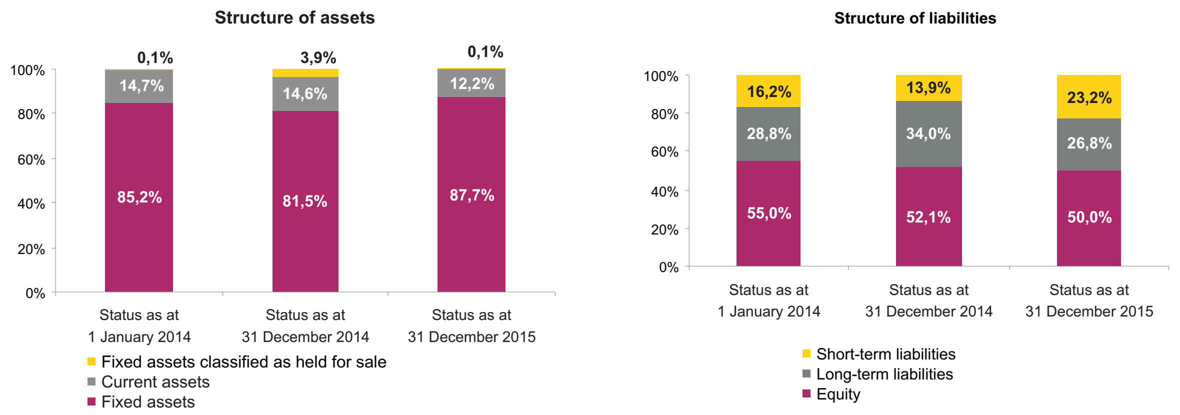
The table below shows the structure of the annual consolidated statement of financial standing.

Table no 30. Structure of the annual consolidated statement of financial standing

Consolidated statement of financial standing	Status as at 31 December 2015	Status as at 31 December 2014 *(data converted)*	Status as at 1 January 2014 *(data converted)*
ASSETS			
Fixed assets	**87.7%**	**81.5%**	**85.2%**
Current assets	**12.3%**	**14.6%**	**14.7%**
Fixed assets classified as held for sale	0.1%	3.9%	0.1%
TOTAL ASSETS	**100,0%**	**100,0%**	**100,0%**
LIABILITIES			
Equity attributable to shareholders of the parent company	49.9%	52.0%	53.6%
Non-controlling shares	0.1%	0.1%	1.4%
Total equity	**50.0%**	**52.1%**	**55.0%**
Long-term liabilities	26.8%	34.0%	28.8%
Short-term liabilities	23.2%	13.9%	16.2%
Total liabilities	**50.0%**	**47.9%**	**45.0%**
TOTAL LIABILITIES	**100.0%**	**100,0%**	**100.0%**
Financial liabilities	8,138,647	8,113,766	5,864,135
Net financial liabilities	7,763,963	6,665,318	5,227,226

The figure below presents the structure of assets and liabilities.

Figure no. 49 Structure of assets and liabilities



According to the status as at 31 December 2015, similar to 2014, the value of fixed assets has the highest share in the structure of assets. In the structure of fixed assets, tangible fixed assets of the following sectors have the biggest share: Distribution(60.3%), Generation (33.1%) and Mining (5.4%).

As at 31 December 2015, equity and financial liabilities represented the highest share in the structure of liabilities.

The level of debt of TAURON Capital Group remains at a safe level, which is indicated by the value of the debt ratio, as compared to the European benchmarks for the sector, and the positive stream of cash flows from operating activities.

4.4. Significant off-balance sheet items

As at 31 December 2015, significant contingent liabilities of TAURON Capital Group were related to:

1) the lack of created provision for unreported potential claims by owners of land of unregulated status due to the lack of detailed record of unregulated land and the resulting inability to reliably estimate the amount of potential claims,
2) the proceedings instituted on 12 December 2012 by the President of UOKiK against TAURON Sprzedaż, accusing it of using the practices violating the collective interests of consumers, by unjustified accrual of interest on overdue payments concerning the forecast of electricity consumption, which are indicated through the system of automated payment service procedures, as a result of allocation of the amounts paid by consumers to the receivables to be due in the future, while leaving the most outdated liabilities of consumers as unsettled,
3) the proceedings instituted on 17 September 2013 by the President of OCCP against TAURON Sprzedaż in connection with the suspected use of practices violating the collective interests of consumers, by providing electricity prices in price lists and information materials without including the value added tax, which constitutes the infringement of the *Act of 23 August 2007 on prevention of unfair market practices*,
4) the anti-monopoly proceedings instituted pursuant to the decision of 19 December 2014, in connection with the suspected abuse of the dominating position by TAURON Sprzedaż and TAURON Sprzedaż GZE on the market of reserve electricity sales,
5) the explanatory proceedings conducted by the President of OCCP against TAURON Sprzedaż and TAURON Sprzedaż GZE,
6) the court dispute between TAURON as a legal successor of Górnośląski Zakład Elektroenergetyczny S.A (GZE) and Huta Łaziska S.A. as a result of the failure of the Steelworks to fulfil the obligation to pay receivables due to energy supplies, which consequently caused the suspension of electricity supplies to the Steelworks by GZE in 2001,
7) the registered pledge and financial lien on TAMEH HOLDING shares, established by TAURON in favour of RAIFFEISEN BANK INTERNATIONAL AG in order to hedge transactions comprising the agreement for term and working capital loans, concluded between TAMEH Czech and TAMEH POLSKA, TAMEH HOLDING as well as RAIFFEISEN BANK INTERNATIONAL AG,

8) contingent liability in the form of TAURON liability to provide capital injection for Nowe Brzeszcze GT company, up to the maximum amount of PLN 185,000 thousand,
9) return of the surplus of income tax received in connection with the settlement of component renovation costs,
10) the excess payment of excise tax for the years 2006–2008 and for the months of January and February 2009, made by companies of TAURON Capital Group that submitted the adjusted tax returns, including the motions for acknowledgement of the excess payment,
11) the level of real estate tax imposed on energy installations used for generation and transmission of electricity.

Detailed information on off-balance items is included in notes 43 and 44 of the Consolidated financial statement for the year ended on 31 December 2015.

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

The Management Board of the Company did not publish any forecasts of financial results TAURON Capital Group for 2015. This decision resulted from the considerable volatility of the market and substantial number of variables affecting its predictability.

4.6. Basic financial and non-financial ratios

Financial ratios

The table below presents the basic financial ratios of TAURON Capital Group.

Table no 31. The basic financial ratios of TAURON Capital Group*

Ratios	Definition	2015	2014	2013
PROFITABILITY				
EBIT Margin	Operating result / Revenue on sales	**(10.3)%**	9.9%	10.1%
EBITDA Margin	EBITDA / Revenue on sales	**19.2%**	19.9%	19.1%
Net Profitability	Net result / Revenue on sales	**(9.8)%**	6.4%	7.0%
Return on Equity (ROE)	Net result / Closing balance of equity	**(11.2)%**	6.6%	7.6%
LIQUIDITY				
Current liquidity ratio	Current assets (excluding assets held for trade) / Short-term liabilities	**0.53**	1.05	0.90
DEBT				
General debt ratio	Total obligations / Total liabilities	**0.50**	0.48	0.45
Net debt/ EBITDA	(Financial liabilities - Cash) / EBITDA	**2.20**	1.80	1.43
OTHER RATIOS				
Earnings per share (EPS)	Net result attributable to shareholders of the parent entity / Number of ordinary shares	**(1.03)**	0.67	0.75

** Due to the limited comparability of earlier periods, data are presented in a three-year horizon. Data comprising earlier periods are presented in Table no. 32 of this report.*

In 2015 the profitability ratios of TAURON Capital Group stay at a negative level, due to recognising of impairment write-off applied for generation assets in the result. If this factor is omitted, ratios for 2015 gained a higher level, which is demonstrated by the EBITDA margin, increasing to the level of 20.2%, mainly due to lower costs of operations of companies of TAURON Capital Group and a higher YoY result of the Distribution Segment.

The current liquidity ratio reached a value lower than in 2014, which is mainly affected by a lower level of cash (as at 31 December 2014 the status of cash was exceptionally high), as well as the increase of the level of debt in 2015 in relation to 2014.

The total debt ratio as well as Net debt/EBITDA ratio reflect the share of liabilities in TAURON Capital Group financing. The current level of this ratio enables TAURON Capital Group to acquire external financing required to implement the investments planned. The change in the level of the ratio in 2015 results from the growth in net debt (by approximately 16.1%), and the decline of the EBITDA result of TAURON Capital Group (by almost PLN 171 million).

The continued favourable macroeconomic situation and the relatively low interest rates foster the acquisition of less expensive external financing, and this opportunity was used by TAURON Capital Group also in 2015.

The EPS ratio (calculated in relation to net profit attributable to shareholders of the parent entity) is negative, due to recognising of the impairment write-off in the result.

Non-financial ratios

The non-financial ratios in TAURON Capital Group are closely associated with the specific nature of its activities, the resources held and the adopted Corporate Strategy, including:

1) assessment of investment opportunities,
2) methods of human resources management,
3) risk optimisation,
4) Clients' satisfaction feedback surveys,
5) centralisation of governance functions in TAURON Capital Group, restricting the non-core activities,
6) development of organisational structures and management procedures.

4.7. Most significant financial and operating data of TAURON Capital Group for 2011–2015

The table below presents the most significant financial data and operational data of TAURON Capital Group for the years 2011–2015.

Table no 32. Financial and operational data for the period 2011–2015*

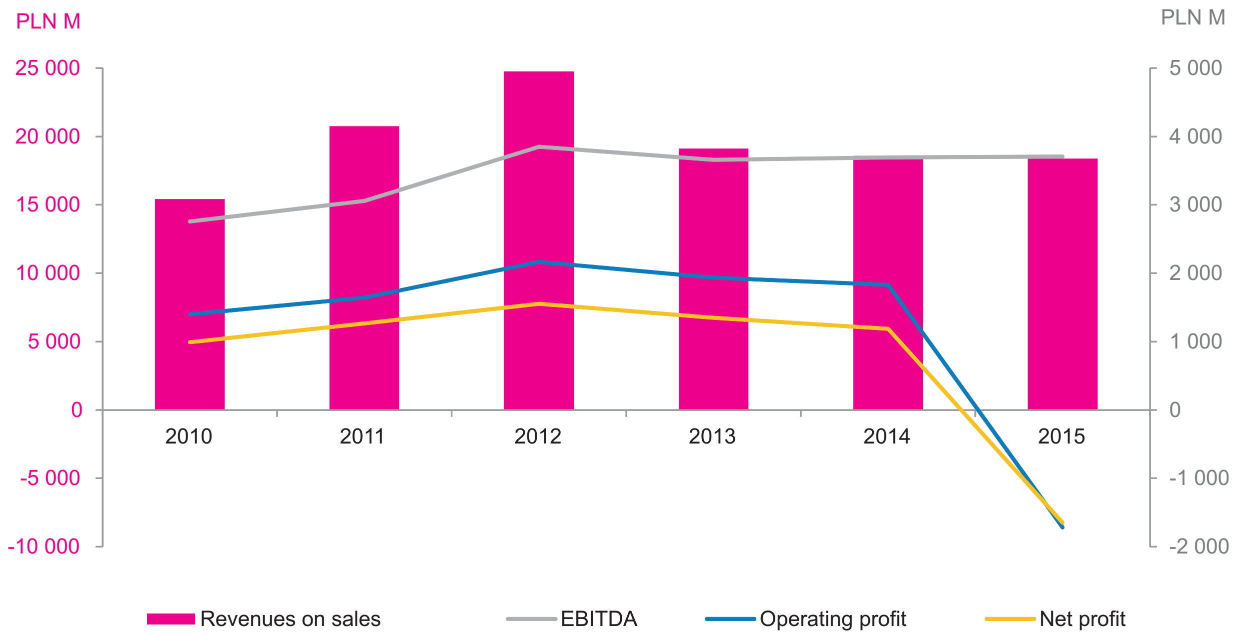
Basic information	Unit	2015	2014	2013	2012	2011	Change % (2015/2014)
Statement of comprehensive income							
Revenue on sales	*PLN M*	18,375	18,577	19,131	24,753	20,755	99%
Operating profit	*PLN M*	(1,901)	1,830	1,934	2,165	1,646	–
Financial revenues (cumulative)	*PLN M*	81	86	99	131	116	95%
Financial expenses (cumulative)	*PLN M*	(368)	(418)	(347)	(347)	(160)	88%
Gross profit	*PLN M*	(2,188)	1,498	1,684	1,948	1,600	–
Income Tax	*PLN M*	384	(313)	(337)	(397)	(333)	–
Net profit	*PLN M*	(1,804)	1,186	1,346	1,551	1,267	–
attributable to shareholders of the parent entity	*PLN M*	(1,807)	1,181	1,308	1,476	1,245	–
attributable to non-controlling shares	*PLN M*	3	5	38	74	22	66%
EBITDA	*PLN M*	3,523	3,695	3,661	3,852	3,057	95%
Statement of financial standing							
Fixed assets	*PLN M*	28,124	28,163	27,567	25,471	23,417	100%
Current assets	*PLN M*	3,947	6,396	4,789	5,766	5,101	62%
Total equity	*PLN M*	16,048	17,997	17,793	16,800	16,087	89%
Total liabilities	*PLN M*	16,023	16,563	14,562	14,474	12,440	97%
Long-term liabilities	*PLN M*	8,584	11,744	9,304	9,081	7,597	73%
Short-term liabilities	*PLN M*	7,439	4,819	5,258	5,392	4,843	154%
Net financial debt	*PLN M*	7,764	6,665	5,227	4,535	4,031	116%
Capital expenditure	*PLN M*	4,175	3,090	3,780	3,472	2,504	135%
Cash flow account							
Net cash from operating activities	*PLN M*	3,387	2,618	4,079	3,479	2,209	129%
Net cash from investment activities	*PLN M*	(3,942)	(3,387)	(4,180)	(3,283)	(5,690)	116%

Basic information	Unit	2015	2014	2013	2012	2011	Change % (2015/2014)
Net cash from financial activities	PLN M	(526)	1,636	(249)	190	2,515	–
Cash closing balance	PLN M	328	1,408	541	892	506	23%
Ratios							
EBIT Margin	%	(10.3)%	9.9%	10.1%	8.7%	7.9%	-95%
EBITDA Margin	%	19.2%	19.9%	19.1%	15.6%	14.7%	101%
Net financial debt/ EBITDA	number	2.20	1.80	1.43	1.18	1.32	116%
Net earnings per share	PLN/share	(1.03)	0.67	0.75	0.84	0.71	–
Dividend per share	PLN/share	0.15	0.19	0.20	0.31	0.15	79%
Operational data							
Commercial coal production	M Mg	4.91	5.40	5.45	5.57	4.58	91%
Net production of electricity	TWh	16.64	15.37	19.39	19.11	21.38	108%
Net production of electricity from RES	TWh	1.59	1.79	1.38	1.21	0.99	89%
Heat production	PJ	11.51	13.41	15.62	16.36	15.96	86%
Retail sales of electricity**	TWh	35.94	36.43	41.30	44.74	35.52	99%
Distribution of electricity	TWh	49.20	47.90	47.90	47.85	38.24	103%
Number of clients (Distribution)	million	5.42	5.38	5.33	5.30	4.14	101%

** The values presented do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in organisation of Business Segments after 2010.*
*** The volume of retail sales for 2014 has been presented comparatively to 2015 in connection with reclassification of agreements of some consumers (from retail sales to wholesale).*

The figure below presents the financial data of TAURON Capital Group for the years 2011–2015.

Figure no. 50 Financial data of TAURON Capital Group for the years 2011–2015



The table below presents EBITDA results of TAURON Capital Group, divided into Business Areas.

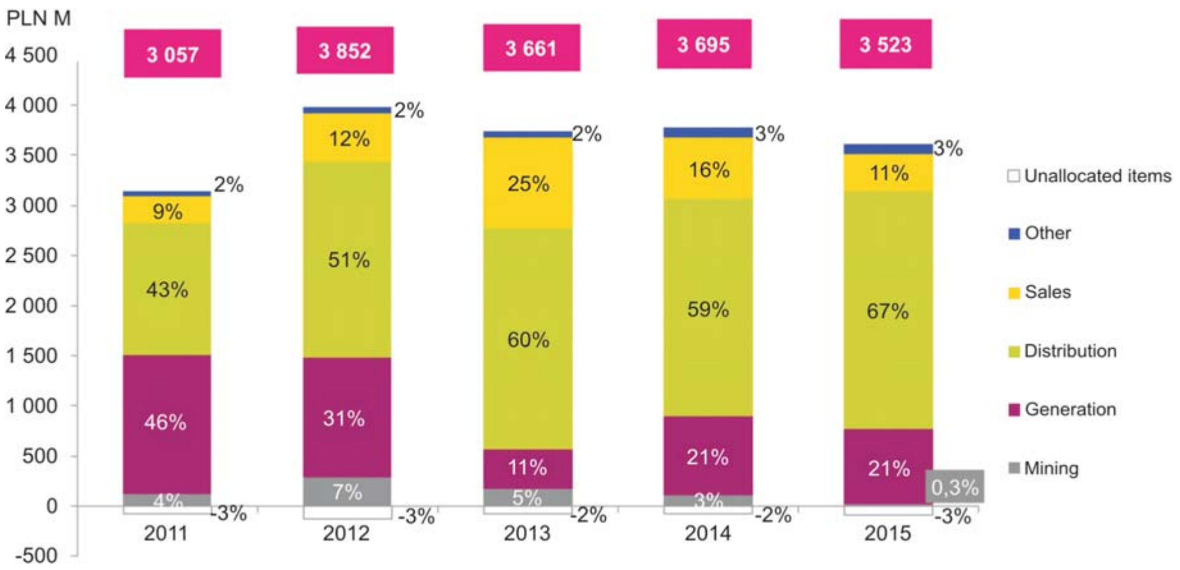
Table no 33. EBITDA results of TAURON Capital Group, divided into Areas of activity*

No.	EBITDA (PLN M)	2015	2014	2013	2012	2011	Dynamics (2015/2014)	Change (2015–2014)
1.	Mining	**9**	98	166	287	111	9%	(89)
2.	Generation	**755**	793	400	1,194	1,402	95%	(38)
3.	Distribution	**2,372**	2,172	2,208	1,956	1,303	109%	200
4.	Sales	**380**	608	899	478	271	93%	(228)
5.	Other	**100**	106	63	67	50	94%	(6)
6.	*Unallocated items*	*(94)*	*(83)*	*(75)*	*(131)*	*(80)*	*112%*	*(10)*
	Total EBITDA	**3,523**	**3,695**	**3,661**	**3,852**	**3,057**	**95%**	**(171)**

** The values presented do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in organisation of Business Segments after 2010.*

The figure below presents the financial data of TAURON Capital Group for the years 2011–2015.

Figure no. 51 Structure of EBITDA of TAURON Capital Group in the years 2011–2015



Basic information for the years 2011–2015 according to Business Areas

The figures below present the financial data for the years 2011–2015 according to Business Areas:

Figure no. 52 Data of Mining Area for 2011–2015

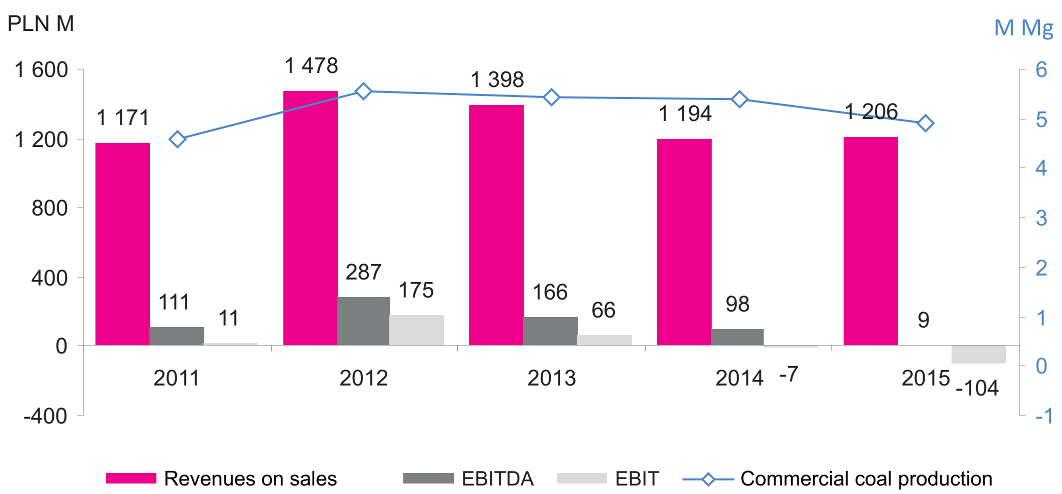


Figure no. 53 Data of Generation Area for 2011–2015

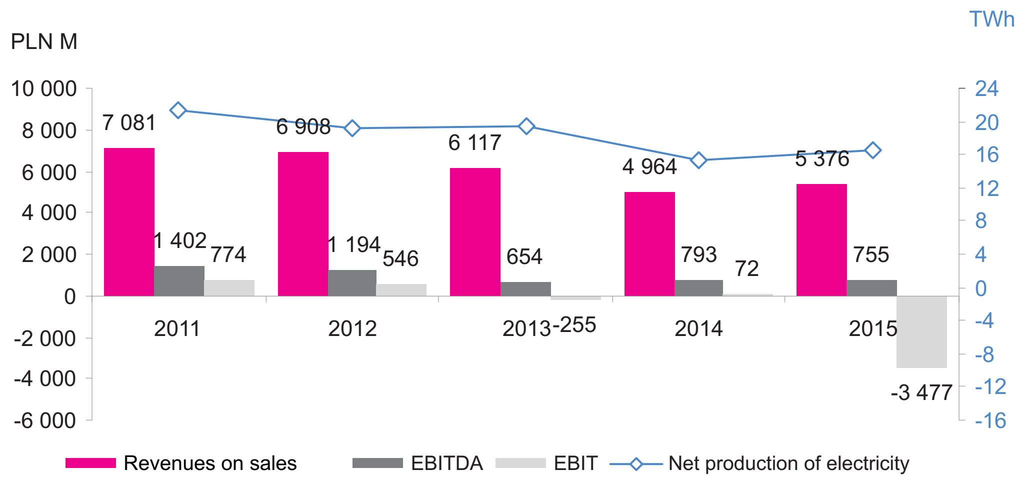


Figure no. 54 Data of Distribution Area for 2011–2015

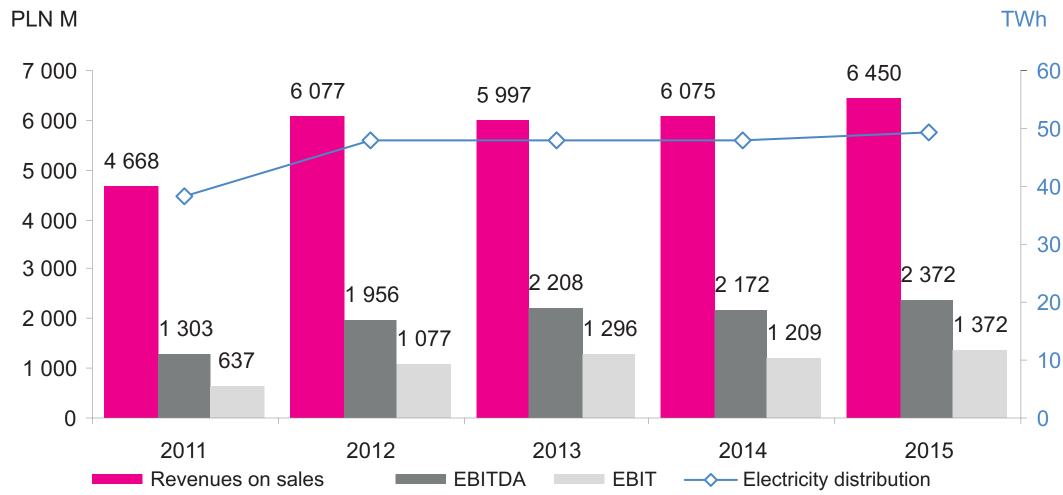


Figure no. 55 Data of Sales Area for 2011–2015

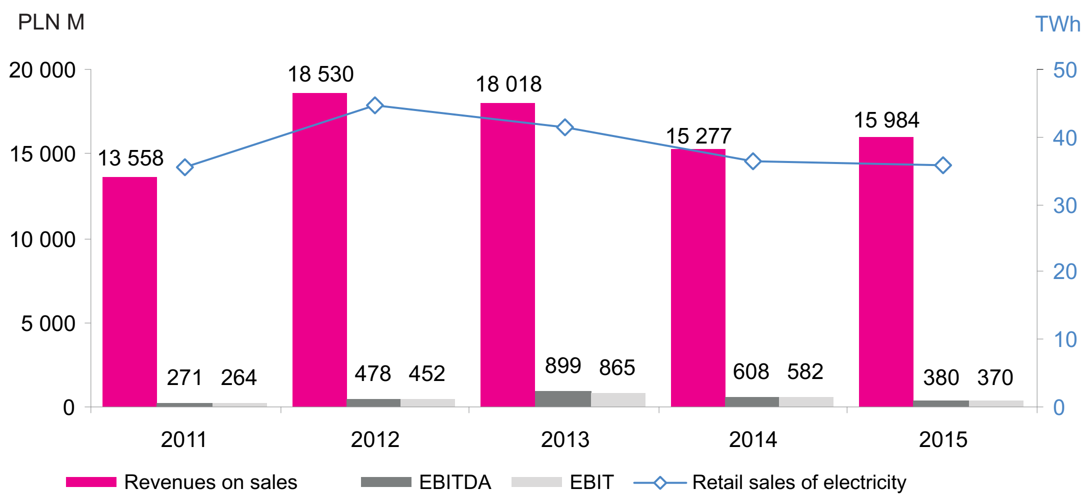
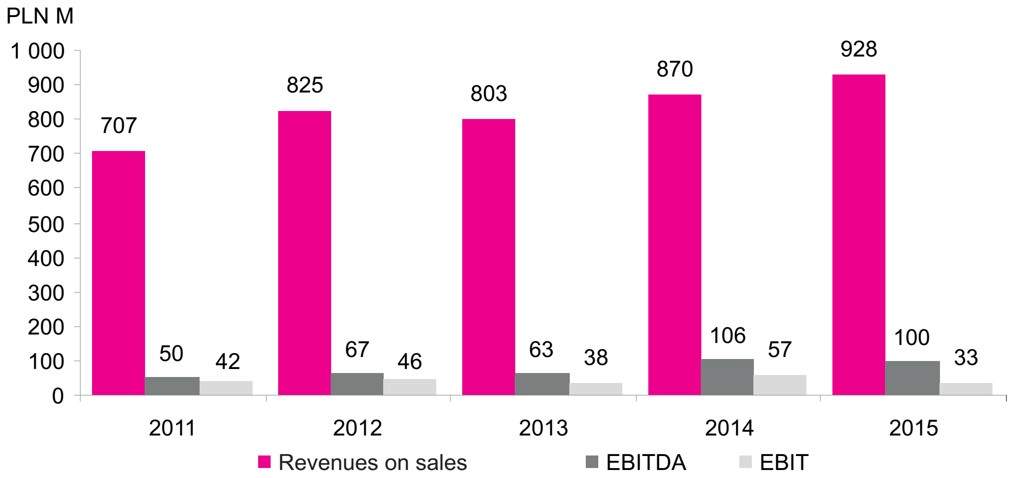


Figure no. 56 Data of Other Area for 2011–2015*



** For 2011 the data are not comparable due to the commencement of activity by TAURON Obsługa Klienta, recognised in Other Area.*

4.8. Income from the issue of securities

On 9 July 2015 and on 20 November 2015, TAURON concluded annexes with BGK to the agency and deposit agreement and the guarantee agreement, pursuant to which the amount of the bond issue programme available for TAURON increased from the level of PLN 1,000,000 thousand to PLN 1,700,000 thousand. The goal of the issue of bonds is to finance investment expenditure in accordance with the development strategy of TAURON Capital Group. The financial structure stipulates bond issue within the increased amount of the programme in the years 2015–2016, with redemption deadlines falling from 2020 to 2029. In this project, BGK acts as the organiser, programme guarantor and depositary. The bonds are uncollaterlised, coupon securities bearing interest rate according to the floating interest rate. In 2015, under the bond issue programme, TAURON issued bonds for the total amount of PLN 310,000 thousand.

On 24 November 2015, TAURON and Bank Handlowy in Warsaw, Bank of Tokyo-Mitsubishi UFJ (Holland) BV, Bank of Tokyo-Mitsubishi UFJ (Poland) S.A., BZ WBK, CaixaBank S.A. (Joint Stock Company) Oddział w Polsce, Industrial and Commercial Bank of China (Europe) S.A. Oddział w Polsce, ING Bank Śląski S.A., and PKO BP signed the agency agreement, the depository agreement and the underwriting agreement, to which mBank and Bank BGŻ BNP Paribas S.A., under which a bond issue programme was established to the amount of PLN 6,270,000 thousand, with a guarantee of being taken up by the aforementioned banks. The funds from the issuance, obtained under the aforementioned programme will be used to cover expenditure related to the execution of TAURON Capital Group investment programme, for debt refinancing or financing of the general corporate expenses of TAURON Capital Group. Within the programme, TAURON may organise multiple bond issues within the period until 30 November 2020. The bonds will be uncollateralised, coupon, bearer securities, bearing interest according to floating interest rate, and with maturity of 1, 3, 6, 12, 24, 36, 48 or 58 months.

Within the bond issue programme concluded on 31 July 2013 between the Company and BGK, TAURON issued bonds for the total amount of PLN 520,000 thousand according to the following specification:

1) on 21 December 2015 the issue of bonds with the nominal value of PLN 100,000 thousand, with the redemption term on 20 December 2028,
2) on 20 December 2015 the issue of three series of bonds, PLN 70,000 thousand each, with the total nominal value of PLN 210,000 thousand, with the redemption term in the years 2020–2022,
3) on 8 January 2016 the issue of three series of bonds, PLN 70,000 thousand each, with the total nominal value of PLN 210,000 thousand, with the redemption term in the years 2023–2025,

The objective of the issue of bonds was to finance investment expenditure of TAURON Capital Group.

On 29 February 2016 the issue of bonds with the total value of PLN 2,250,000 thousand was performed, with the redemption term on 29 December 2020, under the programme signed with the consortium of banks on 24 November 2015. The objective of the issue of bonds was to acquire funds for the purchase of 22,500 bonds from C tranche, issued on 12 December 2011, with the purpose of redemption, with the redemption date falling on 12 December 2016. Information on this event is contained in the current report no. 11/2016 of 29 February 2016.

The table below presents the specification of issued and non-redeemed bonds as at 31 December 2015.

Table no 34. Specification of issued and non-redeemed bonds as at 31 December 2015

No.	Value of bonds (in thousand)	Type and level of interest rate	Redemption term of the last series	Balance as at 31 December 2015 (in thousand)
1.	PLN 3,000,000	WIBOR 6M + fixed margin	12.12.2016	PLN 3,000,000
2.	PLN 1,750,000	WIBOR 6M + fixed margin	04.11.2019	PLN 1,750,000
3.	PLN 1,210,000	WIBOR 6M + fixed margin	20.12.2028	PLN 1,210,000

Within TAURON Capital Group the internal programme on issue of bonds operates, under which in 2015 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 2015 the Company was purchasing bonds issued by companies of TAURON Capital Group, with the maturity term from 4 months to 5 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 2015.

Table no 35. The value of issues taken over and not redeemed, divided into individual companies of TAURON Capital Group (issuers) as at 31 December 2015

No.	Company name	Value of issues taken over (in PLN thousand)
1.	TAURON Dystrybucja	2,600,000
2.	TAURON Wytwarzanie	2,498,770
3.	TAURON Ciepło	1,603,260
4.	TAURON Wydobycie	600,000
5.	TAURON Obsługa Klienta	85,000
6.	TAURON EKOENERGIA	60,000
	Total	**7,447,030**

Besides the acquisition of bonds of TAURON Capital Group companies, the Company did not purchase any other debt securities.

4.9. Financial instruments

4.9.1. Application of financial instruments in the scope of elimination of price changes, credit risk, significant disruptions of cash flows and loss of financial liquidity

The financial risk in TAURON Capital Group is managed by TAURON. The centralisation of the financial risk management function is aimed at optimisation of the process, including the minimisation of TAURON Capital Group costs in this scope. Within the financial risk management, in 2015 TAURON Capital Group hedged the risk of volatility in cash flows resulting from the indebtedness held, based on WIBOR reference rate by its partial mitigation through concluding of interest rate swap transactions (IRS) replacing the floating interest rate by the fixed interest rate. Moreover, in 2015, the currency exposure arising within the commercial activities (mainly due to the CO_2 emission allowances trading) was hedged by concluding forward contracts. The aim of these transactions was to hedge the Company against the risk of cash flow fluctuations resulting from currency exchange rate volatility. In addition, TAURON Capital Group 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, through the concluded CIRS transaction.

The table below presents active forward derivative transactions as at 31 December 2015 (due to the adopted centralised model of financial risk management, the data refer only to TAURON).

Table no 36. Information on forward and derivative transactions as at 31 December 2015 (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 2015
			PLN	EUR	other	up to one year	above one year	
1.	IRS	3,000,000	X			X		- 95,467
2.	CIRS	704,928	X				X	- 11,368
3.	Forward	3,914		X		X		493

Within hedging of risk arising from price volatility TAURON Capital Group used forward market instruments for edging purposes. On the other hand, under liquidity loss risk management a number of debt instruments referred to in subsection 2.8.3 is used.

4.9.2. Goals and methods of financial risk management

TAURON Capital Group manages financial risk, understood as currency risk and interest rate risk in accordance with the prepared and adopted regulations *Policy of risk management specific for the financial area in TAURON Group*, which is the collection of principles and standards compliant with the best practices in this area.

Due to correlation between the risk incurred and the level of achievable income, these regulations are used to maintain the risks at the previously established, acceptable level. The main goal of financial risk management is to minimise TAURON Capital Group cash flows sensitivity to financial risk factors and to reduce financial costs and collateral costs as a part of transactions with the use of derivative instruments.

The aforementioned policy also defines the rules of hedge accounting application, including the types of cash flow collaterals and the accounting treatment of hedging instruments and items hedged, in accordance with the IFRS. In accordance with the said policy, TAURON Capital Group, in case where it is feasible and economically justified, uses derivative instruments whose characteristics enables the application of hedge accounting.

4.10. Financial outlook

Considering the current market situation, it is expected that the results of TAURON Capital Group in the forthcoming years will be affected both by internal factors and by external factors.

The results of the **Mining Area** should remain at a stable level in the perspective of the nearest years. In order to improve/optimise the results, the Mining Area will implement the investment tasks and the technical and organisational tasks aimed at raising own production capacity based on the deposits held, in the cost-effective way.

It is expected that the financial situation in the **Generation Area** in the perspective of the nearest several years will not improve in relation to the current situation, due to the macroeconomic and sectoral conditions in which electricity producers will operate. In a longer perspective, new generation units currently under construction, demonstrating better production parameters, will have an impact on improvement of the current status. It is also expected that, in a long-term perspective, growth in electricity prices will occur due to higher prices of CO_2 emission allowances, as a result of EC administrative measures (aimed at triggering of growth in these prices). In activities associated with heat distribution, growth in revenues is foreseen due to the implemented low emission liquidation programmes promoting systemic heat. The activity associated with electricity generation in RES is subject to statutory regulation which, to a large extent, determine the profitability. The activities conducted in the scope of cost effectiveness improvement in the whole Area will have impact on the improvement of its results.

In the **Distribution Area**, the estimated level of remuneration from invested capital and the measures implemented in the scope of cost effectiveness improvement will play a key role in the developments of the operating result. It is expected that the estimated level of operating profit in 2016 will be lower than that achieved in 2015, mainly due to the application of a lower, average weighted cost of capital for Power System Operators used to determine the remuneration from invested capital.

In **Sales Area** lower operating profit is expected in 2016 as compared to 2015, mainly due to the decreased margin on sales. Factors significantly affecting the reduction of the margin on sales include lower costs of energy sales to the end consumer, associated with the growing competition in the energy market, and a lower price in G tariff.

Other Area is mainly responsible for rendering common services as well as for implementation and finalisation of projects serving mainly for the provision of services to the Distribution and Sales Area in the scope of contacts and top settlements with clients at the highest level. In addition, services for companies of TAURON Capital Group are provided, inter alia, in the scope of financial and accounting service and IT. Those activities enable to achieve synergy effects across TAURON Capital Group and improve cost effectiveness.

4.11. What can be expected in 2016

According to macroeconomic forecasts, stabilisation of business conditions is expected in 2016. The GDP growth will be similar to 2015. Continued improvement of the situation in the labour market and positive sentiment in economy should contribute to growth both in energy consumption and in investment demand. Corporate investment will be fostered by good financial standing of enterprises, a high level of production capacity exploitation, expected growth in domestic and foreign demand as well as lower interest rates as compared to the previous years. The available forecasts indicate that along the extinction of the impact of earlier declines in oil and food prices, in the consecutive quarters, the dynamics of prices will gradually grow, to reach a higher level in 2016 as compared to 2015; after almost two years of deflation, a minor inflation will appear. Export may also have less importance, mainly due to the Russian conflict and the stagnation in the euro area.

4.12. Assessment of financial resources management

Due to the measures implemented in the previous years and continued in 2015, 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,* where the Company plays the role of the management body and decision maker in the scope of directions of measures undertaken, allowing 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 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 demand for financing (for this purpose, besides cash pooling, the intra group bond issue programme has been implemented).

The adopted form of acquiring the sources of financing enables, inter alia, to decrease costs of capital, increases possibilities to raise financing, reduces the number and form of collaterals established on assets of TAURON Capital Group and covenants required by financial institutions, as well as influences administrative cost reduction. The central model of financing also enables to acquire financing sources unavailable for individual companies, such as, for example, issue of Euro bonds. The 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 a level of TAURON Capital Group. The structure of financing of investment projects in the specific period corresponds to the overall activity of TAURON Capital Group. The model adopted enables the implementation of investment plans in accordance with the approved 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, which allows to optimise the selection of the fund raising moment and 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 a single agreement it is possible to issue guarantees in favour of any company of TAURON Capital Group within a centralised limit. The above mentioned activity reduced the cost of bank guarantees acquired, made their acquisition independent of an individual company standing and limited the total number of activities required to obtain the guarantee. In addition, TAURON concluded the general agreement with BZ WBK bank for bank guarantees issued for IRGIT, which significantly reduces the cost of collaterals required in connection with the electricity trading on the stock exchange.

In 2015, TAURON Capital Group demonstrated full capacity to settle its liabilities on the payment date.

4.13. Information concerning the entity authorised to examine financial statements

The authorised entity, auditing the consolidated financial statement of TAURON Capital Group is Deloitte Polska Sp. z o.o. Spółka Komandytowa with its seat in Warsaw, Al. Jana Pawła II 19, 00-854 (Deloitte Polska). The agreement concluded on 7 May 2013 between TAURON and Deloitte Polska refers to the auditing of Company financial statements and consolidated financial statements for the years 2013–2015.

The level of remuneration of the chartered accountant for the services provided to the companies of TAURON Capital Group is shown in the table below.

Table no 37. The level of remuneration of the chartered accountant for the services provided to the companies of TAURON Capital Group

No.		Year ended on 31 December 2015 (in PLN thousand)	Year ended on 31 December 2014 (in PLN thousand)
1.	Obligatory audit, including:	652	577
	consolidated financial statements	25	25
	separate financial statements of the parent entity	80	80
	separate financial statements of subsidiaries	547	472
2.	Other certifying services provided to TAURON Capital Group, including reviews of financial statements	556	613
3.	Tax advisory services	0	0
4.	Other services (including training) provided to TAURON Capital Group	505	0
	Total	**1,713**	**1,190**

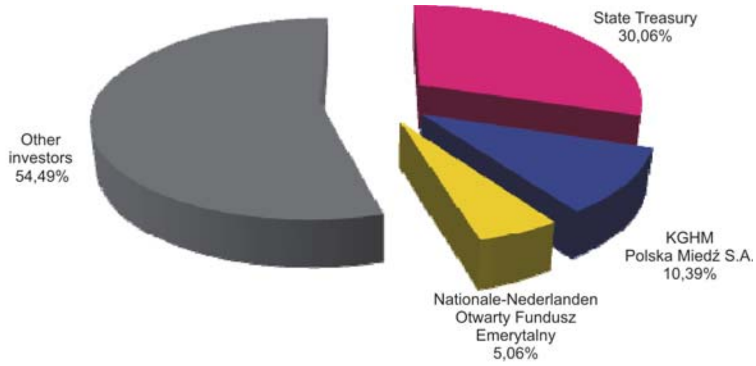
5. SHARES AND SHAREHOLDERS

5.1. Structure of shareholding and the level of the dividend paid

As at 31 December 2015 and as at the day of drawing up 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 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 figure below presents the structure of shareholding as at 31 December 2015 and as at the day of drawing up this report.

Figure no. 57 Structure of the shareholding as at 31 December 2015 and as at the day of this report



The table below presents the level of dividend paid in the years 2010–2014.

Table no 38. The level of dividend paid in the years 2010–2014

No.	Dividend paid for 2010–2014					
	Financial year for which the dividend was paid	Amount of 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	20.07.2011
2.	2011	543,290,312.14	44%	0.31	02.07.2012	20.07.2012
3.	2012	350,509,878.80	24%	0.20	03.06.2013	18.06.2013
4.	2013	332,984,384.86	25%	0.19	14.08.2014	04.09.2014
5.	2014	262,882,409.10	23%	0.15	22.07.2015	12.08.2015

5.2. Number and nominal value of Company shares as well as shares and stocks in affiliated entities of the Company, held by members of the management and supervisory bodies

The table below presents the status of Company shares, held by the management staff as at 31 December 2015 and as at the day of this report.

Table no 39. Status of shareholding of Company shares by managing persons

No.	Name and surname	TAURON shares	
		Number	Nominal value (in PLN)
1.	Remigiusz Nowakowski	935	4675
2.	Jarosław Broda	0	0
3.	Kamil Kamiński	0	0
4.	Marek Wadowski*	0	0
5.	Piotr Zawistowski	0	0
6.	Anna Striżyk*	0	0

** Anna Striżyk was dismissed from the Management Board on 8 January 2016, Marek Wadowski was appointed as the member of the Management Board on 29 January 2016.*

As at 31 December 2015 and as at the day of drawing up this report, Members of the Management Board did not hold stocks or shares in affiliated entities of the Company.

The table below presents the status of Company shares, held by the supervisory staff as at 31 December 2015 and as at the day of drawing up this report.

Table no 40. Status of shareholding of Company shares by supervising persons

No.	Name and surname	TAURON shares	
		Number	Nominal value (in PLN)
1.	Beata Chłodzińska	0	0
2.	Anna Mańk	0	0
3.	Jacek Szyke	0	0
4.	Anna Biesialska	0	0
5.	Maciej Koński	0	0
6.	Leszek Koziorowski	0	0
7.	Wojciech Myślecki	0	0
8.	Michał Czarnik	0	0
9.	Renata Wiernik-Gizicka	2,500	12,500

As at 31 December 2015 and as at the day of drawing up this report, Members of the Supervisory Board did not hold 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 2015 and as at the day of drawing up this report, the Company did not hold any treasury shares.

5.5. Programmes of employee shares

In 2015, no 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 2015 the price of TAURON shares ranged from PLN 2.37 to PLN 5.29 (according to closing prices). The price of shares during the last session in 2014 reached the level of PLN 5.05. A year later, the price reached PLN 2.88. The return rate[1] on investment in TAURON shares in 2015 was negative and amounted to -41%, whereas the WIG20 index in this period decreased by 20%, and the WIG-Energia index – by 31%. One of the main reasons of the poor condition of Polish exchange indices was the deteriorating situation of the Chinese economy, the decline in commodity prices and the persisting political uncertainty.

On the other hand, the main reason of radical downward adjustment of energy companies' valuation in 2015 – as analysts indicate – was the risk associated with the potential involvement of those companies in the restructuring of the coal mining sector. It should be stressed that in 2015, quotations of the leading European energy groups (inter alia, RWE, EON, Engie, EDF) continued to follow the long-term downward trend, and market valuations of some companies reached their historical lows (e.g. RWE).

As at 31 December 2015, TAURON shares were included in the following exchange indices:

1. **WIG** – comprising 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: 1.14%.

[1] *The return rate calculated, including the income of the investor due to dividends, and assuming that the additional income gained will be reinvested. Methodology compliant with the GPW Statistical Bulletin.*

2. **WIG-Poland** – the national index which includes only 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: 1.164%.
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: 1.75%.
4. **WIG30** – index comprising 30 biggest and most liquid companies listed at the Primary Market of GPW. Share of TAURON in WIG30 index: 1.62%.
5. **WIG-Energia** – the sectoral index comprising companies participating in the WIG index and simultaneously classified to the energy sector. Share of TAURON in WIG-Energia index: 14.756%.
6. **Respect Index** – the index grouping in their portfolio companies operating in accordance with the highest standards of social responsibility of business. Share of TAURON in Respect Index: 3.645%.
7. **MSCI Emerging Markets Europe 10/40 Index** – the index comprising key companies listed at exchanges of emerging markets. Share of TAURON in MSCI Emerging Markets Europe 10/40 Index: 0.51%.
8. **MSCI Poland Index** – the index comprising over 20 key companies listed at GPW. Share of TAURON in MSCI Poland Index: 1.81%.

The table below presents the key data concerning the Company shares in the years 2011–2015.

Table no 41. Key data related to TAURON shares in the years 2011–2014

No.		2011	2012	2013	2014	2015
1.	Maximum price (PLN)	6.81	5.61	5.39	5.69	5.29
2.	Minimum price (PLN)	4.65	4.08	3.85	4.04	2.37
3.	Last price (PLN)	5.35	4.75	4.37	5.05	2.88
4.	Capitalisation at the end of the period (PLN million)	9,376	8,325	7,659	8,850	5,047
5.	Capitalisation at the end of the period (%)	2.10	1.59	1.29	1.50	0.98
6.	Book value (PLN million)	15,922.47	16,839.41	17,675.34	18,106.79	18,837.00
7.	C/Z	8.10	5.50	5.50	7.80	4.2
8.	C/WK	0.59	0.49	0.43	0.49	0.27
9.	Return rate since the beginning of the year[2] (%)	-16.73	-5.03	-3.64	+20.07	-40.78
10.	Dividend rate (%)	2.8	6.5	4.6	3.8	5.2
11.	Value of trade (PLN million)	5,574.82	3,198.94	3,103.56	3,134.81	3,062.52
12.	Share in trade (%)	2.21	1.70	1.41	1.53	1.50
13.	Average volume per session	3,721,539	2,667,725	2,793,020	2,489,329	3,190,195
14.	Average number of transactions per session	1,373	960	1,022	1,106	1,431

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.

[2] *The return rate calculated, including the income of the investor due to dividends, and assuming that the additional income gained will be reinvested. Methodology compliant with the GPW Statistical Bulletin.*

Figure no. 58 Graph of TAURON share price and value of trade in 2015

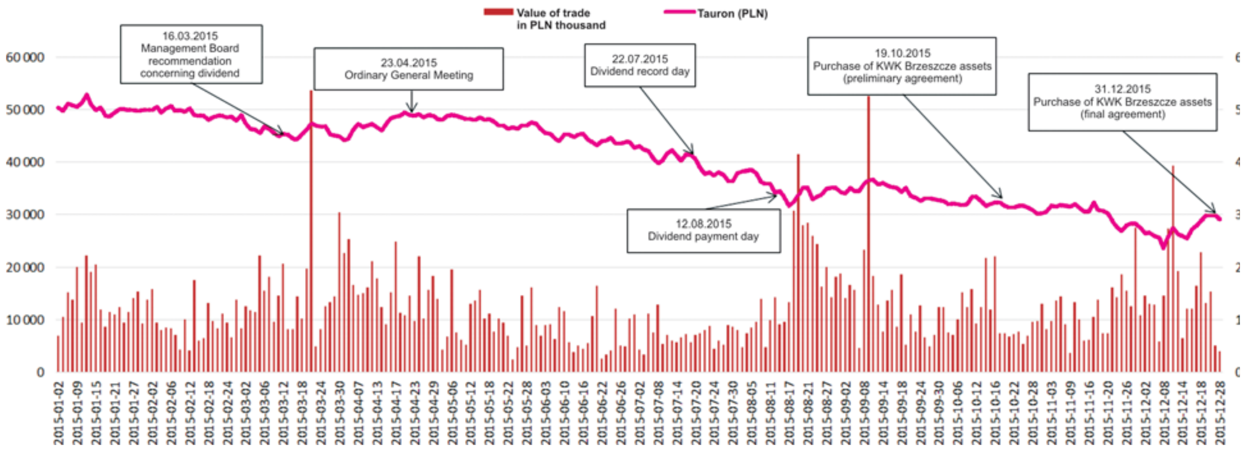


Figure no. 59 Graph of TAURON share price and the value of trade from the exchange debut until 31 December 2015

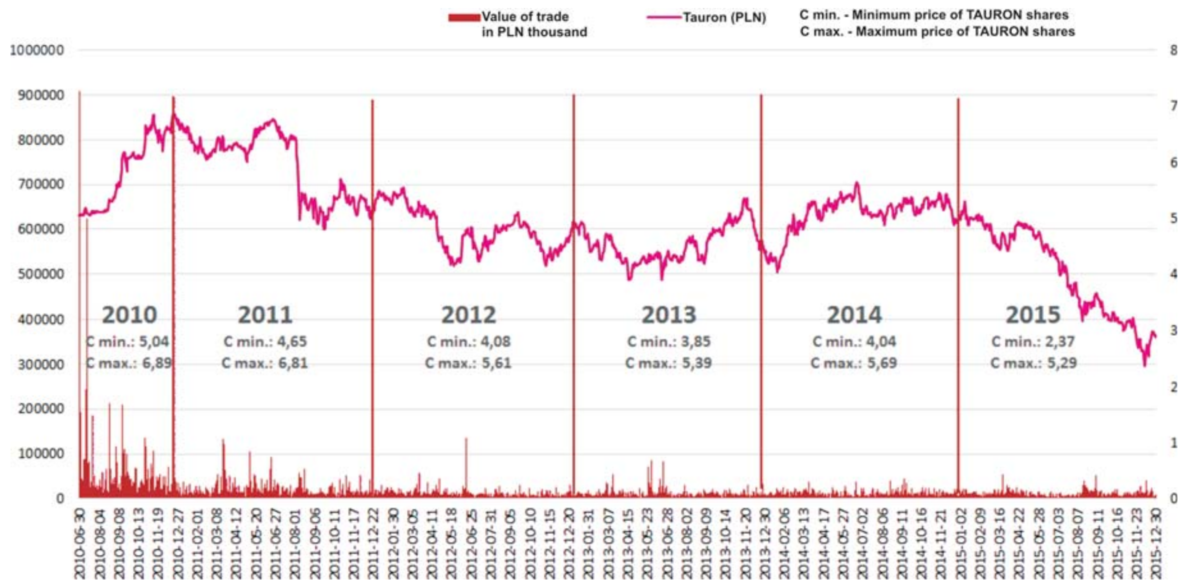


Figure no. 60 Graph of TAURON share price compared to WIG20 and WIG-Energia indices in 2015

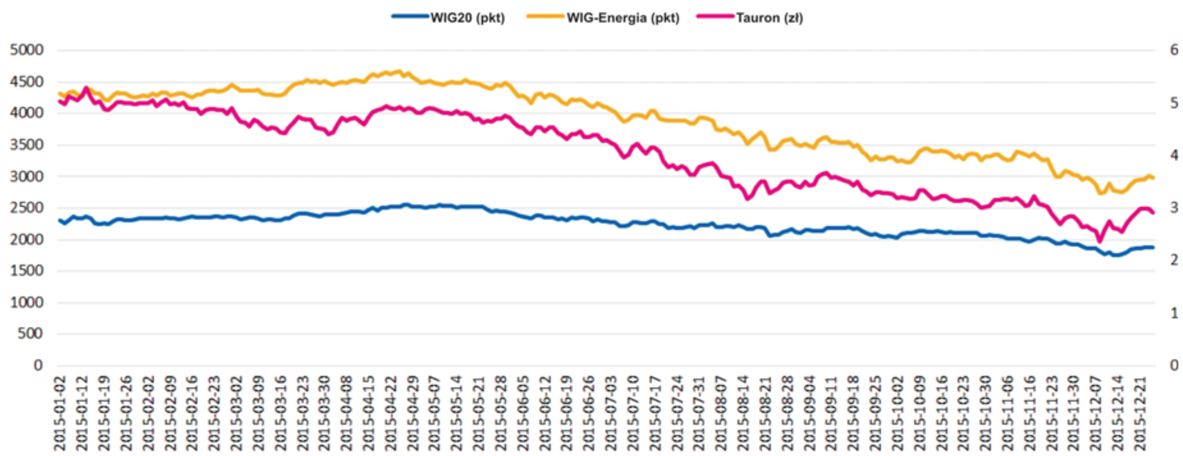
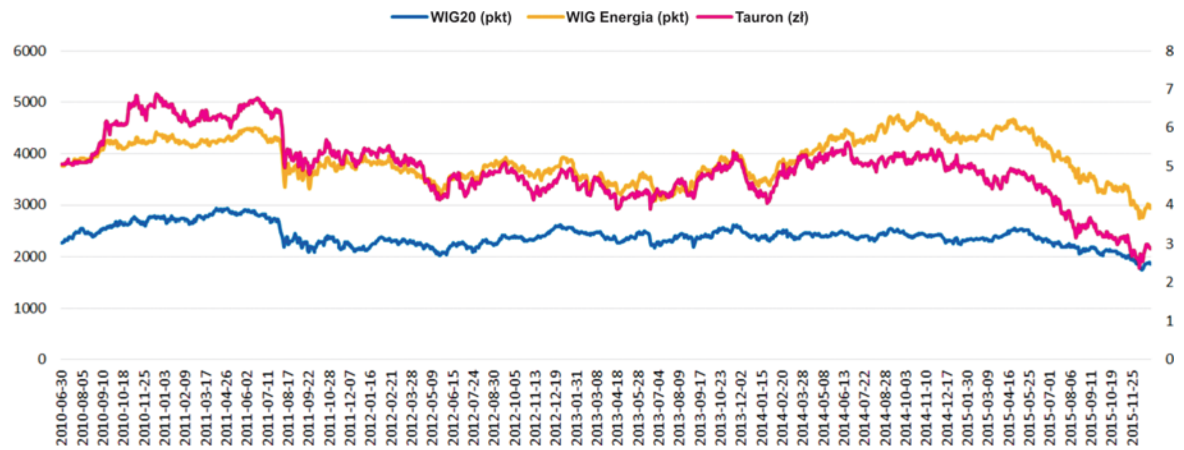


Figure no. 61.Share price of TAURON as compared to WIG20 and WIG-Energia indices from the exchange debut until 31 December 2015



Recommendations for TAURON Polska Energia S.A. shares

In 2015, analysts of brokerage houses and investment banks issued the total of 32 recommendations (excluding the updates of target prices) for TAURON shares, including:

1) four “buy” recommendations,
2) fourteen “keep” recommendations,
3) twelve “sell” recommendations.

The table below presents the list of recommendations issued in 2015

Table no 42. Recommendations issued in 2015

No.	Date of recommendation	Recommendation/target price	Recommending institution
1.	22.01.2015	Buy / PLN 6.20	Wood & Company
2.	09.02.2015	Keep / PLN 5.06	J.P. Morgan
3.	13.02.2015	Sell / PLN 5.00	Citi
4.	20.02.2015	Sell / PLN 4.40	Deutsche Bank
5.	05.03.2015	Keep / PLN 4.70	Societe Generale
6.	25.03.2015	Keep / PLN 5.30	Goldman Sachs
7.	09.04.2015	Keep / PLN 5.10	UBS Investment Research
8.	23.04.2015	Sell / PLN 4.60	Citi
9.	19.05.2015	Keep / PLN 5.30	Goldman Sachs
10.	20.05.2015	Keep / PLN 5.10	Societe Generale
11.	18.06.2015	Keep / PLN 4.85	DM BZ WBK
12.	21.06.2015	Keep / PLN 4.50	DM BOŚ
13.	16.07.2015	Keep / PLN 4.60	Pekao Investment Banking
14.	17.07.2015	Sell / PLN 3.90	Citi
15.	30.07.2015	Buy / PLN 4.70	mBank
16.	07.08.2015	Sell / PLN 3.60	Goldman Sachs
17.	12.08.2015	Keep / PLN 3.90	Societe Generale
18.	28.08.2015	Sell / PLN 3.00	Citi
19.	04.09.2015	Keep / PLN 3.60	Bank of America Merrill Lynch
20.	18.09.2015	Keep / PLN 3.80	Deutsche Bank

No.	Date of recommendation	Recommendation/target price	Recommending institution
21.	29.09.2015	Keep / PLN 3.40	DM PKO BP
22.	02.10.2015	Keep / PLN 3.60	Societe Generale
23.	08.10.2015	Sell / PLN 3.00	Goldman Sachs
24.	23.11.2015	Sell / PLN 2.80	J.P. Morgan
25.	30.11.2015	Sell / PLN 2.33	Erste
26.	01.12.2015	Sell / PLN 3.00	Deutsche Bank
27.	07.12. 2015	Keep / PLN 3.49	DM BZ WBK
28.	11.12.2015	Sell / PLN 2.50	Citi
29.	14.12.2015	Sell / PLN 2.40	Pekao Investment Banking
30.	14.12.2015	Sell / PLN 2.30	DM BOŚ
31.	14.12.2015	Buy / PLN 3.73	mBank
32.	16.12.2015	Buy / PLN 3.30	Societe Generale

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 2015.

In connection with the adoption of Resolution no. 27/1414/2015 of 13 October 2015 by the Supervisory Board of GPW concerning *Best Practice of GPW Listed Companies 2016* (Best Practice 2016), effective from 1 January 2016, the Management Board of the Company additionally presents information on adopting the recommendations and principles contained in the aforementioned Best Practice 2016 for application by the Company.

6.1. Indicating the applied set of corporate governance rules

Application of the set of corporate governance rules in 2015

In 2015 the Company was subject to the corporate governance rules, described in the document *Best Practice of GPW Listed Companies* (Best Practice), constituting the Annex to the Resolution of the GPW Board no. 12/1170/2007 of 4 July 2007, amended by the following resolutions of the GPW Board: 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 a voluntary basis.

The Best Practice was adopted for application by the Company Management Board. In 2015 the Company did not apply only the rule contained in Chapter IV section 10 of the Best Practice. Other rules specified in the aforementioned document in Chapters II, III and IV were applied by the Company.

The texts of the Best Practice the Company was subject to in 2015 and the Best Practice 2016, the Company has been subject to since 1 January 2016 are published on the GPW website: http://www.corp-gov.gpw.pl.

Adopting of the set of corporate governance rules for application by the Company in 2016

In connection with the entry into force of the Best Practice 2016 as of 1 January 2016, the Management Board of the Company adopted the recommendations and rules defined in the aforementioned document for application, excluding the rules defined in: IV.Z.2, VI.Z.1, VI.Z.2. At the same time, the Management Board recognised that the following recommendations and rules of Best Practice 2016 do not apply to the Company: I.Z.1.10, III.Z.6, IV.R.2.

Pursuant to § 29 item 3 of the *Regulations of Giełda Papierów Wartościowych w Warszawie S.A.*, on 1 February 2016 the Company submitted a report concerning non-compliance with detailed rules contained in the Best Practice 2016, via the Electronic Information Base (EBI system). At the same time, the Company published information on its website concerning the status of application of recommendations and rules contained in Best Practice 2016 by the Company.

6.2. Indicating the waived rules of corporate governance

Waiver of the application of corporate governance rules in 2015

In 2015 the Company did not apply only the rule contained in Chapter IV item 10 of the Best Practice (in its wording applicable as of 1 January 2013), concerning the provision of a possibility for shareholders to participate in the GM 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 the current report no. 1/2013, by means of the EBI system, containing information on the non-compliance with 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 using electronic communication means, pursuant to the provisions of the Code of Commercial Companies (CCC).

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 GM of the Company convened on 16 May 2013 did not adopt the aforementioned resolution.

Accordingly, also in 2015, the Company did not apply the rule contained in Chapter IV item 10 of the Best Practice and the recommendation contained in Chapter I item 12 of the Best Practice.

Other rules specified in Chapters II, III and IV of the Best Practice were applied by the Company. In the period since the day of commencement of public listing of the Company shares until 31 December 2015, there have been no occurrences of infringement of the corporate governance regulations adopted.

In 2015, the Company also endeavoured to implement the recommendations contained in Part I of the Best Practice. The issues described below are particularly important.

Recommendation concerning the remuneration policy

With the aim of implementing recommendation I.5 of the Best Practice, 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 GM 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 the Best Practice, 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 the Best Practice, in the 4th quarter of 2015 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.

Non-applied recommendations and rules of the Best Practice 2016

The Company did not adopt the following detailed rules contained in the Best Practice 2016 for application:

1) IV.Z.2. concerning ensuring of publicly available real-time broadcasts of general meetings, due to the lack of the relevant provisions of the Articles of Association enabling the aforementioned broadcast. At the same time, the Management Board of the Company indicated that taking into consideration the provisions of Article 406^5 of the CCC, it would request the GM to introduce the amendment to the Company Articles of Association enabling the shareholders to participate in the GM using electronic means of communication, comprising the real-time broadcasts of general meetings,
2) VI.Z.1. concerning the construction of incentive schemes in a way necessary, among others, to tie the level of remuneration of members of the company's management board and key managers to the actual long-term financial standing of the company and long-term shareholder value creation as well as the company's stability. Justifying the failure to adopt this rule for application, the Management Board of the Company has indicated that the remuneration and bonus system applicable in TAURON in relation to members of the Management

Board of the Company and its key managers stipulates that the level of remuneration will be tied to the financial situation of the Company within the annual perspective, in conjunction with the implementation of strategic objectives,

3) VI.Z.2. stating that in order to tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years. Justifying the failure to adopt this rule for application, the Management Board of the Company has indicated that the remuneration and bonus system applicable in TAURON in relation to Members of the Management Board of the Company and its key managers does not provide that remuneration should be tied to instruments linked with the Company shares.

At the same time, while adopting the Best Practice 2016 for application, the Management Board of the Company indicated that the following rules and recommendations do not apply to the Company:

1) I.Z.1.10. concerning placing financial projections on the Company website – if the company has decided to publish them – published at least in the last 5 years, including information about the degree of their implementation – due to the fact that financial forecasts are not published,
2) III.Z.6. stating that where the company has no separate internal audit function in its organisation, the audit committee (or the supervisory board if it performs the functions of the audit committee) should review on an annual basis whether such function needs to be separated – due to the fact that the Company has a separate Internal Audit Department in its organisational structure,
3) IV.R.2. concerning enabling shareholders to participate in the general meeting using electronic communication means – due to the failure of the Company GM on 16 May 2013 to adopt the resolution concerning the amendment to the Company Articles of Association aimed at enabling the shareholders to participate in the general meeting using electronic communication means. Accordingly, no justification exists to apply this recommendation.

Moreover, the Management Board of the Company, adopting the detailed rules of the Best Practice 2016, designated as: I.Z.1.3, I.Z.1.15, I.Z.1.16, II.Z.1, II.Z.6, II.Z.10.1, II.Z.10.2, II.Z.10.3, II.Z.10.4, V.Z.5, V.Z.6, VI.Z.4., indicated the method of their application. The detailed description of the method of applying the aforementioned rules has been included in the *Information concerning the status of application of recommendations and rules contained in the Best Practice 2016 by the Company,* constituting the annex to the report on non-compliance of the detailed rules contained in the Best Practice 2016 document, published on 1 February 2016 via the EBI system and placed on the Company 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.

The 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 per five 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 2015 and as at the day of drawing up this report, directly or indirectly large blocks of shares of the Company.

Table no 43. Shareholders holding large blocks of shares, directly or indirectly

No.	Shareholders	Number of shares held	Percentage interest in the share capital	Number of votes held	Percentage interest 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.	Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open Pension Fund – formerly: ING Otwarty Fundusz Emerytalny)	88,742,929***	5.06%	88,742,929	5.06%

** In accordance with the shareholder's notification of 28 February 2013.*
*** In accordance with the shareholder's notification of 23 March 2011.*
**** In accordance with the shareholder's notification of 28 December 2011.*

Since the day of submission of the previous periodical report, i.e. 10 November 2015, 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.

During the Ordinary GM convened on 23 April 2015 and the Extraordinary GM convened on 9 November 2015 (continued after two adjournments ordered on 23 November 2015 and 8 December 2015), the following shareholders holding at least 5% of votes at those GMs were present:

1. State Treasury,
2. KGHM Polska Miedź S.A.,
3. Nationale-Nederlanden Otwarty Fundusz Emerytalny (formerly: ING Otwarty Fundusz Emerytalny).

6.5. Owners of securities providing special control rights

In the financial year 2015, 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 concerning exercising of the voting right are included in § 10 of the Company Articles of Association available on 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 GM 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 GM.
8. Each shareholder who is going to take part in the GM, 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 GM 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 2015 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 lasted 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 GM.

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 GM or Supervisory Board lie within the competences of the Company's Management Board.

In accordance with the Company Articles of Association, all issues which go beyond the regular scope of Company activities require the resolution of the Management Board, in particular, the following issues listed in the table below:

Table no 44. Competence of the Management Board

Issues requiring the Resolution of the Management Board
as at 31 December 2015 and as at the day of this report

1. Management Board bylaws,
2. organizational regulations of the Company enterprise,
3. establishment and liquidation of branches,
4. appointment of a proxy,
5. raising credits and loans,
6. adopting the annual material and financial plans of the Company and the Capital Group, and the Corporate Strategy of the Capital Group,
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 GMs 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 GM.

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 lasted 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 GM 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 GM 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 GM 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 2005/162/EC 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 the Best Practice.

Independent members of the Supervisory Board provide the Company, before being appointed to the composition of the Supervisory Board, with a written statement of having fulfilled the prerequisites of independence. In case of a situation causing failure to fulfil the of independence, a member of the Supervisory Board is required to immediately notify the Company of this fact. The Company shall inform shareholders of the present number of independent members of the Supervisory Board.

Competence of the Supervisory Board

The Supervisory Board carries out continuous supervision over the Company's activities in all areas of its operations.

In accordance with the Company Articles of Association, the tasks and competences of the Supervisory Board include, in particular the following issues listed in the table below:

Table no 45. Competence of the Supervisory Board

Issues requiring the Resolution of the Supervisory Board	
as at 31 December 2015 and as at the day of drawing up 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 GM 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, 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,
8.	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,
9.	incur contingent liabilities, including granting guaranties and sureties by the Company with the value exceeding the equivalent of EUR 5,000 in PLN,
10.	issuing bills of exchange with the value exceeding the equivalent of 5,000 EUR in PLN,
11.	advance payment on account of the expected dividend,
12.	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,

Issues requiring the Resolution of the Supervisory Board	
as at 31 December 2015 and as at the day of drawing up this report	
13.	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,
14.	granting permission to establish Company branches abroad,
15.	defining the way of performing the right of vote at the GM 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.
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 CCC, 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 GM, 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.

In 2015 the GM did not pass the resolution concerning the amendment to the Company Articles of Association.

6.10. Way of operating of the GM, its fundamental authorities and description of shareholders' rights and mode of their performance

The way of operating of the Company GM and its powers are included in the Company Articles of Association and in the *Regulations of the GM of TAURON Polska Energia S.A.* which are available at the Company website http://www.tauron-pe.pl/.

Operation of the GM

The GM 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 CCC, 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 GM is opened by the Chairperson of the Supervisory Board, and in case of his/her absence to open the GM 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 GM shares entitling him/her to exercise the biggest number of votes. Then, among the persons entitled to take part in the GM 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 CCC as well as provisions of the Company's Articles of Association shall state otherwise. The GM may order a break in the meeting by the majority of two thirds of votes. In total, the breaks shall not exceed 30 days.

Competence of the General Meeting

In accordance with the Company Articles of Association, the following issues listed in the table below require Resolutions of the GM:

Table no 46. Competence of the General Meeting

Issues which require the resolution of the General Meeting	
as at 31 December 2015 and as at the day of drawing up 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 CCC the decision on issue and repurchase of shares in included in the competence of the GM.

Description of shareholders' rights and mode of their execution

The table below presents the description of rights of the Company shareholders associated with the GM, in accordance with the Company Articles of Association, CCC and the *Regulations of the GM of TAURON Polska Energia S.A.*

Table no 47. Description of rights of the Company shareholders associated with the GM

No.	Shareholder rights	Description of shareholders' rights
1.	Convening of the GM	A shareholder or shareholders representing at least one twentieth of the share capital, may demand convening of the Extraordinary GM. 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 GM and appoint the Chairperson of this Meeting.

No.	Shareholder rights	Description of shareholders' rights
2.	Including issues on the agenda of the GM	Shareholders representing at least one twentieth of the share capital may demand including certain issues on the agenda of the nearest GM. 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 GM 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.
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 GM 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, fourth 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 third term by the Supervisory Board, and the appointment of the Management Board of the Company for the fourth joint term of office. In accordance with the Company Articles of Association the joint term of office lasts three years.

The personal composition of the Management Board as at 31 December 2015

1. Remigiusz Nowakowski – President of the Management Board, responsible for the Division of the President of the Management Board,
2. Jarosław Broda – Vice President of the Management Board responsible for the Division of the Vice-President of the Management Board for Strategy and Development,
3. Kamil Kamiński – Vice President of the Management Board responsible for the Division of the Vice-President of the Management Board for Corporate Affairs,
4. Anna Striżyk – Vice President of the Management Board responsible for the Division of the Vice-President of the Management Board for Economics and Finance,
5. Piotr Zawistowski – Vice President of the Management Board responsible for the Division of the Vice-President of the Management Board for Commercial Affairs.

Changes in the personal composition of the Management Board in 2015 and in the period until the day of drawing up this report

As at 1 January 2015 the Management Board consisted of the following 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) and Krzysztof Zawadzki (Vice President of the Management Board).

On 1 October 2015, the Supervisory Board of the Company dismissed the following persons from the Management Board: Dariusz Lubera – President of the Management Board, Aleksander Grad – Vice-President of the Management Board for Corporate Affairs and Katarzyna Rozenfeld – Vice-President of the Management Board for Commercial Affairs.

As of 1 October 2015, the Supervisory Board of the Company appointed the following persons to the Management Board: Jerzy Kurella who was appointed as the President of the Management Board, Michał Gramatyka who was appointed as Vice-President of the Management Board for Commercial Affairs and Henryk Borczyk who was appointed as Vice-President of the Management Board for Corporate Affairs.

On 1 October 2015 the following persons resigned from the positions of the Management Board members: Stanisław Tokarski – Vice-President of the Management Board for Strategy and Development and Krzysztof Zawadzki – Vice-President for Economics and Finance.

As of 10 October 2015, the Supervisory Board appointed the following persons to the Management Board: Anna Striżyk who was appointed as Vice-President of the Management Board for Economics and Finance and Piotr Kołodziej who was appointed as Vice-President of the Management Board for Strategy and Development.

On 8 December 2015, the Supervisory Board dismissed the following persons from the Management Board: Jerzy Kurella – President of the Management Board, Henryk Borczyk – Vice-President of the Management Board, Michał Gramatyka – Vice-President of the Management Board, Piotr Kołodziej – Vice-President of the Management Board.

As of 8 December 2015, the Supervisory Board appointed the following persons to the Management Board: Remigiusz Nowakowski – appointed as the President of the Management Board, Jarosław Broda – appointed as Vice-President of the Management Board for Strategy and Development, Kamil Kamiński – appointed as the Vice-President of the Management Board for Corporate Affairs and Piotr Zawistowski – appointed as the Vice-President of the Management Board for Commercial Affairs.

On 8 January 2016 the Supervisory Board dismissed Anna Striżyk – Vice-President of the Management Board for Economics and Finance, from the Management Board.

As of 29 January 2016, the Supervisory Board appointed Marek Wadowski as Vice-President of the Management Board for Economics and Finance.

Until the day of submission of this report, no other changes in the composition of the Management Board have taken place.

Personal composition of the Management Board as of the day of drawing up this report

1. Remigiusz Nowakowski – President of the Management Board, responsible for the Division of the President of the Management Board,
2. Jarosław Broda – Vice President of the Management Board responsible for the Division of the Vice-President of the Management Board for Strategy and Development,
3. Kamil Kamiński – Vice President of the Management Board responsible for the Division of the Vice-President of the Management Board for Corporate Affairs,
4. Marek Wadowski – Vice President of the Management Board responsible for the Division of the Vice-President of the Management Board for Economics and Finance,
5. Piotr Zawistowski – Vice President of the Management Board responsible for the Division of the Vice-President of the Management Board for Commercial Affairs.

Experience and competences of members of the Management Board

Remigiusz Nowakowski – President of the Management Board

Graduate of the Faculty of Management and IT at Wrocław University of Economics and the Faculty of Law and Administration of University of Wrocław. PhD student in the Department of Strategy and Management Methods at the Faculty of Management, IT and Finance of Wrocław University of Economics.

Holds experience in the area of defining and implementation of development strategies in the electricity and heat sectors in Central and Northern Europe, including in particular strategic management of investments and fuel management in energy utilities as well as preparation and development of investment projects, design and implementation of public-private partnership models.

Since the beginning of his professional career, he has been associated with energy sector entities or companies associated with the energy sector, having acted in the capacity of the President or the Vice-President of the Management Board and holding senior executive positions. He gained his professional experience working in the INERCON consulting company, EnergiaPro Koncern Energetyczny S.A. (currently, a part of TAURON Dystrybucja), Fortum Power and Heat Polska, Fortum Zabrze and Fortum Bytom. From December 2012 he managed the business line of production optimisation and fuel management in the Heat Electricity Sales and Solutions Division of Fortum in Poland, where he was responsible, in particular, for the development of Fortum's strategy in Poland, development and implementation of fuel procurement strategy, coordination of fuel procurement process, planning and optimization of electricity and heat generation at combined heat and power plants, preparing analyses of the energy market and forecasting trends in fuel and energy prices.

Acting as the President of the Management Board of TAURON Polska Energia S.A. since 8 December 2015. He currently supervises the performance of the following business units: corporate bodies, legal department, HR, internal audit, market communication and PR, risk management, Health&Safety Issues, protection of classified information and IT security.

Jarosław Broda – Vice-President of the Management Board

Graduate of Warsaw School of Economics, holder of a postgraduate diploma in project management at Kozminski University.

Holds experience in the area of consolidation and operation of the energy sector, privatisation of state-owned energy groups, development of processes associated with the restructuring and strategy building as well as development projects of energy entities.

Since the beginning of his professional career he has been associated with energy sector entities, holding senior executive and managerial positions. He gained his professional experience working at the Ministry of State Treasury as well as at TAURON and GDF Suez Energia Polska. Recently associated with GDF Suez Energia Polska – Katowice and GDF Suez (Branch Energy Europe), where he was responsible for market analyses and preparation of the company development strategy, regulatory management and M&A projects. He also participated in drafting of sales and marketing development strategy in Europe. From mid-2015 he was responsible for the development of the commercial strategy and contract for difference under a nuclear project in Great Britain.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 8 December 2015. He currently supervises the performance of the following business units: development strategy, management of strategic projects as well as regulations and external funds.

Kamil Kamiński – Vice-President of the Management Board

Graduate of the Faculty of Management and Communications of Jagiellonian University. The holder of MBA Executive diploma (Stockholm University School of Business/ Cracow University of Economics) and post-MBA Diploma in Strategic Financial Management (Rotterdam School of Management, Erasmus University/ GFKM).

He has broad experience in the area of building company value, mergers and acquisitions, business integration, strategy operationalization as well as management of complex projects in public and private sectors. He took part in complex transformation and restructuring processes of enterprises in the sectors of energy and fuel and transport logistics.

He gained his professional experience acting in the capacity of the President or Vice-President of the Management Board and holding senior managerial positions. From the beginning of 2014 he was associated with Węglokoks Capital Group where, within the structures of Węglokoks Energia, he participated in consolidation of electricity and heat generation assets of Kompania Węglowa and Węglokoks. At that time he managed the works of the Management Committee. Previous professional experience includes, among other things, work at the Research and Development Centre of the Refining Industry (OBR) in Płock or Jan Paweł II International Airport in Kraków-Balice. He also managed the operations of John Menzies PLC in Poland. For many years he cooperated with Lotos Group, where he supported the development of aviation fuel segment, which resulted in the joint venture with Air BP Ltd. and establishment of Lotos Air BP.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 8 December 2015. He currently supervises the performance of the following business units: procurement department, corporate governance and Group optimisation.

Marek Wadowski – Vice President of the Management Board

Graduate of University of Economics in Katowice. He also completed post graduate studies École Supérieure de Commerce Toulouse where he obtained Mastère Spécialisé en Banque et Ingéniere Financière diploma and Executive MBA studies at Kozminski University in Warsaw.

He has professional experience in the field of accounting, controlling and financial processes management in industry (power sector, mining, metallurgical industry), as well as in financing of investments and international commercial transactions. He took part in the implementation of due diligence projects and enterprise valuation (using income-based, equity and comparison valuation methods).

Since the beginning of his professional career, he has been associated with energy, mining and metallurgical sector entities, having acted in the capacity of the President or the Vice-President of the Management Board and holding senior executive positions. He gained his professional experience working for BRE Corporate Finance S.A., Huta Cynku Miasteczko Śląskie S.A. and in companies of Jastrzębska Spółka Węglowa S.A. Capital Group. From 2008, acting in the capacity of the Vice-President of the Management Board in charge for the financial division in companies of Jastrzębska Spółka Węglowa Capital Group, he was responsible, inter alia, for structuring of commercial transactions, implementation of foreign exchange risk hedging policy, financial costs reduction, liquidity management, acquisition of funds from the consortium of banks in the form of a bond issue programme. He also took part in the IPO of JSW S.A. (implementation of International Accounting Standards, modification of management information system, development of IPO prospectus, talks with investors).

Recently he has acted in the capacity of the President of the Management Board at Towarzystwo Finansowe Silesia where he was involved in bond issue program for Kompania Węglowa and dealt with the acquisition of debt financing from the consortium of banks.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 29 January 2016. He currently supervises the performance of the following business units: accounting and taxes, financial management, controlling and management of information resources.

Piotr Zawistowski – Vice President of the Management Board

Graduate of Wrocław University of Economics where he completed MA studies in Enterprise Management. He also completed postgraduate studies in Sales Management at WSB University in Wrocław. He is a Commodity Exchange Broker.

He has experience in the area of trading in electricity, gas and related products in the country and abroad, commercial risk management, portfolio management in the scope of purchase and sales of electricity, property rights, CO_2 emission allowances and fuels. He took active part in works related to unbundling of electricity supply and distribution, in particular in establishment of EnergiaPro Gigawat (currently a part of TAURON Sprzedaż).

Since the beginning of his professional career he has been associated with energy sector entities, holding senior executive and managerial positions. He gained his professional experience working at Zakład Energetyczny Legnica, EnergiaPro Koncern Energetyczny (currently a part of TAURON Dystrybucja), EnergiaPro Gigawat and at TAURON, where he acted in the capacity of Portfolio Management Department from 2008, participating in many key projects, managing, among others, the works related to the development of the business model of TAURON Group or integration with GZE Group companies (Vattenfall) in the trading segment.

From May 2014 he acted in the capacity of the President of the Management Board of TAURON Obsługa Klienta.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 08 December 2015. He currently supervises the performance of the following business units: trade, market operator and trade service, portfolio management, fuels and analyses.

The detailed description of experience and competences of Management Board members is published on the Company website http://www.tauron.pl/.

Description of operation

The Management Board of the Company operates on the basis of the CCC 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, members of the Management Board are governed by regulations included in the Best Practice.

Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for submitting of statements on behalf of the Company. Should the Management Board be single person, one member of the Management Board or a proxy shall be entitled to submit statements on behalf of the Company.

Meetings of the Management Board are convened by the President of the Management Board or a Vice-President of the Management Board appointed by him/her. Meetings of the Management Board are also convened upon the motion of the majority of Vice-Presidents of the Company as well as upon the motion of the Chairperson of the Supervisory Board. The meetings take place in the Company's seat, on the date set by the person convening the meeting. In justified cases, the Management Board's meetings may take place outside the seat of the Company. President of the Management Board or a Vice-President appointed by him/her shall chair the meeting.

The Management Board votes in an open voting. The result of voting is recorded in the minutes of the meeting. The President of the Management Board orders a secret ballot upon the request of any member of the Management Board.

Resolutions of the Management Board are passed by an absolute majority of votes in the presence of 3/5 of the composition of the members of the Management Board. In case of an equal number of votes the President of the Board has a casting vote. The Management Board may pass resolutions in a written mode or by using means of direct remote communication. Voting in the aforementioned modes is ordered by the President of the Management Board or the Vice-President appointed by him/her, defining the deadline to vote by the members of the Management Board. It is acceptable to submit a different opinion. It shall be recorded in the minutes together with justification. Decisions of the Management Board, regulating business as usual, not requiring a resolution, are recorded only in the minutes.

Under the circumstances when the number of Vice-Presidents of the Management Board if lower than the Divisions, the Vice-Presidents of the Management Board may join the capacity of directors of two divisions, or distribute the competence in any other way which would be in compliance with the distribution of responsibilities performed by the Supervisory Board.

Scope of activities of the President of the Management Board covers competence in the area of operations of business units reporting to the Division of the President of the Board, in accordance with the organisational structure of the Company.

Scope of activities of the Vice-Presidents of the Management Board covers competence in the area of operations of business units reporting to the Divisions of the Vice-Presidents of the Board, in accordance with the organisational structure of the Company.

The structure of the divisions reporting to individual members of the Management Board is specified in the organisational chart of the Company, presented in item 1.5.2 of this report.

6.11.2. Supervisory Board

The current, fourth term of office of the Supervisory Board, started on 15 May 2014, i.e. on the day of convening of the Ordinary GM 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 three years.

Personal composition of the Supervisory Board as at 31 December 2015 and as at the date of drawing up this report

1. Beata Chłodzińska – Chairwoman of the Supervisory Board,
2. Anna Mańk – Deputy Chairwoman of the Supervisory Board,
3. Jacek Szyke – Secretary of the Supervisory Board,
4. Anna Biesialska – Member of the Supervisory Board,
5. Michał Czarnik – Member of the Supervisory Board,
6. Maciej Koński – Member of the Supervisory Board,
7. Leszek Koziorowski – Member of the Supervisory Board,
8. Wojciech Myślecki – Member of the Supervisory Board,
9. Renata Wiernik-Gizicka – Member of the Supervisory Board.

Changes in the personal composition of the Supervisory Board in 2015

As at 1 January 2015 the Supervisory Board consisted of the following members: Antoni Tajduś (Chairman of the Supervisory Board), Agnieszka Woś (Deputy Chairwoman of the Supervisory Board), Jacek Szyke (Secretary of the Supervisory Board), Andrzej Gorgol (Member of the Supervisory Board), Maciej Koński (Member of the Supervisory Board), Leszek Koziorowski (Member of the Supervisory Board), Michał Michalewski (Member of the Supervisory Board), Marek Ściążko and Maciej Tybura (Member of the Supervisory Board).

On 7 August 2015 the State Treasury, acting pursuant to its personal powers specified in § 23 item 1(3) of the Company Articles of Association, dismissed Marek Ściążko (Member of the Supervisory Board) from the Supervisory Board of TAURON.

On 7 August 2015, the Chairman of the Supervisory Board, Antoni Tajduś submitted his resignation from his function of the Chairman of the Supervisory Board, effective as of 7 August 2015.

On 12 August 2015 the State Treasury, acting pursuant to its personal powers specified in § 23 item 1(3) of the Company Articles of Association, dismissed the following persons from the Supervisory Board of TAURON: Agnieszka Woś (Deputy Chairwoman of the Supervisory Board), Andrzej Gorgol (Member of the Supervisory Board) and Michał Michalewski (Member of the Supervisory Board).

On 12 August 2015 the State Treasury, acting pursuant to its personal powers specified in § 23 item 1(1) and (3) of the Company Articles of Association, appointed the following persons as members of the Supervisory Board of TAURON for the fourth joint term: Grzegorz Barszcz, Beata Chłodzińska, Piotr Ciach, Katarzyna Kosińska and Jarosław Zagórowski.

On 6 October 2015, Member of the Supervisory Board, Maciej Tybura, resigned from his function of the Member of the Supervisory Board, with the effect as of 7 October 2015.

On 2 December 2015 the State Treasury, acting pursuant to its personal powers specified in § 23 item 1(3) of the Company Articles of Association, dismissed the following persons from the Supervisory Board of TAURON: Piotr Ciach (Member of the Supervisory Board), Grzegorz Barszcz (Member of the Supervisory Board), Katarzyna Kosińska (Member of the Supervisory Board) and Jarosław Zagórowski (Deputy Chairman of the Supervisory Board).

On 2 December 2015 the State Treasury, acting pursuant to its personal powers specified in § 23 item 1(1) and (3) of the Company Articles of Association, appointed the following persons as members of the Supervisory Board of TAURON for the fourth joint term: Anna Biesialska, Michał Czarnik, Anna Mańk and Wojciech Myślecki.

On 8 December 2015, the Extraordinary GM of the Company, convened on 9 November 2015, continued on 23 November 2015 and 8 December 2015, after the ordered adjournments of the meeting, adopted the resolution on determining of the number of members of the Supervisory Board and the resolution on the appointment of Renata Wiernik-Gizicka as a member of the Company Supervisory Board of the fourth joint term of office, effective as of 9 December 2015.

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

Beata Chłodzińska – Chairwoman of the Supervisory Board

Graduate of the Faculty of Law and Administration of Warsaw University. She is a legal counsel.

She has professional experience associated with supervising companies with State Treasury ownership. Professionally affiliated with the Ministry of State Treasury, currently working in the Department of Strategic Companies. She represented the State Treasury on supervisory boards of companies supervised by the Ministry.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 12 August 2015. Currently acting in the capacity of the Chairwoman of the Supervisory Board as well as the member of the Audit Committee of the Supervisory Board, the Nominations and Remunerations Committee of the Supervisory Board and the Strategy Committee of the Supervisory Board.

Anna Mańk – Deputy Chairwoman of the Supervisory Board

Graduate of Warsaw School of Economics and postgraduate studies in financial and economic law at University of Łódź.

She has professional experience in the scope of supervision and ownership transformations at the Ministry of State Treasury. Professionally associated with the Ministry of State Treasury, holding senior executive positions, currently acting in the capacity of Director General. She represented the State Treasury on supervisory boards of companies supervised by the Ministry, including those listed on the GPW.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 2 December 2015. Currently acting in the capacity of Deputy Chairwoman of the Supervisory Board and a member of the Strategy 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.

He has broad professional experience associated with power industry where he had climbed through all levels in the career ladder, working both in the country and abroad. Holding senior executive and managerial positions he worked, inter alia, at ZE Kalisz, EC Łódź, ZE Płock and EC Siekierki. He is an honorary President of the Chamber of Power Engineering and Energy Consumers. He is a consultant in electrical engineering matters. Author of many improvement recommendations, designs, publications and books on energy industry and power engineering.

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, Chairman of the Strategy Committee of the Supervisory Board and the Member of the Audit Committee of the Supervisory Board.

Anna Biesialska – Member of the Supervisory Board

Graduate of the Faculty of Law and Administration at Warsaw University and postgraduate studies in law and economy of the capital market at Warsaw School of Economics, legal counsel at the Regional Chamber of Legal Counsels in Warsaw.

She gained her professional experience at law firms. At present, she is employed at the Ministry of State Treasury where she provides legal support, in particular, in the scope of reviewing agreements for pre-privatisation analyses and privatisation-related tasks. She is a member of supervisory boards of companies as a representative of the State Treasury.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 2 December 2015. Currently acting as the member of the Audit Committee of the Supervisory Board and Nominations and Remuneration Committee of the Supervisory Board.

Michał Czarnik – Member of the Supervisory Board

Graduate of the Faculty of Law and Administration of Warsaw University, legal counsel at the Regional Chamber of Attorneys in Warsaw, tax advisor.

He gained his professional experience in international consulting companies and as an arbitrator of the Court of Arbitration at the Polish Financial Supervision Authority of the first term of office. At present he is a managing partner of a law firm specialising in economic law, in particular, in fiscal and commercial law. He is the head of the team of advisers to the Minister of State Treasury dealing with corporate governance reform and managing some of the elements of the public property.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 2 December 2015. Currently acting as the member of the Audit Committee of the Supervisory Board.

Maciej Koński – Member of the Supervisory Board

Graduate of the Warsaw School of Economics, faculty of Banking and finance, PhD in technical sciences at Wrocław University of Technology.

He has experience in the scope of building strategy of a mining company and the development of resource base as well as analysis of the commodity and foreign currency market and market risk management. He actively participates in scientific activity in the aforementioned areas. At present, General Director of Resource Base and Strategic Analyses Centre at KGHM. He is a co-author of books and the author of numerous publications on commodity market.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 1 September 2014. Currently acting as the 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.

He has rich experience in the scope of securities law, which he gained as a counsel in the Securities Commission, arbitrator in the Stock Exchange Court at the Warsaw Stock Exchange and in Arbitration Court at the Private Employers' Organisation “Lewiatan”, and a judge of the Stock Exchange Court. At present, he is the general partner in a law firm where he deals with legal advice in the scope of capital market law and preparation of companies for listing at the stock exchange. Author of numerous publications concerning capital market law, received multiple recommendations as the best legal counsel in Poland in the aforementioned scope. He was the member of numerous supervisory boards.

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 third joint term of office 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 the member of the Nominations and Remuneration Committee of the Supervisory Board.

Wojciech Myślecki – Member of the Supervisory Board

Graduate of the Faculty of Electronics of Wrocław University of Technology, PhD, engineer in technical sciences.

Long-time researcher and lecturer, author of several dozen scientific publications in the field of telecommunications, industrial IT as well as political and economic issues. He managed or participated in numerous Polish and international economic programmes, in particular, in the field of power engineering. Several times he held the position of the CEO of large commercial law companies, including Polskie Sieci Elektroenergetyczne S.A. (Polish Transmission System Operator). At present, he is the President of the Management Board of a consulting company Global Investment Corporation sp. z o. o. and an advisor for strategic programmes at BZ WBK. He was the member of numerous supervisory boards.

Appointed as a member of the Supervisory Board of TAURON Polska Energia S.A. as of 2 December 2015. Currently acting as the Chairman of the Audit Committee of the Supervisory Board and the member of the Strategy Committee of the Supervisory Board.

Renata Wiernik-Gizicka – Member of the Supervisory Board

Graduate of Wrocław University of Economics, Department of Finance and Banking and postgraduate studies on Management of International Mining Projects at AGH University of Science and Technology in Kraków, and Management Accounting at Wrocław University of Economics.

She has experience in the area of financial analysis, planning and budgeting, investment project effectiveness account and economic managerial information. Professionally associated with mining and metallurgy within the KGHM holding, currently acting in the capacity of Director General for Controlling and Economic Analyses. She actively participates in the process of building relations with shareholders and stakeholders of KGHM Capital Group.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 8 December 2015. Currently acting as the member of the Nominations and Remuneration Committee of the Supervisory Board.

The detailed description of experience and competences of the member of the Supervisory Board is published on the Company website http://www.tauron.pl/.

Description of operation

A detailed description of the Supervisory Board operations is included in the CCC, 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. 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 may take part in the meetings of the Supervisory Board 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 selected expert (audit or consulting company, law firm) 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 case of his/her absence – by the Vice-Chairperson of the Supervisory Board. 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 unconditionally binding regulations of law, including the CCC as well as provisions of the Company's Articles of Association, the Supervisory Board passes resolutions by an absolute majority of votes of the persons present at the meeting, where the absolute majority of votes is understood as more votes submitted "for" than "against" and "abstain". Resolutions cannot be passed in issues not included in the agenda unless all members of the Supervisory Board are present and nobody voices an objection. It shall not apply to resolutions on justifying the Supervisory Board's member absence at the meeting Voting of the resolutions is open. A secret ballot is ordered:

1) upon the request of at least one of the members of the Supervisory Board,
2) in personnel-related issues

The Supervisory Board, in accordance with the Articles of Association, may pass resolutions in writing or by using means of direct remote communication. Passing a resolution in such a mode requires a justification and a prior submitting of the draft of the resolution to all members of the Supervisory Board. Passing resolutions in this mode does not apply to the appointing the Chairperson, the Deputy Chairperson and the Secretary of the Board, appointing or suspending in the activities of a member of the Supervisory Board and dismissing these persons as well as other issues the settlement of which requires a secret voting. Voting on a resolution passed in the aforementioned mode, a member of the Supervisory Board indicates the mode of his/her voting, "for", "against" or "abstain". 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 GM and then published on the Company website http://www.tauron-pe.pl/.

The Supervisory Board may appoint among its members permanent or temporary working groups or committees to perform particular actions. The permanent committees of the Supervisory Board include:

1) Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. (Audit Committee),
2) Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A. (Nominations and Remuneration Committee),
3) Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. (Strategy Committee).

Composition, tasks and rules of operation of the aforementioned committees are defined in their regulations adopted by the Supervisory Board.

6.11.3. Audit Committee

In connection with the changes in the composition of the Supervisory Board of the Company of the fourth joint term of office performed in 2015, the Supervisory Board changed the composition of the Audit Committee.

Composition of the Audit Committee as at 31 December 2015

1. Wojciech Myślecki – Chairman of the Audit Committee,
2. Beata Chłodzińska – Member of the Audit Committee,
3. Michał Czarnik – Member of the Audit Committee,
4. Jacek Szyke – Member of the Audit Committee.

Changes in the personal composition of the Audit Committee

As at 1 January 2015 the Audit Committee consisted of the following members: Agnieszka Woś (Chairwoman), Michał Michalewski, Jacek Szyke and Maciej Tybura.

In connection with dismissing of Agnieszka Woś (Chairwoman) and Michał Michalewski from the Supervisory Board by the State Treasury on 12 August 2015, on 26 August 2015 the Supervisory Board appointed Beata Chłodzińska and Grzegorz Barszcz to the Audit Committee. On the same day, the Audit Committee elected Grzegorz Barszcz as the Chairman of the Audit Committee among its members.

In connection with the resignation from the function of the Member of the Supervisory Board submitted by Maciej Tybura on 6 October 2015, effective as of 7 October 2015, and dismissing of Grzegorz Barszcz from the Supervisory Board by the State Treasury on 2 December 2015, and the appointment of new members of the Supervisory Board, on 8 December 2015 the Supervisory Board appointed the following persons to the Audit Committee: Michał Czarnik and Wojciech Myślecki. On the same day, the Audit Committee elected Wojciech Myślecki as the Chairman of the Audit Committee among its members.

In connection with the appointment of new members of the Supervisory Board by the State Treasury on 2 December 2015, on 8 January 2016 the Supervisory Board appointed Anna Biesialska 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.

Personal composition of the Audit Committee as of the day of drawing up this report:

1. Wojciech Myślecki – Chairman of the Audit Committee,
2. Anna Biesialska – Member of the Audit Committee,
3. Beata Chłodzińska – Member of the Audit Committee,
4. Michał Czarnik – Member of the Audit Committee,
5. Jacek Szyke – Member of the Audit Committee.

Tasks and competences of the Audit Committee

The table below presents the tasks and competences of the Audit Committee as at the day of drawing up this report.

Table no 48. Competence of the Audit Committee

Issues requiring the resolution of the Audit Committee
as at the day of drawing up this report:
1. monitoring of financial reporting process;
2. monitoring of the accuracy of financial information presented by the Company;

Issues requiring the resolution of the Audit Committee	
as at the day of drawing up this report:	
3.	monitoring of the efficiency of internal control, risk management systems, compliance and internal audit functions 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 changes in the composition of the Supervisory Board of the Company of the fourth joint term of office performed in 2015, the Supervisory Board changed the composition of the Nominations and Remuneration Committee.

Personal composition of the Nominations and Remuneration Committee as at 31 December 2015 and as at the day of drawing up this report

1. Leszek Koziorowski – Chairman of the Nominations and Remuneration Committee,
2. Anna Biesialska – Member of the Nominations and Remuneration Committee,
3. Beata Chłodzińska – Member of the Nominations and Remuneration Committee,
4. Renata Wiernik-Gizicka – Member of the Nominations and Remuneration Committee.

Changes in the personal composition of the Nominations and Remuneration Committee

As at 1 January 2015 the Nominations and Remuneration Committee consisted of the following members: Antoni Tajduś (Chairman), Andrzej Gorgol, Leszek Koziorowski and Marek Ściążko.

In connection with the resignation from the function of the Chairperson of the Supervisory Board submitted by Antoni Tajduś on 7 August 2015, and dismissing of Marek Ściążko from the Supervisory Board by the State Treasury on 7 August 2015, followed by dismissing of Andrzej Gorgol on 12 August 2015, on 26 August 2015 the Supervisory Board appointed the following persons to the Nominations and Remuneration Committee: Beata Chłodzińska, Katarzyna Kosińska and Piotr Ciach. On the same day the Nominations and Remuneration Committee elected Leszek Koziorowski as the Chairman of the Nominations and Remuneration Committee among its members.

In connection with the dismissal of Katarzyna Kosińska and Piotr Ciach from the Supervisory Board by the State Treasury on 2 December 2015, and the appointment of new members, on 8 December 2015 the Supervisory Board appointed Anna Biesialska as a member of the Nominations and Remuneration Committee.

In connection with the appointment of new member of the Supervisory Board by the GM of the Company as of 9 December 2015, on 17 December 2015 the Supervisory Board appointed Renata Wiernik-Gizicka as a 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 of 31 December 2015 and on the day of this report.

Table no 49. Competence of the Nominations and Remuneration Committee

Issues requiring the resolution of the Nominations and Remunerations Committee	
as at 31 December 2015 and as at the day of drawing up 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,

Issues requiring the resolution of the Nominations and Remunerations Committee	
as at 31 December 2015 and as at the day of drawing up this report	
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 changes in the composition of the Supervisory Board of the Company of the fourth joint term of office performed in 2015, the Supervisory Board changed the composition of the Strategy Committee.

Composition of the Strategy Committee as at 31 December 2015 and as at the day of drawing up this report

1. Jacek Szyke – Chairman of the Strategy Committee,
2. Beata Chłodzińska – Member of the Strategy Committee,
3. Maciej Koński – Member of the Strategy Committee,
4. Anna Mańk – Member of the Strategy Committee,
5. Wojciech Myślecki – Member of the Strategy Committee.

Changes in the Strategy Committee personal composition

As at 1 January 2015 the Strategy Committee consisted of the following members: Jacek Szyke (Chairman), Maciej Koński, Michał Michalewski and Marek Ściążko.

In connection with the dismissing of Marek Ściążko from the Supervisory Board by the State Treasury on 7 August 2015, followed by dismissing of Michał Michalewski on 12 August 2015, and the appointment of new members of the Supervisory Board, on 26 August 2015 the Supervisory Board appointed the following persons to the Strategy Committee: Beata Chłodzińska and Jarosław Zagórowski.

In connection with the dismissing of Jarosław Zagórowski from the Supervisory Board by the State Treasury on 2 December 2015, and the appointment, on the same day, of new members of the Supervisory Board, on 8 December 2015 the Supervisory Board appointed the following persons to the Strategy Committee: Anna Mańk and Wojciech Myślecki.

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 2015 and as at the day of drawing up this report.

Table no 50. Competence of the Strategy Committee

Issues requiring the resolution of the Strategy Committee	
as at 31 December 2015 and as at the day of drawing up 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 policy of management and supervisory staff

6.12.1. Remuneration system of Management Board members and key managers

6.12.1.1. General information on the adopted remuneration system for members of the Management Board

The objectives and principles of remuneration of members of the Company Management Board are defines in 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) adopted by the Supervisory Board of the Company under Resolution no. 15/II/2011 of 24 February 2011.

The Remuneration policy shapes the remuneration system for members of the Management Board, in connection with outstanding tasks aimed at implementation of the adopted strategy of the Company, development directions and financial plans. The overriding objective of the Remuneration policy is to ensure an incentive-based remuneration of the senior management staff and to create basis for its development.

Remuneration policy objectives

1) ensuring an incentive-based and consistent remuneration system,
2) linking the remuneration rules with monitoring of implementation of the adopted strategic plans and implementation of the financial plans,
3) developing the level of remuneration of Management Board members in connection with the implementation of the delegated tasks,

4) growth in the Company value through the development of the senior management staff,
5) improvement of remuneration systems translating into implementation of the Company strategy and development directions.

The remuneration and bonus system for Members of the Management Board of the Company applicable in the Company stipulates that the level of remuneration should be tied to the financial situation of the Company and growth in an annual perspective, in connection with the implementation of strategic goals. The said system does not envisage that remuneration shall be tied with instruments associated with the Company shares.

Linking of the remuneration system with the implementation of the allocated tasks supports the implementation of the adopted development strategies and directions and develops a new organisational culture of the Company.

The remuneration model covered by the Remuneration policy assumes a two-component system for determining of the remuneration for members of the Management Board.

In the scope of the remuneration model of the top management staff, remuneration consisting of a fixed and variable part has been adopted, depending on the fulfilment of the specific resultant criteria.

The major assumption of the Remuneration policy is defining of the remuneration system motivating members of the Management Board to achieve their targets arising from the Company strategy and tasks defined in the financial plans.

The remuneration system has been defined taking into consideration the remuneration policy in listed companies and best market practices used in economic undertakings, particularly in the energy and fuel sectors, with the size comparable to the Company.

In order to enable the use of benefits available to the Company employees by members of the Management Board, the remuneration policy was supplemented with a catalogue of additional benefits of social and welfare, communication and insurance nature.

Taking into account the statutory regulations, the rules and the level of remuneration for members of the Management Board are defined by the Supervisory Board.

Members of the Management Board of the Company are neither covered by the bonus programme based on the capital of the Company, nor do they receive any remuneration or awards due to fulfilment of their functions in governing bodies of companies belonging to TAURON Capital Group.

6.12.1.2. General information on the adopted remuneration system for key managers

The rules concerning remuneration and bonus system for key managers and other employees are defined in the *Regulations on Remuneration of Employees of TAURON Polska Energia S.A.,* adopted for application by the Management Board of the Company.

The remuneration and bonus system for key managers stipulates that the level of remuneration should be tied to the financial situation of the Company in an annual perspective, in connection with the implementation of strategic goals. It assumes a two-component system for defining of the remuneration, comprising the basic monthly salary and a variable incentive component based on the implementation of the assigned tasks, both of financial and non-financial nature.

The overriding assumption of the applicable remuneration system is to ensure the optimum and motivating remuneration level, depending on the value and type of work on a given position as well as the quality of work and effects achieved by employees.

The structure of the remuneration consists of the following elements:

1) a fixed part – constituting the basic salary determined in accordance with the table of grade categories applicable in the Company and monthly rates of personal grade. The allocated level of basic salary reflects the value and type of work as well as the quality of employee's work, defined through the assessment of employee's competence level,
2) variable part – which depends on performance results, defined through the level of accomplishment of targets and tasks within the MBO bonus system,
3) benefits – which are defined in internal regulations of the Company.

The bonus system based on market bonus mechanisms enables cascading the objectives set by the Management Board at a level of TAURON Capital Group and at a level of the Company, to specific tasks, defined by parameters, assigned to employees at lower levels of the organisation. Accordingly, the culture of managing through objectives applied in the Company reflects the specific nature of individual functions implemented in the Company and allows for application of mechanisms based on dialogue of the supervisor with the subordinate during the process of determining and assessment of implementation of objectives translating into the effectiveness of the overall organisation. At the same time, this tool enables precise correlating of objectives (KPIs) defined for members of the Management Board with objectives set for key managers of the Company for a given year. The preliminary assessment of accomplishment of the objectives takes place after the first semi-annual period, whereas after the end of the second half of the year members of the Management Board perform the final evaluation of the implementation of the objectives of Company key managers.

Employees of the Company do not receive any remuneration or awards on account of functions fulfilled in governing bodies of companies belonging to TAURON Capital Group.

The figure below presents the structure of remuneration for the position of a key manager.

Figure no. 62 Structure of remuneration for the position of a key manager

6.12.1.3. Rules, terms and conditions and level of remuneration of Management Board members

The total amount of remuneration understood as the value of wages, 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 2015 amounted to PLN 8.024 thousand gross.

The table below presents the remuneration of members of the Company Management Board for 2015, divided into components.

Table no 51. Remuneration of members of the Company Management Board for 2015, divided into components (in PLN thousand)

No.	Name and surname	Period of holding the function in 2015	Remuneration*	Bonus*	Other benefits*	Total
1.	Henryk Borczyk	01.10.2015 – 08.12.2015	182	0	52	234
2.	Jarosław Broda	08.12.2015 – 31.12.2015	57	0	42	99
3.	Aleksander Grad	01.01.2015 – 01.10.2015	678	450	149	1,277
4.	Michał Gramatyka	01.10.2015 – 08.12.2015	197	0	37	234
5.	Kamil Kamiński	08.12.2015 – 31.12.2015	57	0	36	93
6.	Piotr Kołodziej	10.10.2015 – 08.12.2015	162	0	14	176
7.	Jerzy Kurella	01.10.2015 – 08.12.2015	223	0	11	234
8.	Dariusz Lubera	01.01.2015 – 01.10.2015	768	510	166	1,444
9.	Remigiusz Nowakowski	08.12.2015 – 31.12.2015	65	0	48	113
10.	Katarzyna Rozenfeld	01.01.2015 – 01.10.2015	678	450	146	1,274
11.	Anna Striżyk	10.10.2015 – 31.12.2015	201	0	49	250
12.	Stanisław Tokarski	01.01.2015 – 01.10.2015	678	450	123	1,251
13.	Krzysztof Zawadzki	01.01.2015 – 01.10.2015	676	450	117	1,243
14.	Piotr Zawistowski	08.12.2015 – 31.12.2015	57	0	45	102
	Total		**4,679**	**2,310**	**1,035**	**8,024**

** No overheads.*

Members of the Management Board did not receive any remuneration or awards in 2015 on account of functions fulfilled in governing bodies of companies belonging to TAURON Capital Group.

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). Both the monthly basic salary as well as the result-based criteria, whose fulfilment determines the level of an annual bonus, are defined by the Supervisory Board of the Company.

The annual bonus constitutes up to 50% of the basic salary for the financial year, assuming that ratios for the annual bonus are met, as defined for a given financial year by the Supervisory Board.

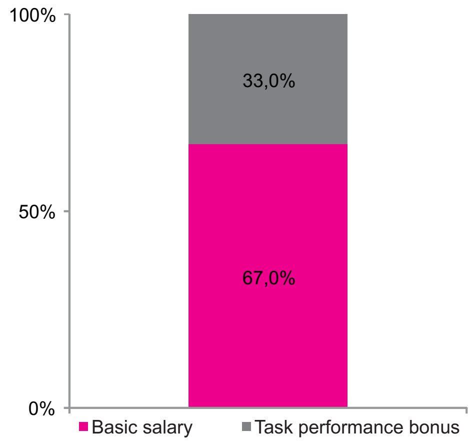
The Supervisory Board determines the percentage level of the annual bonus for each of the following ratios:

1) consolidated EBITDA derived from the approved consolidated material and financial plan for a given financial year,
2) consolidated gross profit derived from the approved consolidated material and financial plan for a given financial year,
3) current liquidity ratio measured for TAURON Capital Group derived from the approved consolidated material and financial plan for a given financial year,
4) Implementation of non-financial objectives indicated for a given year in the approved Corporate Strategy.

The components of the annual bonus of financial nature are allocated based on the data derived from the audited consolidated financial statements of the Company for the first half of a given financial year and for a given financial year. The component of the annual bonus of non-financial nature is allocated in connection with the achievement of specific objectives in a given financial year, based on the semi-annual and annual assessment of their performance by the Supervisory Board.

The figure below presents the structure of remuneration of Members of the Management Board.

Figure no. 63 Structure of remuneration for the position of a Management Board member



6.12.1.4. 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 takes place as a result of the 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.

Members of the Management Board are not entitled to receive the severance pay due to termination of the employment relationship, contract for specific work or other similar legal relationship of similar nature. In connection with the access of members of the Management Board to confidential information whose disclosure could expose the Company and companies of TAURON Capital Group to losses, non-competition agreements are concluded with members of the Management Board in order to protect interests of the Company. Under the aforementioned agreements, persons refraining from conducting competitive activity in the determined period may receive compensation.

Members of the Company Management Board did not hold positions of members of Management Boards of companies included in TAURON Capital Group.

6.12.1.5. Non-financial components of remuneration allocated to members of the Management Board and key managers

Members of the Management Board and staff members employed at key positions in the Company are entitled to use benefits and non-financial components of remuneration offered by the Company.

Within the additional benefits the aforementioned employees are entitled, inter alia, to:

1) participate in the Employee Pension Scheme operated by the employer (under the condition of being employed in the Company or one of the companies of TAURON Capital Group over a period of at least one year),
2) use the medical package financed from the Company funds,
3) use a company car allocated for sole disposal,
4) use company accommodation in case if the availability of the employee is required due to the nature of his/her work and scope of responsibilities.

In addition, members of the Management Board are authorised to use the additional civil liability insurance under the concluded employment contract.

6.12.1.6. Information on the lack of changes in the remuneration policy over the last financial year

In financial year 2015 no changes in the Remuneration policy for members of the Management Board occurred.

6.12.1.7. Assessment of functioning of the remuneration policy in terms of fulfilment of its objectives, in particular, the long-term growth in shareholders' value and stability of the undertaking performance

The applied remuneration system for members of the Management Board is compliant with the adopted Remuneration policy, which allows for achievement of the adopted objectives. The incentive-based and consistent system is provided, linked with the monitoring of annual financial plans and the adopted Corporate Strategy and development directions.

The form, structure and level of remuneration correspond to market conditions and are oriented towards enabling the recruitment and maintaining of individuals fulfilling the criteria required for running the company in the manner taking into account shareholders' interests (building the Company value for shareholders), as well as prevent conflicts of interest from arising among members of the Management Board and shareholders. At the same time, they are constructed in the manner which is transparent for investors, so that their trust towards the Company is built, and ensure the incentive function for the Management Board.

The disbursement of variable components of remuneration is linked with the pre-defined, measurable result criteria fostering the long-term stability of the Company, including also the criteria other than financial, associated with the generation of the long-term value of the Company.

The indicators determining obtaining and level of variable components of the remuneration are defined in accordance with the SMART principle, thus, they also indicate such features as: precision, measurability, possibility to achieve, significance and defining in time.

The remuneration and bonus system for members of the Management Board applicable in TAURON stipulates that the level of remuneration will be tied to the financial situation of the Company within a perspective of one year, in connection with the accomplishment of strategic goals.

6.12.2. Remuneration system of members of the Supervisory Board

The objectives and rules of remuneration for members of the Supervisory Board of the Company are defined in the Remuneration policy and in the Resolution of the Ordinary GM of TAURON no. 29 of 6 May 2011 *concerning determining of the rules and level of remuneration for members of the Supervisory Board of TAURON Polska Energia S.A.*

The remuneration system of members of the Supervisory Board comprises single-component monthly remuneration, adopting diversification of its level depending on the function in the Supervisory Board (Chairperson, Deputy Chairperson, Secretary).

The remuneration of members of the Supervisory Board is defined at a level comparable to other listed companies, where regulations on limitation of remuneration binding for companies with the majority share of the State Treasury apply.

Members of the Supervisory Board are entitled to receive the remuneration irrespective of the frequency of formally convened meetings.

The remuneration does not apply for a month in which a member of the Supervisory Board was not present at any of the formally convened meetings, for unjustified reasons. The decision on excusing or failure to excuse the absence of a member of the Supervisory Board at its meeting is taken by the Supervisory Board by means of a resolution.

The remuneration is calculated on a pro rata basis, in relation to the number of days when the function was fulfilled in case if the appointment or dismissal occurred during the calendar month.

The Company covers costs incurred in connection with the fulfilment of functions assigned to members of the Supervisory Board, in particular: costs of return transfer between the place of residence and the venue of the Supervisory Board meeting or meeting of the Supervisory Board Committee, costs of individual supervision and costs of accommodation and board.

In financial year 2015 no changes in the Remuneration policy for members of the Supervisory Board occurred.

Remuneration of key supervising personnel

The table below presents the remuneration of members of the Company Supervisory Board Members for 2015

Table no 52. Remuneration of members of the Supervisory Board of the Company for 2015 (in thousand PLN)

No.	Name and surname	Period of holding the function in 2015	Remuneration and awards
1.	Grzegorz Barszcz	12.08.2015 – 02.12.2015	33
2.	Anna Biesialska	02.12.2015 – 31.12.2015	9
3.	Beata Chłodzińska	12.08.2015 – 31.12.2015	55
4.	Piotr Ciach	12.08.2015 – 02.12.2015	33
5.	Michał Czarnik	02.12.2015 – 31.12.2015	9
6.	Andrzej Gorgol	01.01.2015 – 12.08.2015	66
7.	Maciej Koński	01.01.2015 – 31.12.2015	108
8.	Katarzyna Kosińska	12.08.2015 – 02.12.2015	33
9.	Leszek Koziorowski	01.01.2015 – 31.12.2015	108
10.	Anna Mańk	02.12.2015 – 31.12.2015	10
11.	Michał Michalewski	01.01.2015 – 12.08.2015	66
12.	Wojciech Myślecki	02.12.2015 – 31.12.2015	9
13.	Jacek Szyke	01.01.2015 – 31.12.2015	120
14.	Marek Ściążko	01.01.2015 – 07.08.2015	65
15.	Antoni Tajduś	01.01.2015 – 07.08.2015	87
16.	Maciej Tybura	01.01.2015 – 07.10.2015	83
17.	Renata Wiernik-Gizicka	09.12.2015 – 31.12.2015	7
18.	Agnieszka Woś	01.01.2015 – 12.08.2015	81
19.	Jarosław Zagórowski	12.08.2015 – 02.12.2015	40
	Total		**1,022**

7. OTHER SIGNIFICANT INFORMATION AND EVENTS

7.1. Proceedings pending before the court, competent arbitration authority or public authority body

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 Company equity.

7.2. Important achievements in research and development

In 2015 companies of TAURON Capital Group carried out many projects co-financed from external sources. The most significant projects are presented in the table below.

Table no 53. Projects carried out in 2015 by companies of TAURON Capital Group, co-financed from external sources

No.	Projects/programmes/tasks	Source of co-financing
1.	1) Project *Coalgas* comprising pilot scale research in the scope of monitoring and reduction of mercury emission. 2) Project *CO_2-SNG*, comprising chemical accumulation of energy through production of methane from the captured CO_2. 3) Project *Smart Home*, comprising the creation of a system of integrated devices allowing for effective remote management of electrical equipment and controlling of security at home. 4) Project *Prointerface,* comprising the construction of a system for individual assessment of disruptions in electricity quality in the distribution grid, including the power electronic interface to connect dispersed renewable energy sources.	KIC InnoEnergy
2.	1) Under the strategic programme on: *Advanced technologies of energy acquisition,* implementation of the following tasks was completed: • Task 1: Development of technologies for high-performing “zero-emission” coal units integrated with CO_2 capturing from flue gas, • Task 2: Development of oxy-combustion technology for pulverised and fluidised bed boilers integrated with CO_2 capture, • Task 3: Development of coal gasification technology for high efficiency production of fuels and electricity. 2) GEKON Programme under which the project is implemented in the scope of dynamic management of transmission capacity of power grids with the application of innovative measurement techniques. 3) *The Project on HTRPL High Temperature Nuclear Reactor in Poland,* executed 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*. 4) The Applied Research Programme under which the project was implemented in the scope of production of demineralised water to replenish the water-steam circuit by means of electromembranary treatment.	NCBiR
3.	The MANAGER Project concerning the management of mine water for the purpose of mitigation of environmental hazards following the termination of mining exploitation.	Research Fund for Coal and Steel of the European Union
4.	The ICP4Life project concerning the construction of the Integrated Collaborative Platform for Managing the Product-Service Engineering Lifecycle.	Horizon 2020: Framework Programme for Research and Innovation

One of the most significant research and development undertakings implemented in 2015 in TAURON Capital Group is the CO_2-SNG project, related to CO_2 processing into synthetic natural gas with the use of electricity surplus from RES. The project is implemented by the international consortium grouping Polish and French entities, where TAURON Wytwarzanie is the consortium leader. The scope of the project covers transformation of carbon dioxide generated as a result of fuel combustion in industrial installation into synthetic natural gas – SNG. This gas will be generated as a result of CO_2 reaction with hydrogen derived from the electrolysis process, supplied by the surplus of cheap electricity coming from RES in the valleys of power system loads. The project assumes that this may be the method for storage of electricity surplus from renewable sources and simultaneously, a perspective solution for management of CO_2 generated in installations of TAURON Capital Group. For the implementation of the project, co-financing from KIC InnoEnergy was acquired.

In 2015 the Company, jointly with partners from the EU countries, carried out works under the project on *An Integrated Collaborative Platform for Managing the Product-Service Engineering Lifecycle – ICP4Life*. It is the first project in TAURON Capital Group, financed under the Horizon 2020 programme. Project deliveries should open a new platform for companies of TAURON Capital Group for the purpose of cooperation between the energy supplier and the client, where completely new products will be developed.

In 2015, activities were completed, associated with 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 a member of two winning consortia, participated in the implementation of three research tasks of the programme. The follow-up projects are already, allowing for effective use of the acquired knowledge and research infrastructure developed under the aforementioned projects, in the form of mobile pilot installation.

In the reporting year, activities initiated in 2012 were completed in the Company, resulting from the signed Consortium Agreement – HTRPL High Temperature Nuclear Reactor in Poland. The participation of the Company was associated with the implementation of the stage called, *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 was the AGH University of Science and Technology (Akademia Górniczo-Hutnicza) in Kraków.

Moreover, in 2015 companies of TAURON Capital Group financed many other research and development activities from own funds, at various scale, enhancing the effectiveness of companies' performance and mitigating the environmental impact of processes they conduct.

In 2015, the Company also took part in the preparation and submission of 13 applications for co-financing of research and development activities from the European Union funds (Horizon 2020 and Research Fund for Coal and Steel of the European Union), where the Company acted as a member of international scientific and research consortia. At present, the process of evaluation of some applications submitted is in progress.

In 2015 works related to the *Feasibility Study of the Power Sector Research Programme* (PBSE), submitted to the NCBiR in December 2014 were ongoing. The PBSE Feasibility Study was developed under the cooperation between TAURON and other undertakings from the energy sector, trade organisations and leading national universities. In June 2015 the evaluation of the content of the PBSE Feasibility Study took place, as a result of which it was modified, in accordance with the recommendations, and as a consequence of the next stage of the evaluation, in October 2015, the study was recommended for establishing of the Sectoral Programme. 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, works are ongoing in the scope of defining the ultimate research agenda and preparation of research and development projects by companies of TAURON Capital Group, to be submitted under the PBSE call for proposals. The launch of the first call for proposals is expected in the 2nd quarter of 2016.

The Company was also conducting active measures in the scope of building the cooperation mechanisms between industry and science. In this scope, the Company participated in the activities of the Motorway of Technology and Innovation Institute, established in 2014, representing a new platform for cooperation between industry and Polish universities.

In 2015, companies of TAURON Capital Group continued their activities carried out under KIC InnoEnergy, in particular, the Polish node of CC Poland Plus sp. z o.o. with its registered office in Kraków (one of six in the EU). TAURON has the status of Associated Partner in the structures of KIC InnoEnergy. In 2015, 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. Works were also carried out in the scope of implementation of research and development projects co-financed or executed jointly with KIC InnoEnergy, for which KIC InnoEnergy approved the support in the previous years.

In 2015, activities in the scope of development and implementation of the *Research and Development Policy in TAURON Group* were continued, which was approved by the Management Board of the Company on 15 September 2015. At the same time, the stage of implementation of provisions of the Policy in the internal corporate regulations was launched. The Policy defines the target model of research and development activity 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. Corporate Social Responsibility (CSR) Policy

In 2011, acknowledging that communication of non-financial measures is particularly important in case of listed companies, in the *Corporate Strategy of TAURON Group for 2011–2015 with an outlook until 2020*, the need to develop and implement the CSR strategy (within integration of the PR function), at a 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 2012–2015, with estimates up to the year 2020* was developed (Sustainability Strategy).

The strategic objectives determined by the aforementioned strategy and 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 orientation, 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.

In 2015, TAURON continued the fulfilment of goals of the Sustainability Strategy. In connection with its expiry in 2015 as well as the fulfilment of over 95% of goals assumed in the document, in December 2015 TAURON adopted a new *Strategy of Sustainable Development of TAURON Group for 2016–2018, with estimates up to the year 2020*.

The core of the new Sustainability Strategy remained unchanged, however, the wording of the document has been simplified. This Strategy was developed based on the current trends in the CSR area and it takes into account the opinion of TAURON Capital Group environment as well as future challenges faced by the energy sector. It is still based on five strategic directions – two primary (ensuring energy supply security, customer orientation) and three secondary (ethical culture and engaging workforce, environment protection and social and business partnership). Moreover, the strategic goals were replaced by 18 obligations which TAURON intends to fulfil by the end of 2016. For each of the obligations key initiatives were formulated to support their implementation.

The strategy of sustainable development is directly related to all areas of activities of TAURON Capital Group, streamlining both the approach to the CSR and the methodology for the assessment of effectiveness of measures undertaken based on Global Reporting Initiative indicators. In 2015, the third sustainability report was published, presenting the measures undertaken by TAURON Capital Group in the CSR area in 2014 as well as data summarising the implementation of the goals planned in the sustainability strategy up to 2015. The report was developed in accordance with the latest reporting standards – GRI G.4, which was confirmed by the acquired certificate – GRI Materiality Matters' Check, and submitted for 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. In 2015, TAURON achieved, for the third time, a positive result and was included in this most prestigious ranking of socially responsible companies.

One of the directions of the Sustainability Strategy is the social and business partnership (formerly 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.

fundacja TAURON

In 2015, TAURON Foundation and the Company implemented, based on the employee voluntary programme, the eleventh issue of the *Houses of Positive Energy* action, addressed 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. Since 2011 over 380 orphanages from five provinces have taken part in the action. In 2015, the Foundation also continued the project called *Heroes day by day*, the objective of which is to build awareness concerning potential donors of bone marrow and increase the number of its potential donors. The volunteers of TAURON Foundation organised information actions and days of bone marrow donor in companies of TAURON Capital Group, and during events sponsored by TAURON, as a result of which over 3,700 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 2015, TAURON continued 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 2015, such projects were supported as *Foootball Children's Day with TAURON*, *Juliada 2015, TAURON Basket Game* or *I swim with TAURON*.

Activities carried out by companies of TAURON Capital Group are also worth mentioning. In 2015, the campaign called *TAURON Fuses* was continued. Its stage 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 devoted to education of children and teenagers was conducted by TAURON Dystrybucja, teaching the rules of safe electricity use. In 2015, TAURON Dystrybucja also continued the campaign *TAURON Fuses*. *Switch on at work* initiative, addressed mainly to employees of construction and renovation companies who have contact with electricity and electricity supplied equipment in their daily 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*.

7.3.1. Energy security

Ensuring energy security to clients is one of two leading directions of the Sustainability Strategy. As an essential element in the energy system of the country, TAURON optimises processes in individual areas of activity: generation, distribution and sales of electricity and heat, in order to ensure stable supplies with high qualitative parameters to clients. In order to provide for the continuity of supplies, TAURON not only implements new investment projects but also conducts ongoing maintenance works and modernisation of the infrastructure held as well as actively searches for new solutions.

Innovative technological process make an important element of the process of reliable energy supply. Accordingly, TAURON Capital Group concentrates on activities in the area of research and development, resulting not only in innovative solutions, inter alia, in the scope of reducing the emission of hazardous substances from combustion processes but also innovative products and services to be used by individual clients.

At the same time, in order to guarantee stable supplies, TAURON Dystrybucja conducts ongoing measures minimising the risk of failure as well as shortening the response time necessary to find the place of failure and to remedy it. It is facilitated, inter alia, by the implementation of the modern system of Grid Assets Management or increase of the grid automation level. For several years, rules of prioritisation of investment needs have applied in TAURON. They are aimed at addressing the expenditure to places that have the strongest impact on the improvement of electricity supplies and effectiveness of the distribution grid performance, including the enhancement of the qualitative electricity indicators.

Moreover, taking care for comfort and security of persons having contact with electricity and the equipment supplied by it, TAURON Dystrybucja conducts educational and information campaigns called *TAURON Fuses* addressed to various recipients, including, in particular, children and teenagers. The Company is also the initiator and co-organiser of other social actions enhancing the level of energy supply reliability as well as aimed at protection of health and life of persons staying in the vicinity of energy infrastructure.

7.3.2. Customer orientation

The overriding objective of TAURON Capital Group is to meet customers' expectations and needs. This assumption is implemented by all companies of the TAURON Capital Group, both through optimisation of internal processes, corporate governance, and through enhancing the quality of customer service and increasing the range of products and services offered.

Customer orientation is also the second leading direction of Sustainability Strategy, next to energy security. Efforts aimed at accomplishing the assumed goals in this scope are based on many measures in each of the value chain areas, inter alia, through grid modernisation, searching for solutions enhancing customer satisfaction, ensuring security of customer interests, care for vulnerable clients and disadvantaged groups as well as through continuous education in the area of effective energy use.

TAURON analyses market trends on an on-going basis as well as conducts cyclical client satisfaction surveys concerning the services and products offered. Owing to such activities the Company endeavours to meet clients' expectations, satisfying their current and future needs, to the extent feasible. At the same time, complaint procedures are improved, allowing for prompt and efficient response in situations reported by clients. All measures constituting the customer service process are conducted in compliance with the highest ethical standards.

Preventing limiting the relations with clients only to the provision of products and services, as well as having the awareness of many threats which may potentially affect a client in various aspects of electricity purchase or use, TAURON conducts educational actions addressed to energy users. The activities conducted can be divided into four main areas:

1) rational use of electricity,
2) environmental impact abatement,
3) issues related to the broadly understood customer security,
4) raising awareness of the energy sector.

The educational and information functions are mostly implemented through actions organised under *TAURON Fuses*. Within the framework of this programme, employees of TAURON warn various groups of recipients of numerous threats they may be exposed to as electricity consumers. TAURON tries to develop awareness of its clients also in the area of reasonable electricity use and care for natural environment. Such an approach of TAURON Capital Group arises mainly from the responsibility for the natural environment and future generations.

7.3.3. Impact on the natural environment

Environmental protection in the energy sector is the area controlled and regulated by the EU and national legal regulations, therefore, it is strongly associated with business activity, in particular, in the context of contemporary challenges related to the environmental impact of energy generation process and diversification of electricity sources. Considering the sustainable development rules, companies of TAURON Capital Group optimise the processes of management of the resources held (water, raw materials, materials) and conduct active policy of waste management (both processing and municipal). The pro-ecological education conducted by companies of TAURON Capital Group, addressed both to children and to adults, also plays an important role in the area of environmental protection.

In order to reduce the consumption of non-renewable resources, TAURON Capital Group implements solutions enabling to obtain higher energy savings, owing to the construction of units in new technologies demonstrating better parameters in the scope of energy efficiency. In the recent years TAURON has been also increasing its production of energy from renewable sources, i.e. wind, water and biomass. In accordance with the Corporate Strategy updated in June 2014, the installed capacity in new RES sources (including biomass) should reach the level of approximately 800 MW.

Waste management is a very important issue in terms of functioning of generating and mining companies of TAURON Capital Group. The importance attributed to this area is also confirmed by the fact that an ambitious goal was set in the Sustainability Strategy. By 2020, TAURON Wytwarzanie and TAURON Wydobycie strive to reach a possibility of managing 90 per cent of post-production waste generated in their coal mines, power plants and combined heat and power plants. Minimising waste generation and the policy of waste management produce visible results: year by year, the quantity of waste managed is successively increasing.

Education is an important area in the scope of environmental impact abatement. Information and educational programmes concerning environmental protection methods and energy consumption saving organised by TAURON are addressed both to local communities and to the customers. The younger generations – children and teenagers

– represent a particularly important group of consumers who, within the perspective of the next decades, will care for the sustainable development of the country.

The most important actions in the area of environmental protection

Companies of TAURON Capital Group conduct the responsible environmental protection policy and apply due diligence to ensure that the implemented investments are compliant with the requirements and consider the technological developments in the area of environmental protection.

The most important actions in the area of environmental protection conducted in TAURON Capital Group in 2015 included:

1) the continuation of construction of the power unit with 910 MW capacity in Jaworzno III Power Plant, whose commissioning will significantly influence the reduction of ambient air emission of NO_x, SO_2, CO_2 and particulate matter (TAURON Wytwarzanie),
2) construction of flue gas de-nitrification installation and modernisation of units: no. 9 at Elektrownia Łaziska, no. 1 and 5 at Elektrownia Jaworzno III and boiler no. 10 at Elektrownia Stalowa Wola, which will contribute to NO_x emission reduction to the level of 200mg/Nm_3 (TAURON Wytwarzanie),
3) Follow-up of investment measures in the scope of construction of safeguards against soil and water contamination with oil derivatives (TAURON Dystrybucja),
4) construction of a system for pre-treatment of acid sludge discharged from mining waste treatment facility – ZG Janina (TAURON Wydobycie),
5) finalisation of reclamation of the degraded area – approximately 23 thousand trees were planted over the area of 4.18 ha (TAURON Wydobycie),
6) conducting activities aimed at limiting mining waste generation through aggregate production (TAURON Wydobycie),
7) modernisation of hydroelectric plants, aimed, among others, at mitigation of the threat of environmental contamination with oils (TAURON EKOENERGIA),
8) commencement of activities aimed at reducing the emission of dust on the crane storage site (KW Czatkowice),
9) planting approximately 34 thousand trees (larch, lime, beech) over the area of approximately 7 ha in the scope of foresting a protective zone as a barrier for dispersion of noise and pollutants (KW Czatkowice).

Fees for economic use of the natural environment

In 2015, due to the economic use of the environment, companies of TAURON Capital Group calculated fees in the total amount of approximately PLN 44,601 thousand.

The table below presents the level of fees for economic use of the environment due in 2015 in individual companies of TAURON Capital Group.

Table no 54. The level of fees for economic use of the environment due in 2015

No.	Company name	Fees for economic use of the environment due for 2015 (in PLN thousand)
1.	TAURON Wytwarzanie	30,990.0
2.	TAURON Wydobycie	8,974.3
3.	TAURON Ciepło	4,448.5
4.	TAURON Dystrybucja	114.0
5.	KW Czatkowice	61.0
6.	TAURON Dystrybucja Serwis	10.6
7.	TAURON Obsługa Klienta	1.3
8.	TAURON EKOENERGIA	0.4
9.	TAURON Sprzedaż	0.9
	Total	**44,601**

7.3.4. Sponsoring activity

In 2015, TAURON conducted sponsoring activity based on the applicable *Rules of conducting sponsoring activity in TAURON Polska Energia S.A. Group*, *the Research methodology for the selection, planning, analysing and reporting of sponsoring activity effectiveness*, the guidelines of the *Strategy of TAURON brand* and the *Plan of conducting sponsoring activity in TAURON Group in 2015*, adopted by the Management Board and positively reviewed by the Supervisory Board.

The main objective of the conducted activities was the support of commercial activity as well as the growth and strengthening of the knowledge and range of TAURON brand effect, assuming that TAURON brand is an important asset of TAURON Capital Group enabling to increase its value and support business objectives in an indirect way.

The sponsoring activity was carried out based on negotiated agreements, according to standardised provisions. Moreover, this activity was monitored, analysed and reported on an on-going basis, through detailed reports on the implementation of sponsoring agreements, surveys and analyses conducted in quarterly and annual cycles by specialised external entities and the supervision of companies of TAURON Capital Group.

In accordance with the implemented procedures, the assessment of effectiveness of the activities conducted was carried out, through opinion surveys, measurement of the value and size of brand exposure in media, in the context of the activities conducted, measurement of implementation of sales targets, with reporting of the obtained results to the governing bodies of TAURON.

As a result of the promotion effectiveness measurement, an independent research entity estimated the advertising equivalent in relation to sponsoring activities completed in 2015. Comparing the summarised value obtained in this way to the sum of all expenditure arising from sponsoring agreements the ROI ratio at a level of approximately 9.2. was obtained. It means that each zloty spent for that purpose generated promotional benefits to TAURON Capital Group whose value was estimated at approximately PLN 9.20.

The confirmation of the financial effectiveness of the activities conducted is the high positioning of TAURON brand in an independent research report, *Sponsoring Monitor 2015*, which is the only source of this type of information on the Polish market. According to this report, TAURON is ranked seventh in the TOP 10 ranking of sponsors and it is the most active sponsor in the energy sector.

In 2015, sponsoring activity was carried out by TAURON and TAURON Sprzedaż. Both companies implemented the total of 30 projects with 20 customers. The preliminary data concerning the achieved advertising equivalents indicate that the best results were achieved under the following actions: TAURON Basket Liga, Vive TAURON Kielce, Tour de Pologne, TAURON Arena Kraków, TAURON MKS Dąbrowa, TAURON Basket Liga Kobiet.

7.4. Awards and distinctions

In 2015 TAURON and companies of TAURON Capital Group received the following awards and distinctions.

Figure no. 64 Awards and distinctions

AWARDS AND DISTINCTIONS GRANTED TO TAURON and COMPANIES OF TAURON CAPITAL GROUP IN 2015
JANUARY
Recognising Intranet of TAURON Capital Group as one of ten best intranet solutions worldwide by the organiser of the competition, Nielsen Norman Group z USA, which appreciated the user-orientation of intranet of TAURON Capital Group.
FEBRUARY
Distinguishing TAURON with the title *The one who changes Polish industry*, awarded by the Editor's Office of the Economic Monthly, New Industry and wnp.pl. portal, for business courage and responsibility leading to key decisions in terms of energy security and perspectives of Polish economy development.
MARCH
Recognising TAURON Investor Relations as the best among companies of WIG30 Index in the competition organised by "Parkiet" Exchange Journal and the Chamber of Brokerage Houses. The quality of investor relations was evaluated by representatives of financial institutions (analysts, brokers and managers) as well as Internet users.

APRIL

Obtaining of the title *Certified Energy Seller* awarded by Energy Trading Association by TAURON Sprzedaż. Among 400 enterprises holding the concession for electricity trading on the territory of Poland, only seven companies acquired this title, including TAURON Sprzedaż.

Granting the award *Leaders of Energy World* to companies of TAURON Capital Group: TAURON Obsługa Klienta in the category *Supplier of solutions for the Sector* for launching of the Intranet, TAURON Dystrybucja in the category *Operator of the Year* for the improvement of energy supply quality.

MAY

Obtaining of the medal *50 years of Consumers' Rights* by TAURON Sprzedaż during the Second International Consumer Conference *Sales in consumer trade*. The distinction is awarded by the Association of Consumer Ombudsmen to institutions and persons involved in the protection of consumer rights. TAURON Sprzedaż is the first enterprise awarded with this distinction.

SEPTEMBER

Distinguishing TAURON with the *Investment of the year* award for the construction of the power unit with the capacity of 910 MW at Elektrownia Jaworzno III, by the Programme Council of the Energy Forum.

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 has maintained its last year' position in the ranking.

Obtaining of the *Certificate of Consumer Service Quality* by TAURON Obsługa Klienta, awarded by the Federation of Consumers to organisations which obtain a positive result of the legal and consumer audit. TAURON Obsługa Klienta is the first company in Poland which obtained this title.

Distinguishing TAURON Sprzedaż with the *HETMAN 2015* statue for the CSR activity. The award was granted by AKTYWNI plus magazine and the Polish Federation of Associations of Third Age Universities for the "overall measures in the scope of corporate social responsibility – CSR, in the group of elderly people".

OCTOBER

Distinguishing TAURON in the competition on *Top 10 Employers of the Silesian Province*. The winners were selected by local government representatives based on the following criteria: impact of employer's activity on the economic development of the region, contribution in the development of the labour market, innovativeness, relations with employees and cooperation with the local community.

Obtaining by TAURON, for the second consecutive time, of the main award in the category of enterprises for the annual report for 2014 from the jury of The *Best Annual Report* competition organised by the Institute of Accounting and Taxes.

Taking of the 7th place by TAURON in the List 2000 published by *Rzeczpospolita* journal (last year' position in the ranking was maintained).

TAURON was included in TOP 25 of the biggest listed companies (ranking accompanying List 2000). The Company was promoted by one position in relation to the previous year – to the 6th position.

Distinguishing TAURON with the *Feniks 2015* award during the 22nd International Conference on *Ashes from energy* in the category *Project* for the *Grey2Green* project. The award was granted for the policy of TAURON activity in the scope of mitigation of the environmental impact.

NOVEMBER

Granting the *EKOLAUR* award to KW Czatkowice within the 14th issue of the Competition on *EKOLAURY of the Polish Chamber of Ecology 2015* in the category: *Overall activity for environmental protection*, for 15 years of activity of limestone grinding plant in KW Czatkowice.

DECEMBER

Accepting TAURON, for the third consecutive time, to the RESPECT Index – a group of listed companies managed in responsible and sustainable manner.

Selection of TAURON to the Golden Six INN: CSR – a group of companies conducting best activities in the area of corporate social responsibility in the country.

7.5. Investor relations

The reliable and transparent communication with investors is one of the priorities of TAURON Capital Group. It is conducted both in the form of activities required by law (current and periodical reports) and also through many additional tools addressed directly to institutional and individual investors. The Company organises itself as well as participates in many investor conferences and roadshows organised by capital market institutions in Poland and abroad, during which the strategy and financial situation of TAURON Capital Group is presented as well as the current standing and perspectives of the energy sector.

In connection with the publication of periodical reports, the company organised conferences for analysts and managers during which members of the Management Board discussed financial results and presented the most important events in the reported periods. The conferences were broadcast on Internet in Polish and in English. A possibility of their listening via telephone was also provided. Owing to such solution, all investors interested in TAURON Capital Group had a possibility to follow those events directly and receive information at the same time.

Besides regular meetings accompanying the publication of periodical reports, in 2015 members of the Management Board and representatives of Investor Relations Office from the Department of Market Communication and PR, took part in twelve conferences and roadshows, during which over 150 meetings with managers and analysts were held. Representatives of TAURON Capital Group met institutional investors not only in Poland, but also in the USA, Great Britain, Austria and Czech Republic.

Particular attention was paid to technical aspects of communication with investors – additional communication channels are used, such as the dedicated application for mobile devices. On the YouTube portal broadcasts of events important for investors are placed: reporting conferences, GMs, Investor Days and comments of the President of the Management Board on the results. On the other hand, on Facebook, announcements of significant events are published, including links to websites where the broadcasts may be followed or participation in investor chat is possible.

Being aware that the website is a significant source of information for investors, in particular, the tab on Investor Relations; the company cares for its content and validity of the content contained therein. The Section on Investor Relations contains a lot of useful information on the current events, financial results or general meetings. It also contains presentations and video broadcasts of conferences summarising the financial results.

On 29 September 2015, the Company organised the third issue of the Institutional Investor's Day. Several dozen analysts and managers had an opportunity to meet the Management Board and the management staff of TAURON Capital Group as well as visit a new biomass unit with the capacity of 50 MW on the premises of Elektrownia Jaworzno III. Within this event, a cycle of presentations was also held, concerning the planned changes in the remuneration model of distribution system operators, distribution infrastructure maintenance strategy and impact of renewable energy sources on the performance of TAURON Dystrybucja grid.

In 2015 the company participated in events addressed to individual investors, inter alia, it was the partner of winter and summer sports competitions of the capital market "Capital Market Games" and the "Wall Street" conference in Karpacz. Within the regular communication with this sizeable group of investors, five chats with a representative of the Management Board took place in 2015, in which approximately 100 investors took part each case. Activity in the scope of contacts with individual investors resulted in joining the programme of Individual Investors' Association "10 of 10 – a company friendly to investors" and receiving of the distinction "Hero of the Capital Market" in 2014.

Also in 2015 the company received awards for the high quality of communication with participants of the capital market. In March 2015, within the biggest survey of investor relations in Poland, organised by the Journal of Stock Exchange and Investors, "Parkiet" and the Chamber of Brokerage Houses, participants of the internet questionnaire survey granted the first place to TAURON in terms of investor relations among companies of WIG30 index. On the other hand, in the last year' issue of "The Best Annual Report" competition*, organised by the Institute of Accounting and Taxes,* TAURON received, for the second consecutive time, the first main award in the category of enterprises for the report in 2014.

The following table presents the timeline of events and activities carried out within investor relations which took place in 2015.

Table no 55. Timeline of events and activities carried out within investor relations in 2015

No.	Date	Event
1.	05–06.02.2015	Roadshow in cooperation with Societe Generale, London
2.	12.03.2015	Publication of the separate and consolidated annual report for 2014
3.	12.03.2015	Meeting of the Management Board with analysts managing funds, connected with the publication of the financial results for 2014

No.	Date	Event
4.	12.03.2015	Chat with individual investors
5.	16.03.2015	Publication of recommendations of the Management Board concerning the profit distribution for 2014 and defining of the amount allocated for the payment of the dividend
6.	18.03.2015	Participation in the Polish Capital Market Day, DM PKO BP and GPW, London
7.	17.04.2015	Participation in the conference of Raiffeisen Institutional Investors' Conference, Zürs, Austria
8.	20.04.2015	Participation in the Energy & Mining Conference, Pekao Investment Banking, Warsaw
9.	23.04.2015	Ordinary GM of TAURON
10.	14.05.2015	Publication of the extended consolidated report for the 1st quarter 2015
11.	14.05.2015	Meeting of the Management Board with analysts managing funds, connected with the publication of the financial results for the 1st quarter of 2015
12.	14.05.2015	Chat with individual investors
13.	18.05.2015	Participation in the Polish Capital Markets conference, GPW/Ipopema, New York
14.	22.07.2015	Dividend record day
15.	12.08.2015	Date of dividend payment
16.	20.08.2015	Publication of the consolidated report for the 1st half of 2015
17.	20.08.2015	Meeting of the Management Board with analysts managing funds, connected with the publication of the financial results for the 1st half of 2015
18.	20.08.2015	Chat with individual investors
19.	09.09.2015	Meeting of the Management Board with analysts managing funds, associated with the publication of the financial results for the 1st half of 2015, DM PKO BP, Warsaw
20.	14.09.2015	Participation in the conference of companies of the energy and commodity sector, DM BZ WBK, Warsaw
21.	15.09.2015	Participation in the Annual Emerging Europe Investment Conference Pekao Investment Banking/Kepler Cheuvreux, Warsaw
22.	29.09.2015	Investor Day in TAURON Polska Energia, Jaworzno
23.	30.09.2015	Participation in the conference on Mining and Energy, DM PKO BP, Katowice
24.	08.10.2015	Participation in the Erste Group Investor Conference, Stegersbach (Austria)
25.	09.11.2015	Extraordinary GM of TAURON
26.	10.11.2015	Publication of the consolidated report for the 3rd quarter of 2015
27.	11.11.2015	Meeting of the Management Board with analysts managing funds, connected with the publication of the financial results for the 3rd quarter of 2015
28.	16.11.2015	Chat with individual investors
29.	25.11.2015	Meeting of the Management Board with analysts and fund managers, related to the publication of the financial results for the 3rd quarter of 2015, DM mBank, Warsaw
30.	04.12.2015	Participation in the WOOD's Winter in Prague Conference, WOOD & Company, Prague
31.	18.12.2015	Chat with individual investors

Company Management Board

Katowice, 8 March 2016

Remigiusz Nowakowski	– President of the Management Board	....
Jarosław Broda	– Vice-President of the Management Board	....
Kamil Kamiński	– Vice-President of the Management Board	....
Marek Wadowski	– Vice-President of the Management Board	....
Piotr Zawistowski	– Vice-President of the Management Board	....

Appendix A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

Below the glossary of industry terms and the list of abbreviations most commonly used in this report, is presented.

Table no 56. Explanation of abbreviations and trade terms applied in the text of the report

No.	Abbreviation and trade term	Full name/explanation
1.	Abener Energia	Abener Energia S.A. with the seat in Stalowa Wola
2.	ARE	Agency of Energy Market (Agencja Rynku Energii S.A.) with the seat in Warsaw
3.	Pekao Investment Banking	Pekao Investment Banking S.A. with the seat in Warsaw
4.	bbl	barrel of crude oil
5.	BGK	Bank Gospodarstwa Krajowego with the seat in Warsaw
6.	Biomasa GT	Biomasa Grupa TAURON sp. z o.o. with the seat in Stalowa Wola
7.	BZ WBK	Bank Zachodni WBK S.A. with the seat in Wrocław
8.	CAO	Central Allocation Office GmbH with the seat in Freising, Germany
9.	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.
10.	Coloured certificates	Property rights resulting from certificates of origin of energy generated in the way subject to support, the so-called colour certificates: 1) **green** – certificates of origin of electricity from renewable energy sources, 2) **violet** – certificates of origin of electricity 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, 3) **red** – certificates of origin of electricity from cogeneration (CHP certificates – Combined Heat and Power), 4) **yellow** – certificates of origin of electricity generated in cogeneration from sources of total installed capacity below 1 MW or gas-burning,
11.	CIRS	(Currency Interest Rate Swap) – transaction of interest rate exchange
12.	CSR	(Corporate Social Responsibility) social responsibility of business
13.	CUW	Centre of Common Services, CUW R – services in the area of accounting
14.	DM	Brokerage House
15.	Best Practice	Best Practice of GPW Listed Companies, effective as of 31 December 2015
16.	Best Practice 2016	Best Practice of GPW Listed Companies 2016, effective as of 01 January 2016
17.	EIB	The European Investment Bank with the seat in Luxemburg
18.	EBIT	(Earnings Before Interest and Taxes) result on operating activity before taxing
19.	EBITDA	(Earnings Before Interest, Taxes, Depreciation and Amortization) result on operating activity before taxing, increased by amortization and depreciation
20.	EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. with the seat in Stalowa Wola
21.	EDF	EDF Polska Centrala sp. z o.o. with the seat in Warsaw
22.	Elektrownia Blachownia Nowa	Elektrownia Blachownia Nowa sp. z o.o. with the seat in Kędzierzyn Koźle.
23.	ENEA	ENEA S.A. with the seat in Poznań
24.	ENERGA	ENERGA S.A. with the seat in Gdańsk
25.	ERM	Complex System of Enterprise Risk Management

No.	Abbreviation and trade term	Full name/explanation
26.	EU ETS	(European Union Emission Trading System) the European system of CO_2 emission allowances trading
27.	EUA	(European Union Allowances) – allowance to introduce the equivalent to the air, within the meaning of Article 2 item 4 of the Act of 17 July 2009 on the management system of emissions of greenhouse gases and other substances, carbon dioxide (CO_2), which is used for settlements of emission size within the system, which can be managed based on principles stipulated in the *Act of 28 April 2011 on the system of greenhouse gases emission allowances trading* (*Journal of Laws No. 122, item 695*).
28.	EUR	Euro – a common European currency introduced in some EU Member States
29.	FITCH	FITCH rating agency
30.	GAZ-SYSTEM	Operator of Transmission Gas Pipelines GAZ-SYSTEM S.A. with its seat in Warsaw
31.	GPW	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) with the seat in Warsaw
32.	GRI	(Global Reporting Initiative) Global Reporting Initiative
33.	TAURON Capital Group	TAURON Polska Energia S.A. Capital Group
34.	“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.
35.	GUS	Central Statistical Office (Główny Urząd Statystyczny)
36.	GWh	gigawatt hour
37.	GZE	Górnośląski Zakład Elektroenergetyczny
38.	IRGIT	Izba Rozliczeniowa Giełd Towarowych S.A. (Commodity Exchange Clearing House) with the seat in Warsaw
39.	IRS	(Interest Rate Swap) contract on exchange of interest rate payments, one of the basic derivatives subject to trade at the interbank market
40.	EC	European Commission
41.	KGHM	KGHM Polska Miedź S.A. with the seat in Lubin
42.	KIC InnoEnergy	Community of Knowledge and Innovation – KIC InnoEnergy, with its seat in Kraków
43.	Code of TAURON Group	The document entitled *Code of TAURON Group*, adopted by the Management Board of the Company
44.	Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.
45.	Nominations and Remuneration Committee	Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A.
46.	Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
47.	Kompania Węglowa	Kompania Węglowa S.A. with the seat in Katowice
48.	KPI	(Key Performance Indicators) Key Performance Indicators) key financial and non-financial indicators used as measures in processes of measurement of the level of organisation goal accomplishment
49.	CCC	Code of Commercial Companies
50.	kv	kilovolt – 1,000 volts
51.	KW Czatkowice	Kopalnia Wapienia Czatkowice sp. z o.o. with the seat in Krzeszowice
52.	KWK Brzeszcze	“Brzeszcze” Coal Mine with the seat in Brzeszcze
53.	Łagisza GT	Łagisza Grupa TAURON sp. z o.o. with the seat in Katowice
54.	mBank	mBank S.A. with the seat in Warsaw
55.	Marselwind	Marselwind sp. z o.o. with the seat in Katowice
56.	Mg	Megagram – million gram (1,000,000 g) i.e. 1 t
57.	MSR	(Market Stability Reserve) stabilisation reserve on the market of allowances
58.	IFRS	International Financial Reporting Standards

No.	Abbreviation and trade term	Full name/explanation
59.	MW	Megawatt
60.	MW_e	Megawatt of electric capacity
61.	MW_t	Megawatt of thermal capacity
62.	MWh	Megawatt hour
63.	NCBiR	National Centre for Research and Development
64.	Nowe Brzeszcze GT	Nowe Brzeszcze Grupa TAURON sp. z o.o. with the seat in Brzeszcze, formerly R S G
65.	Business Area	Area of operations of subsidiaries included in TAURON Group, determined by the Company, constituting the business segment of TAURON Group
66.	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*
67.	OPR	Operating Power Reserve
68.	DSO	Distribution System Operator
69.	TSO	Transmission System Operator
70.	OTC	(Over The Counter Market) – the European market operating outside the regulated exchange market
71.	RES	Renewable Energy Sources
72.	PEPKH in liquidation	Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. with the seat in Tarnów, in liquidation
73.	PGE	PGE Polska Grupa Energetyczna S.A. with the seat in Warsaw
74.	PGE EJ1	PGE EJ1 sp. z o.o. with the seat in Warsaw
75.	PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A. with its registered office in Warsaw
76.	PIR	Polskie Inwestycje Rozwojowe S.A. with the seat in Warsaw
77.	GDP	Gross Domestic Product
78.	PKO BP	Powszechna Kasa Oszczędności Bank Polski S.A. with the seat in Warsaw
79.	PLN	The symbol of Polish currency – Polish Zloty
80.	PMEC	Property rights for certificates of origin confirming generation of electricity in other co-generation sources
81.	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
82.	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.
83.	PMOZE	Property rights for certificates of origin confirming generation of electricity in RES in the period before 1 March 2009
84.	PMOZE_A	Property rights for certificates of origin confirming generation of electricity in RES in the period after 1 March 2009
85.	PSE	Polskie Sieci Elektroenergetyczne S.A. with the seat in Konstancin-Jeziorna
86.	RB	Balancing Market
87.	RDN	Day Ahead Market
88.	Organisational Regulations/ Bylaws	Document entitled *Organisational Regulations of TAURON Polska Energia S.A.*
89.	RESPECT Index	Exchange index where companies operating in accordance with the sustainable development rules are listed
90.	ROIC	Return On Invested Capital
91.	R S G	R S G sp. z o.o. with the seat in Katowice, currently Nowe Brzeszcze Grupa TAURON
92.	SRK	Spółka Restrukturyzacji Kopalń S.A. with the seat in Bytom

No.	Abbreviation and trade term	Full name/explanation
93.	SPOT (SPOT Market)	In relation to electricity, it is the place of concluding of trade transactions for electricity, 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 electricity is strongly linked with RB operating provided by the TSO
94.	Company	TAURON Polska Energia S.A. with the seat in Katowice
95.	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*.
96.	Sustainability Strategy	The document entitled *Corporate Strategy of TAURON Group for 2016–2018 with estimates until the year 2020*, being the update of the document *Corporate Strategy of TAURON Group for 2012–2015 with estimates until the year 2020*.
97.	EBI System	Electronic Information Base system
98.	TAMEH Czech	TAURON Czech s.r.o. with the seat in Ostrava, Czech Republic
99.	TAMEH HOLDING	TAMEH HOLDING sp. z o.o. with the seat in Dąbrowa Górnicza
100.	TAMEH POLSKA	TAMEH HOLDING sp. z o.o. with the seat in Dąbrowa Górnicza
101.	TAURON	TAURON Polska Energia S.A. with the seat in Katowice
102.	TAURON Ciepło	TAURON Ciepło sp. z o.o. with the seat in Katowice
103.	TAURON Czech Energy	TAURON Czech Energy s.r.o. with the seat in Ostrava, Czech Republic
104.	TAURON Dystrybucja	TAURON Dystrybucja S.A. with the seat in Kraków
105.	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. with the seat in Tarnów
106.	TAURON Dystrybucja Serwis	TAURON Dystrybucja Serwis S.A. with the seat in Wrocław
107.	TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with the seat in Jelenia Góra
108.	TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with the seat in Wrocław
109.	TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with its seat in Kraków
110.	TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. with the seat in Gliwice
111.	TAURON Sweden Energy	TAURON Sweden Energy AB (publ) with the seat in Stockholmm, Sweden
112.	TAURON Wydobycie	TAURON Wydobycie S.A. with the seat in Jaworzno
113.	TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with the seat in Jaworzno
114.	TAURON Wytwarzanie GZE	TAURON Wytwarzanie GZE sp. z o.o. with the seat in Gliwice
115.	TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange) with the seat in Warsaw
116.	TWh	Terrawatt hour
117.	EU	European Union
118.	UOKiK	Office for Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
119.	USD	(United Stated Dollar) international abbreviation of American dollar
120.	ERO	Energy Regulatory Office (Urząd Regulacji Energetyki)
121.	WFOŚiGW	Regional Fund of Environmental Protection and Water Management in Katowice or in Kraków
122.	GM/SM	General Meeting/ Shareholders' Meeting
123.	ZE PAK	Complex of power plants Pątnów – Adamów – Konin S.A. with its seat in Konin
124.	ZG	Mining Plant
125.	ZW Katowice	Zakład Wytwarzania Katowice in Katowice
126.	ZW Nowa	Zakład Wytwarzania Nowa in Dąbrowa Górnicza (formerly: Elektrociepłownia EC Nowa sp. z o.o.)
127.	ZW Tychy	Zakład Wytwarzania Tychy in Tychy (formerly: Elektrociepłownia Tychy S.A.)

Appendix B: LIST OF TABLES AND FIGURES

Below the list of tables and figures occurring in this report is provided.

List of Tables

List of Figures

STATEMENTS OF THE MANAGEMENT BOARD OF TAURON POLSKA ENERGIA S.A.

STATEMENT

**of the Management Board of TAURON Polska Energia S.A.
on the compliance of the Consolidated financial statements
of TAURON Capital Group
and the Management Board's report on the operations
of TAURON Capital Group**

I, the undersigned, represent that, to my best knowledge, the Consolidated financial statements of TAURON Capital Group and comparable figures were prepared in accordance with applicable accounting rules and give the true and fair picture of the assets, financial standing and performance of TAURON Capital Group.

I also certify that the Management Board's report on the operations of TAURON Capital Group gives the true picture of the development, achievements and situation of TAURON Polska Energia S.A. Capital Group, including the description of key risks and threats.

Management Board Members:

Remigiusz Nowakowski	– President of the Management Board	....
Jarosław Broda	– Vice-President of the Management Board	....
Kamil Kamiński	– Vice-President of the Management Board	....
Marek Wadowski	– Vice-President of the Management Board	....
Piotr Zawistowski	– Vice-President of the Management Board	....

8 March 2016
Date

STATEMENT

of the Management Board of TAURON Polska Energia S.A.
on the appointment of the entity authorized to audit financial statements
(Consolidated financial statements of TAURON Capital Group)

I, the undersigned, represent that the entity authorized to audit financial statements and examining the financial statements of TAURON Capital Group was appointed in accordance with legal regulations, and this entity and auditors examining the statements have met conditions for developing an impartial and independent report on the review of the audited financial statements in accordance with applicable regulations and professional standards.

Management Board Members:

Remigiusz Nowakowski	– President of the Management Board	....
Jarosław Broda	– Vice-President of the Management Board	....
Kamil Kamiński	– Vice-President of the Management Board	....
Marek Wadowski	– Vice-President of the Management Board	....
Piotr Zawistowski	– Vice-President of the Management Board	....

8 March 2016

Date