



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

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

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## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued

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

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

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

Year ended 31 December 2013

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

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



## CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

## **INTRODUCTION**

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

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

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

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

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

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

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

#### **Composition of the Management Board**

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

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

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

### **2. Composition of the TAURON Capital Group**

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

**The TAURON Polska Energia S.A. Capital Group**

*Consolidated financial statements for the year ended 31 December 2014 prepared in accordance with IFRS  
(in PLN '000)*

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

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

<sup>2</sup> TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Serwis S.A. and TAURON Dystrybucja Pomiarów 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.

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

<sup>4</sup> On 2 July 2014 the company was put under liquidation.

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

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

<sup>1</sup> 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.

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

## **STATEMENT OF COMPLIANCE WITH IFRS**

### **3. Statement of compliance**

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

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

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

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

### **4. Going concern**

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

### **5. Functional and presentation currency**

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

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

## SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (POLICIES) APPLIED

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

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

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

#### **Impairment of assets**

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

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

#### **Provision for gas emission liabilities**

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

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

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

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

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

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

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

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

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

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

**Depreciation and amortization rates**

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

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

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

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

**Measurement of provisions for employee benefits**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

At the same time, the Group used write-downs of inventories of PLN 45 763 thousand recognized in 2013 for certificates of energy generated in cogeneration fuelled with gaseous fuels and from other cogeneration, received

before the amended Energy Law of 14 March 2014 came into force. The write-downs were utilized because, in accordance with Article 5.2 of the Act in question, companies in the Group cannot surrender the certificates, what is more, the certificates are no longer admitted for trading on the Polish Power Exchange, hence they will not bring any economic benefits to the Group.

#### **Deferred tax asset**

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

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

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

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

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

#### **Measurement of derivatives**

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

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

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

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

#### **Allowances of receivables**

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

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

## **7. New accounting standards and interpretations**

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

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



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

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

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

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

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

Preliminary analysis of IFRS 9’s impact on the accounting policies applied indicates one change important for the Group, i.e. replacing the existing classification and measurement models under IAS 39 with a single classification model assuming two categories only, i.e. amortized cost or fair value. IFRS 9 classification complies with the business

model applied to manage financial assets. Additionally, the standard introduces a new hedge accounting model which requires detailed risk management disclosures.

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

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

## **8. Changes to accounting policies**

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

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

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

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

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

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

## 9. Significant accounting policies

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

### 9.1. Consolidation principles

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

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

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

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

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

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

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

Exchange rates applied for the purpose of balance sheet measurement:

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

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### 9.3. Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

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

#### 9.4. Goodwill

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

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

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

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

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

#### 9.5. Intangible assets

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

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

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

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

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

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

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

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

### **9.5.1. Energy certificates**

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

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

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

### **9.5.2. Greenhouse gas emission allowances**

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

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

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

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

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

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

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

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

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

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

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

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

### **9.7. Borrowing costs**

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

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

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

Such costs may include:

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

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

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

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

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

### **9.8. Share in joint venture**

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

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

### **9.9. Financial assets**

Categories of financial assets:

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

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

Assets qualified as FVTPL meet one of the following conditions:

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

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

### **Loans and receivables**

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

### **Assets available for sale**

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

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

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

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

## **9.10. Impairment of financial assets**

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

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

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

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



### **Financial assets carried at cost**

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

### **Financial assets available for sale**

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

## **9.11. Derivative financial instruments**

The Group hedges foreign currency risk using currency forward contracts.

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

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

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

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

## **9.12. Hedge accounting**

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

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

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

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

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

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

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

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

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

#### **9.13. Other non-financial assets**

The Group recognizes prepayments in other non-financial assets.

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

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

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

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

#### **9.14. Inventories**

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

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

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

Release of inventories are measured using the weighted average method.

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

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

#### **9.15. Trade and other receivables**

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

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

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

#### **9.16. Cash and cash equivalents**

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

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

#### **9.17. Issued capital**

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

#### **9.18. Interest-bearing loans and borrowings**

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

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

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

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

#### **9.19. Trade payables and other financial liabilities**

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

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

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

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

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

#### **9.20. Provisions for employee benefits**

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

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

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

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

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

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

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

### **9.21. Other provisions**

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

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

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

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

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

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

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

The provision is charged to operating expenses.

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

#### **9.21.2. Provision for gas emission liabilities**

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

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

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

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

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

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

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

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

#### **9.21.4. Provision for mine decommissioning costs**

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

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

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

#### **9.22. Other non-financial liabilities**

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

#### **9.23. Company Social Benefits Fund**

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

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

#### **9.24. Lease**

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

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

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

#### **9.25. Taxes**

##### **Tax Capital Group**

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

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

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

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

##### **Current tax**

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

##### **Deferred tax**

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

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

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

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

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

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

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

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

#### **VAT**

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

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

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

#### **9.26. Business combinations**

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

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

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

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

### **9.27. Statement of comprehensive income**

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

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

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

### **9.28. Sales revenue**

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **9.29. Operating expense**

Operating expense includes:

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

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

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

#### **9.30. Earnings per share**

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

#### **9.31. Statement of cash flows**

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

## **EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **10. Information on operating segments**

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

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

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

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

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

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


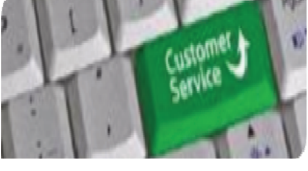
Segment liabilities do not include deferred tax, income tax liability or financial liabilities, except for trade payables, liabilities due to acquisition of fixed assets and intangible assets and payroll liabilities, which do represent segment liabilities.

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

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

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

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

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

\* Entities recognized with the equity method

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

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

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

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

### 10.1. Operating segments

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

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

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

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

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

## 10.2. Geographic areas of operations

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

## 11. Sales revenue

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

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

### 12.1. Expenses by type

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

## 12.2. Employee benefits expenses

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

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

## 12.3. Depreciation and amortization charges and impairment losses

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



### 13. Other operating income

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

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

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

### 14. Other operating expenses

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

## 15. Finance income

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

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

## 16. Finance costs

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

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

## 17. Income tax

### 17.1. Tax expense

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

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

### 17.2. Reconciliation of the effective tax rate

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

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

### 17.3. Deferred income tax

Deferred income tax results from:

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

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

#### Change in deferred tax liability

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

#### Change in deferred tax asset

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

#### 17.4. Income tax receivables and payables

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

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

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

## 18. Property, plant and equipment

Year ended 31 December 2014

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

**Year ended 31 December 2013**

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

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

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

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

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

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

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

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

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

### **Impairment tests**

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

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

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

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

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

- The adopted price path of power coal, other coal sizes and gaseous fuels;
- The adopted electricity wholesale price path for the years 2015–2024, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring CO<sub>2</sub> emission allowances;
- Emission limits for generating electricity specified in the regulation of the Ministry of Economy, adjusted by capital expenditure incurred and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted by the level of operations, i.e. generation of heat;
- Green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates;
- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional on the Regulatory Asset Value;
- The adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to surrender energy certificates as well as an appropriate level of margin;
- Sales volumes taking into account GDP growth and increased market competition;
- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- Maintenance of the production capacity of the existing non-current assets as a result of replacement investments;
- The level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.70% to 10.03% in nominal terms before tax.

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

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

## 19. Goodwill

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

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

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

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

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

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

### **Mining**

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

### **Renewable Sources of Energy**

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

### **Distribution**

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

### **Heat**

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



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

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

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

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

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

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

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

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

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

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

## 20. Non-current intangible assets

### Year ended 31 December 2014

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

### Year ended 31 December 2013

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

### **Impairment tests**

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

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

## **21. Shares in joint ventures**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 22. Other financial assets

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

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

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

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

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

## 24. Current intangible assets

### Year ended 31 December 2014

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

### Year ended 31 December 2013

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

## 25. Inventories

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

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

## 26. Trade and other receivables

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

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

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

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

## 27. Other current non-financial assets

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

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

## 28. Cash and cash equivalents

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

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

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

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

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

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

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

A disposal group includes the assets and liabilities of four existing wind farms classified as held for sale in relation to the Group's implementation of the off-balance sheet asset financing policy aimed at selling (with the buy-back option) of a majority interest in the existing wind farms to a financial investor and refinancing the existing debt allocated to the wind



farms using bank debt when the Company becomes a minority shareholder. Funds obtained in the aforesaid procedure may be used for purposes of other investment projects.

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

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

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

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

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

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

### 30. Carbon dioxide emission allowances

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

allowances”). Derogation allowances are awarded in the years 2013–2020, based on costs of investments, which are a condition for obtaining allowances.

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

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

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

| CO <sub>2</sub> emissions allowances                              | Year ended<br>31 December 2014 | Year ended<br>31 December 2013 |
|---|--------------------------------|--------------------------------|
| <b>Allowances recorded at the beginning of the financial year</b> | <b>23 566 799</b>              | <b>25 646 311</b>              |
| Allowances surrendered (previous year's emissions)                |                                |                                |
| in Generation Segment   | (17 277 731)                   | (17 850 011)                   |
| in Heat Segment   | (4 381 680)                    | (3 977 648)                    |
| Allocation of free-of-charge allowances                           | 14 166 356                     | –                              |
| Allowances purchased on the secondary market                      | 47 027 230                     | 45 991 345                     |
| Allowances sold on the secondary market                           | (36 123 000)                   | (26 243 198)                   |
| Other changes – transferred to TAMEH                              | (99 738)                       | –                              |
| <b>Allowances recorded at the end of the financial year</b>       | <b>26 878 236</b>              | <b>23 566 799</b>              |
| Allowances intended for surrender for a given year:               |                                |                                |
| in Generation Segment   | (14 110 585)                   |                                |
| in Heat Segment   | (1 489 835)                    |                                |

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

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

### 31. Issued capital and other capitals

#### 31.1. Issued capital

##### Issued capital as at 31 December 2014

| Class/<br>issue | Type of shares    | Number<br>of shares  | Nominal value<br>of one share<br>(in PLN) | Value<br>of class/issue at<br>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      |
| <b>Total</b>    |                   | <b>1 752 549 394</b> |   | <b>8 762 747</b>                            |                           |

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

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

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

**31.2. Shareholders' rights**

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

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

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

**31.3. Reserve capital**

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

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

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

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

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

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

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

The revaluation reserve from valuation of hedging instruments results from valuation of Interest Rate Swaps (IRS) hedging the interest rate risk arising from bonds issued. As at 31 December 2014 the Group concluded hedging transactions subject to specific risk management policy. Pursuant to a decision of the Financial Risk Management Committee of 30 January 2012, in March 2012 the Parent hedged the interest rate risk arising from bonds issued under the Bond Issue Scheme, by entering into an interest rate swap (IRS) transaction for a term of 5 years. The aforementioned transaction was concluded due to fluctuations in the projected future cash flows from interest payments resulting from the issue of bonds in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows. Following early redemption of Tranche A bonds carried out on 29 December 2014

and discussed in detail in Note 35.2 to these consolidated financial statements, the Company no longer applied hedge accounting to a portion of IRS contracts hedging the bonds redeemed. The Company applies hedge accounting to the remaining transactions.

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

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

### 31.6. Non-controlling interest

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

### 32. Earnings per share

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

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

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

### 33. Dividends paid and proposed

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

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

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

On 15 May 2014, the Ordinary General Shareholders' Meeting of the Company adopted a resolution to allocate PLN 332 984 thousand to dividend payment to the Company's shareholders (PLN 0.19 per share). The dividend was

paid out from the net profit generated by the Company in 2013, which amounted to PLN 1 688 972 thousand. The record date was set at 14 August 2014 and the payment date at 4 September 2014.

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **Mandatory squeeze-out**

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

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

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

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

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

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

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

#### **Reorganization changes and other events**

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

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

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

The business combination has not affected the consolidated financial statements.

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

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

The business combination has not affected the consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 35. Interest-bearing loans and borrowings

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

#### 35.1. Loans and borrowings

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

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

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

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

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

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

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

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

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

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

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

#### **35.2. Bonds issued**

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



### Bonds issued as at 31 December 2014

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

\* Bank Gospodarstwa Krajowego

\*\* ING Bank Śląski

### Bonds issued as at 31 December 2013

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

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

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

\*Costs of issue have been included.

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

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

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

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

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

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

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

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

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

## 36. Lease

### 36.1. Operating lease liabilities

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

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

### 36.2. Finance lease liabilities

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

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

Key finance lease items as at 31 December 2014:

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

### 37. Derivatives

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

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

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

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

### 38. Provisions for employee benefits

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

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

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

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

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

|   | Provision for retirement, disability and similar benefits | Employee electricity rates | Social Fund    | Provision for coal allowances | Jubilee bonuses | Provisions, total |
|---|---|----------------------------|----------------|-------------------------------|-----------------|-------------------|
| <b>Opening balance</b>                          | <b>282 621</b>  | <b>569 140</b>             | <b>121 571</b> | <b>49 457</b>                 | <b>582 840</b>  | <b>1 605 629</b>  |
| 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            |
| <b>Closing balance</b>                          | <b>357 017</b>  | <b>769 975</b>             | <b>170 242</b> | <b>67 661</b>                 | <b>679 510</b>  | <b>2 044 405</b>  |
| <b>Current</b>                                  | <b>21 707</b>   | <b>24 339</b>              | <b>4 839</b>   | <b>1 883</b>                  | <b>55 740</b>   | <b>108 508</b>    |
| <b>Non-current</b>                              | <b>335 310</b>  | <b>745 636</b>             | <b>165 403</b> | <b>65 778</b>                 | <b>623 770</b>  | <b>1 935 897</b>  |

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

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

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

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

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

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

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

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

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

### Maturities of employee benefit provisions

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

### 38.2. Provisions for employment termination benefits

#### Year ended 31 December 2014

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

#### Year ended 31 December 2013

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

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

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

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

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

## 39. Other provisions

### 39.1. Change in other provisions

#### Year ended 31 December 2014

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

#### Year ended 31 December 2013

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

### 39.2. Description of significant provision items

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

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

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

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

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

#### **39.2.2. Provision for mine decommissioning costs**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### Provision for real estate tax

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

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

## 40. Deferred income and government grants

### 40.1. Deferred income and government grants

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

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

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

### 40.2. Current accruals

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



#### 41. Other current non-financial liabilities

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

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

Analysis of the funds is presented in the following tables.

- Company Social Benefits Fund

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

- Mine Decommissioning Fund

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

##### Mine Decommissioning Fund financial assets

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

##### Provision for mine decommissioning costs

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

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

##### **43.1. Cash flows from investing activities**

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

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

###### ***Sale of other financial assets***

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

##### **43.2. Cash flows from financing activities**

###### ***Loans and borrowings repaid***

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

###### ***Issuance of debt securities***

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

###### ***Redemption of debt securities***

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

###### ***Interest paid***

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

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

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

## OTHER INFORMATION

### 44. Contingent liabilities

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

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

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

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

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

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

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

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

and consumer protection. Further, it motioned for proceedings aimed at the issue of a binding decision. The company provided further information and explanations requested by UOKiK. On 22 December 2014 the company received a decision of UOKiK dated 12 December 2014 closing the evidentiary proceedings.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Excise duty**

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

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

**Real estate tax**

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

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

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

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

**46. Collateral against liabilities**

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

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

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

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

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

#### **Other forms of collateral**

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

#### **Bond issue schemes**

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

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

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

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

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

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

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

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

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

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

### **Overdraft facility agreements**

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

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

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

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

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

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

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

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

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

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

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



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

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

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

#### 47. Capital commitments

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

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

#### 48. Related party disclosures

##### 48.1. Transactions with jointly-controlled entities

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

##### 48.2. Transactions with State Treasury companies

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

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

#### Revenue and expense

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

\* Includes costs recognized in the statement of comprehensive income.

## Receivables and liabilities

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

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

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

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

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

### 48.3. Executive compensation

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

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

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

## 49. Financial instruments

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

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

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

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

Financial instruments classified to other categories of financial instruments:

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

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

The Group did not disclose the fair value of shares in companies not quoted on active markets, categorized to financial assets available for sale. The Group is unable to reliably estimate the fair value of shares held in companies which are not quoted on active markets. They are measured at cost less impairment losses as at

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

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

#### 49.2. Fair value hierarchy

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

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

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

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

##### Year ended 31 December 2014

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

**Year ended 31 December 2013**

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

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

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

**Financial assets available for sale**

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

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

**Loans and receivables**

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

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

**Financial assets excluded from the scope of IAS 39**

As at 31 December 2014 the Group had the following joint ventures accounted for using the equity method:

- TAMEH HOLDING Sp. z o.o. and its subsidiaries – PLN 377 002 thousand;
- Elektrownia Blachownia Nowa Sp. z o.o., special purpose vehicle – PLN 32 106 thousand;
- Elektrociepłownia Stalowa Wola S.A. special purpose vehicle – PLN 5 476 thousand;

The above investments have been described in details in Note 21 hereto.

**Financial liabilities measured at amortized cost**

Liabilities due to credit facilities and loans, and arising from issued bonds have been presented in detail in Note 35 hereto.

**Liabilities under guarantees, factoring and those excluded from the scope of IAS 39**

Financial liabilities excluded from the scope of IAS 39 include lease liabilities, as discussed in detail in Note 36.2 to these consolidated financial statements.

## **Derivatives**

Derivative instruments hedging interest cash flows related to issued bonds subject to hedge accounting and other derivative instruments measured at fair value through profit or loss have been presented in detail in Note 37 to these consolidated financial statements.

## **50. Objectives and principles of financial risk management**

The Capital Group manages its financial risk in a mindful and responsible manner, based on the *Specific risk management policy in the area of finance in TAURON Group* presenting principles and standards compliant with the relevant best practices.

Due to correlation between the risk incurred and the level of achievable income, these regulations are used to maintain the risks at the previously established, acceptable level. The main goal of financial risk management is to mitigate sensitivity of cash flows of the Company to financial risk factors and to minimise financial costs and collateral costs under transactions with the use of derivative instruments, and also to take into consideration correlation of tariff revenue of Distribution segment companies with financing costs of the TAURON Group based on floating interest rates.

The policy for management of specific risk in the area of finance determines the strategy of managing financial risk regarding currency and interest rate risk. The purpose of currency risk management is to limit negative effects of exchange rate fluctuations on the Group's cash flows to an acceptable level. The purpose of interest rate risk management is to limit negative effects of market interest rate fluctuations on the Group's cash flows to an acceptable level and to minimize financial expenses related to the use of derivatives. In 2014 and 2013, under currency management, the Group concluded derivative transactions on currency forwards. As at 31 December 2014 the Group had no currency forwards. In order to hedge interest rate risk related to floating-interest rate bonds issued, in 2012 the Group concluded interest rate swaps contracts for the period of 5 years. As at 31 December 2014 the Group had IRS contracts subject to hedge accounting, hedging Tranche C bonds (PLN 180 933 thousand) and IRS contract not subject to hedge accounting principles (PLN 13 380 thousand). The contract was concluded in order to hedge a portion of cash flows related to Tranche A, still after the early redemption of Tranche A bonds carried out in December 2014 it was excluded from hedge accounting and as at the end of the reporting period it was classified to liabilities measured at fair value through profit or loss, where measurement gains or losses are charged to profit or loss of the Group. The above financial instruments have been described in detail in Notes 31.5 and 37 hereto.

The policy for specific risk management in the area of finance and hedge accounting principles are applicable to the cash flow risk and not to the fair value risk due to its limited significance for the Group. Hedge accounting principles adopted by the Capital Group companies with regard to derivatives are presented in Note 9.12.

Further, TAURON Group has adopted Liquidity management policy for the TAURON Group. Thanks to the policy, among others based on precise weekly update of financial plans, scenario and benchmark analyses, the management of the liquidity position of the TAURON Group is optimized and thus the liquidity risk mitigated.

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

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

### **50.1. Credit risk**

Credit risk regards potential credit events that may have the form of a contractor's insolvency, partial repayment of receivables, a material payment delay or another unpredicted breach of contract terms.

The companies of TAURON Polska Energia S.A. Capital Group are exposed to credit risk regarding:

- their core business: the risk sources include the purchase and sale of electricity, heat and fossil fuels, energy certificates, emission allowances etc.;
- their investment activities: the risk is generated by transactions resulting from investments, whose success depends on the financial standing of Group's suppliers;

- business operations (market risk management) where the credit risk regards possible default of their counterparties in derivative transactions if the fair value of a given derivative transaction is positive from the Group's viewpoint;
- depositing of free cash: the risk arises from the Group companies investing of free cash in credit risk bearing securities, i.e. other than issued by the State Treasury.

Classes of financial instruments that give rise to credit risk exposure with different characteristics include:

- trade receivables;
- deposits;
- loans granted;
- bonds, treasury bills and other debt securities;
- other financial receivables
- cash and cash equivalents;
- derivatives.

No material concentration of credit risk related to the core activity occurs in the Group apart from those listed in Note 50.1.1.

#### **50.1.1. Credit risk related to trade and other financial receivables**

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

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

The Group manages credit risk to contractors mainly through application of the following methods:

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

As at 31 December 2014, the largest items among trade receivables included those from PSE S.A. with the value of PLN 122 240 thousand, from ArcelorMittal Poland S.A. – of PLN 48 305 thousand and from Kompania Węglowa S.A. – of PLN 48 113 thousand.

As at 31 December 2013, the largest items among trade receivables of the Group included those from ArcelorMittal Poland S.A. of PLN 103 781 thousand and PSE S.A. of PLN 47 652 thousand.



### Allowances for current trade receivables and other receivables

|   | Year ended<br>31 December 2014 | Year ended<br>31 December 2013 |
|---|--------------------------------|--------------------------------|
| <b>Allowance/write-down at the beginning of period</b>  | <b>(273 499)</b>               | <b>(197 357)</b>               |
| Recognised  | (129 961)                      | (205 425)                      |
| Utilized  | 17 760                         | 55 309                         |
| Reversed  | 102 864                        | 73 974                         |
| Other movements   | (12)                           | –                              |
| <b>Allowance/write-down at the end of period</b>        | <b>(282 848)</b>               | <b>(273 499)</b>               |
| <b>Value of item before allowance</b>                   | <b>2 252 017</b>               | <b>2 408 140</b>               |
| <b>Value of item net of allowance (carrying amount)</b> | <b>1 969 169</b>               | <b>2 134 641</b>               |

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

### Ageing analysis of current trade and other receivables as at 31 December 2014

|                                   | Not past due     | Past due       |               |               |               |               | Total            |
|-----------------------------------|------------------|----------------|---------------|---------------|---------------|---------------|------------------|
|                                   |                  | <30 days       | 30–90 days    | 90–180 days   | 180–360 days  | >360 days     |                  |
| Before allowance/write-down       | 1 656 178        | 228 451        | 46 794        | 26 179        | 49 008        | 245 407       | <b>2 252 017</b> |
| Allowance/write-down              | (1 335)          | (1 763)        | (5 314)       | (8 668)       | (35 723)      | (230 045)     | <b>(282 848)</b> |
| <b>After allowance/write-down</b> | <b>1 654 843</b> | <b>226 688</b> | <b>41 480</b> | <b>17 511</b> | <b>13 285</b> | <b>15 362</b> | <b>1 969 169</b> |

### Ageing analysis of current trade and other receivables as at 31 December 2013

|                                   | Not past due     | Past due       |               |               |               |               | Total            |
|-----------------------------------|------------------|----------------|---------------|---------------|---------------|---------------|------------------|
|                                   |                  | <30 days       | 30–90 days    | 90–180 days   | 180–360 days  | >360 days     |                  |
| Before allowance/write-down       | 1 801 979        | 223 256        | 68 361        | 88 567        | 60 392        | 165 585       | <b>2 408 140</b> |
| Allowance/write-down              | (792)            | (2 596)        | (5 894)       | (66 233)      | (43 612)      | (154 372)     | <b>(273 499)</b> |
| <b>After allowance/write-down</b> | <b>1 801 187</b> | <b>220 660</b> | <b>62 467</b> | <b>22 334</b> | <b>16 780</b> | <b>11 213</b> | <b>2 134 641</b> |

#### 50.1.2. Credit risk related to other financial assets

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

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

As at 31 December 2014, the share of three banks holding the largest balance of Group's cash was 91%.

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

#### 50.2. Liquidity risk

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

Liquidity is managed at the Capital Group level. The TAURON Group has adopted *Liquidity management policy for the TAURON Group*, as discussed in detail in Note 50 to these consolidated financial statements.

Additionally, in order to minimize the possibility of cash flow interruption and the risk of loss of liquidity, the TAURON Group, as in previous years, used the cash pooling mechanism. Regardless of funds collected by its individual members, cash pooling is linked to a flexible credit facility in the form of overdraft of PLN 300 000 thousand.

Under the new cash pool agreement the Company is entitled to use external financing in the form of an overdraft of PLN 300 000 thousand and an intraday limit up to PLN 500 000 thousand.

The following tables present the Group's financial liabilities based on non-discounted contractual payments by maturity as at 31 December 2014 and 31 December 2013.

#### Financial liabilities as at 31 December 2014

|   | Carrying amount   | Non-discounted contractual payments | of which non-discounted contractual payments maturing within (after the balance sheet date) |                  |                    |                  |                    |                    |
|---|-------------------|-------------------------------------|---|------------------|--------------------|------------------|--------------------|--------------------|
|   |                   |                                     | less than 3 months  | 3–12 months      | 1–2 years          | 2–3 years        | 3–5 years          | more than 5 years  |
| <b>Financial liabilities other than derivative instruments</b>      |                   |                                     |   |                  |                    |                  |                    |                    |
| Interest-bearing loans and issued bonds                             | 8 053 862         | (9 317 895)                         | (199 728)   | (625 209)        | (3 340 049)        | (289 008)        | (2 412 307)        | (2 451 594)        |
| Trade payables  | 916 744           | (916 744)                           | (916 512)   | (188)            | (22)               | (22)             | –                  | –                  |
| Commitments resulting from purchases of fixed and intangible assets | 595 550           | (595 550)                           | (572 425)   | (23 125)         | –                  | –                | –                  | –                  |
| Other financial liabilities   | 403 557           | (403 557)                           | (327 643)   | (26 927)         | (8 437)            | (40 451)         | –                  | (99)               |
| Obligations under finance leases                                    | 59 904            | (63 903)                            | (5 110)   | (10 036)         | (20 753)           | (4 247)          | (23 731)           | (26)               |
| <b>Derivative financial liabilities:</b>                            |                   |                                     |   |                  |                    |                  |                    |                    |
| 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)            | –                  | –                | –                  | –                  |
| <b>Total</b>  | <b>10 225 733</b> | <b>(11 542 077)</b>                 | <b>(2 021 418)</b>  | <b>(788 290)</b> | <b>(3 461 965)</b> | <b>(332 339)</b> | <b>(2 437 262)</b> | <b>(2 500 803)</b> |

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

#### Financial liabilities as at 31 December 2013

|   | Carrying amount  | Non-discounted contractual payments | of which non-discounted contractual payments maturing within (after the balance sheet date) |                  |                    |                    |                  |                   |
|---|------------------|-------------------------------------|---|------------------|--------------------|--------------------|------------------|-------------------|
|   |                  |                                     | less than 3 months  | 3–12 months      | 1–2 years          | 2–3 years          | 3–5 years        | more than 5 years |
| <b>Financial liabilities other than derivative instruments</b>      |                  |                                     |   |                  |                    |                    |                  |                   |
| Interest-bearing loans and issued bonds                             | 5 785 165        | (6 530 495)                         | (196 034)   | (290 955)        | (1 650 656)        | (3 298 496)        | (359 208)        | (735 146)         |
| Trade payables  | 1 037 304        | (1 037 304)                         | (1 036 868)   | (436)            | –                  | –                  | –                | –                 |
| Commitments resulting from purchases of fixed and intangible assets | 665 768          | (665 768)                           | (665 768)   | –                | –                  | –                  | –                | –                 |
| Other financial liabilities   | 328 292          | (328 292)                           | (302 870)   | (17 595)         | (6 374)            | (808)              | (542)            | (103)             |
| Obligations under finance leases                                    | 78 970           | (86 108)                            | (6 419)   | (13 802)         | (27 017)           | (10 868)           | (27 979)         | (23)              |
| <b>Derivative financial liabilities:</b>                            |                  |                                     |   |                  |                    |                    |                  |                   |
| Derivate instruments – IRS  | 159 762          | (166 684)                           | –   | (73 583)         | (57 733)           | (35 368)           | –                | –                 |
| Derivate instruments – currency                                     | 1 129            | (1 720)                             | –   | (1 720)          | –                  | –                  | –                | –                 |
| <b>Total</b>  | <b>8 056 390</b> | <b>(8 816 371)</b>                  | <b>(2 207 959)</b>  | <b>(398 091)</b> | <b>(1 741 780)</b> | <b>(3 345 540)</b> | <b>(387 729)</b> | <b>(735 272)</b>  |

In November 2014 TAURON Polska Energia S.A. concluded a surety agreement with a joint venture Elektrociepłownia Stalowa Wola S.A. It secures a guarantee issued by the bank in order to collateralize transactions concluded by Elektrociepłownia Stalowa Wola S.A. with an entity from outside the Group. The surety amount is PLN 62 582 thousand and the agreement is valid until 12 September 2018. The guarantee granted by the Company constitutes a contingent liability and does not considerably affect the liquidity risk of the Group.

#### 50.3. Market risk

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

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

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

### 50.3.1. Interest rate risk

The Group is exposed to the risk of interest rate changes related to floating interest rate borrowings acquired and investing in assets with floating and fixed interest rates. The Group companies are also exposed to lost benefit risk related to a decrease in interest rates of fixed-rate interest debt.

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

#### 31 December 2014 – fixed interest rate

| Financial instruments                    | < 1 year | 1–2 years | 2–3 years | 3–5 years | > 5 years | Total            |
|--|----------|-----------|-----------|-----------|-----------|------------------|
| <b>Financial assets</b>                  |          |           |           |           |           |                  |
| Bonds, T-bills and other debt securities | 21 732   | –         | –         | –         | –         | <b>21 732</b>    |
| <b>Financial liabilities</b>             |          |           |           |           |           |                  |
| Arm's length loans                       | 139 146  | 132 733   | 132 733   | 265 464   | 490 335   | <b>1 160 411</b> |
| Issued bonds                             | 6 772    | 2 997 442 | –         | –         | 709 276   | <b>3 713 490</b> |
| Derivative instruments (IRS)             | 88 673   | 92 260    | –         | –         | –         | <b>180 933</b>   |

#### 31 December 2014 – floating interest rate

| Financial instruments        | < 1 year  | 1–2 years | 2–3 years | 3–5 years | > 5 years | Total            |
|------------------------------|-----------|-----------|-----------|-----------|-----------|------------------|
| <b>Financial assets</b>      |           |           |           |           |           |                  |
| Deposits                     | –         | –         | –         | –         | 35 823    | <b>35 823</b>    |
| Loans granted                | 6 368     | –         | –         | –         | 198 331   | <b>204 699</b>   |
| Cash and cash equivalents    | 1 420 909 | –         | –         | –         | –         | <b>1 420 909</b> |
| <b>Financial liabilities</b> |           |           |           |           |           |                  |
| Bank overdrafts              | 11 918    | –         | –         | –         | –         | <b>11 918</b>    |
| Preferential loans           | 7 767     | 7 534     | 7 333     | 18 466    | 14 122    | <b>55 222</b>    |
| Arm's length loans           | 4 481     | –         | –         | –         | –         | <b>4 481</b>     |
| Issued debentures            | 461 476   | –         | –         | 1 848 607 | 798 257   | <b>3 108 340</b> |

#### 31 December 2013 – fixed interest rate

| Financial instruments        | < 1 year | 1–2 years | 2–3 years | 3–5 years | > 5 years | Total            |
|------------------------------|----------|-----------|-----------|-----------|-----------|------------------|
| <b>Financial liabilities</b> |          |           |           |           |           |                  |
| Preferential loans           | 5 043    | –         | –         | –         | –         | <b>5 043</b>     |
| Arm's length loans           | 139 928  | 132 724   | 132 724   | 265 448   | 622 923   | <b>1 293 747</b> |
| Issued bonds                 | 6 049    | 439 512   | 2 994 974 | –         | –         | <b>3 440 535</b> |
| Derivative instruments (IRS) | 72 229   | 54 996    | 32 537    | –         | –         | <b>159 762</b>   |

#### 31 December 2013 – floating interest rate

| Financial instruments        | < 1 year | 1–2 years | 2–3 years | 3–5 years | > 5 years | Total          |
|------------------------------|----------|-----------|-----------|-----------|-----------|----------------|
| <b>Financial assets</b>      |          |           |           |           |           |                |
| Deposits                     | –        | –         | –         | –         | 30 831    | <b>30 831</b>  |
| Loans granted                | –        | –         | –         | –         | 189 310   | <b>189 310</b> |
| Cash and cash equivalents    | 636 909  | –         | –         | –         | –         | <b>636 909</b> |
| <b>Financial liabilities</b> |          |           |           |           |           |                |
| Bank overdrafts              | 88 602   | –         | –         | –         | –         | <b>88 602</b>  |
| Preferential loans           | 8 733    | 7 763     | 7 532     | 14 642    | 25 316    | <b>63 986</b>  |
| Arm's length loans           | 33 265   | –         | –         | –         | –         | <b>33 265</b>  |
| Issued bonds                 | 3 013    | 856 974   | –         | –         | –         | <b>859 987</b> |

The Company has issued floating interest rate bonds only. A portion of bonds with interest cash flow fluctuations hedged with interest rate swaps as discussed in detail in Note 31.5 to these consolidated financial statements, was presented in the tables above together with measurement of hedging instruments under fixed-rate financial instruments.

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

### 50.3.2. Currency risk

Capital Group companies are exposed to the EUR/PLN, CZK/PLN and USD/PLN exchange rate risk related to their operations and financial transactions. The Group's exposure to currency risk by financial instrument class in 2014 and 2013 is presented in the following tables.

#### Currency position as at 31 December 2014

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

#### Currency position as at 31 December 2013

|   | Total carrying amount in PLN | EUR            |                 | CZK           |               |
|---|------------------------------|----------------|-----------------|---------------|---------------|
|   |                              | in currency    | in PLN          | in currency   | in PLN        |
| <b>Financial assets</b>   |                              |                |                 |               |               |
| Trade receivables and other financial receivables                   | 2 155 388                    | 982            | 4 073           | 49 028        | 7 418         |
| Cash and cash equivalents   | 636 909                      | 2 252          | 9 339           | 28 130        | 4 256         |
| Derivatives (assets)  | 34                           | 8              | 34              | –             | –             |
| <b>Total</b>  |                              | <b>3 242</b>   | <b>13 446</b>   | <b>77 158</b> | <b>11 674</b> |
| <b>Financial liabilities</b>  |                              |                |                 |               |               |
| Bank overdrafts   | 93 645                       | 1 237          | 5 130           | –             | –             |
| Arm's length loans  | 1 327 012                    | 615            | 2 551           | –             | –             |
| Trade payables and other financial liabilities                      | 1 180 717                    | 4 883          | 20 251          | 5 473         | 828           |
| Commitments resulting from purchases of fixed and intangible assets | 665 768                      | 99             | 411             | –             | –             |
| Finance lease   | 78 970                       | 1 159          | 4 807           | –             | –             |
| Derivatives (liabilities)   | 160 931                      | 10             | 41              | –             | –             |
| <b>Total</b>  |                              | <b>8 003</b>   | <b>33 191</b>   | <b>5 473</b>  | <b>828</b>    |
| <b>Net currency position</b>  |                              | <b>(4 761)</b> | <b>(19 745)</b> | <b>71 685</b> | <b>10 846</b> |

In 2014 and in 2013 the TAURON Group used forward transactions under its currency risk management policy. The objective of these transactions is to hedge currency risk related to trade transactions of the Group. The Group has not used hedge accounting to hedge currency risk. As at the end of the reporting period the Group held no open forward contracts.

Additionally, in November 2014 the Group entered into the Coupon Cross Currency Swap (CCIRS) transaction which eliminates currency risk relating to changes in EUR/PLN exchange rate with regard to interest coupons from the bonds issued in EUR, in the entire period until their maturity (transaction described in Note 37 to these consolidated financial statements).

### 50.3.3. Commodity price risk

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

| Fuel type    | Unit                    | 2014       |                  | 2013       |                  |
|--------------|-------------------------|------------|------------------|------------|------------------|
|              |                         | Volume     | Purchase cost    | Volume     | Purchase cost    |
| Coal         | tonne                   | 4 578 847  | 935 604          | 6 265 897  | 1 270 338        |
| Gas          | thousand m <sup>3</sup> | 3 598 607  | 208 615          | 3 187 276  | 200 718          |
| Electricity  | MWh                     | 38 036 718 | 6 185 219        | 31 397 801 | 5 846 263        |
| Heat energy  | GJ                      | 4 941 873  | 118 225          | 5 492 700  | 180 365          |
| <b>Total</b> |                         |            | <b>7 447 663</b> |            | <b>7 497 684</b> |

### 50.3.4. Market risk – sensitivity analysis

At present, the Capital Group is exposed mostly to the risk of EUR/PLN, CZK/PLN and USD/PLN exchange rate changes. The Group is also exposed to changes in reference interest rates for PLN and EUR.

The analysis of sensitivity to changes in market risk factors is conducted by means of a scenario analysis. The Group relies on expert scenarios reflecting its judgment concerning the behavior of individual market risk factors in the future.

The scenario analyses presented herein are aimed at examining the effect of changes in market risk factors on the Group's financial performance. The scope of the analysis includes only those positions which meet the IFRS definition of financial instruments.

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

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

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

Presented below is the sensitivity analysis for the interest rate and currency risks to which the Group is exposed as at the end of the reporting period, along with the effect of potential changes in individual risk factors on the gross financial profit/loss as well as other comprehensive income (gross), by classes of financial assets and liabilities.

#### 50.3.4.1. Interest rate risk sensitivity analysis

The Group identifies exposure to WIBOR and EURIBOR interest rate risk. The tables below present sensitivity of the gross financial profit/loss as well as other comprehensive income (gross) to reasonably possible changes in interest rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

**Year ended 31 December 2014**

| Classes of financial instruments | 31 December 2014 |               | Sensitivity analysis for interest rate risk as at 31 December 2014 |                            |               |                            |                 |                |
|----------------------------------|------------------|---------------|--|----------------------------|---------------|----------------------------|-----------------|----------------|
|                                  | Carrying amount  | Value at risk | WIBOR  |                            |               |                            | EURIBOR         |                |
|                                  |                  |               | WIBOR + 69 bp  |                            | WIBOR -69 bp  |                            | EURIBOR + 97 bp | EURIBOR -97 bp |
|                                  |                  |               | Profit/(Loss)  | Other comprehensive income | Profit/(Loss) | Other comprehensive income | Profit/(Loss)   | Profit/(Loss)  |
| Deposits                         | 35 823           | 35 823        | 247  | -                          | (247)         | -                          | -               | -              |
| Loans granted                    | 204 699          | 204 699       | 1 412  | -                          | (1 412)       | -                          | -               | -              |
| Cash and cash equivalents        | 1 420 909        | 1 420 909     | 9 606  | -                          | (9 606)       | -                          | 237             | (237)          |
| Derivatives (assets)             | 1 811            | 1 499         | (4 624)  | -                          | 4 624         | -                          | (223)           | 223            |
| Preferential loans               | 55 222           | 55 222        | (381)  | -                          | 381           | -                          | -               | -              |
| Arm's length loans               | 1 164 892        | 4 481         | (31)   | -                          | 31            | -                          | -               | -              |
| Bank overdrafts                  | 11 918           | 11 918        | -  | -                          | -             | -                          | (116)           | 116            |
| Issued bonds                     | 6 821 830        | 6 110 631     | (42 163)   | -                          | 42 163        | -                          | -               | -              |
| Derivatives (liabilities)        | 196 116          | 195 554       | (36 212)   | 31 773                     | 36 212        | (31 773)                   | (26 016)        | 26 016         |
| <b>Total</b>                     |                  |               | <b>(72 146)</b>  | <b>31 773</b>              | <b>72 146</b> | <b>(31 773)</b>            | <b>(26 118)</b> | <b>26 118</b>  |

**Year ended 31 December 2013**

| Classes of financial instruments | 31 December 2013 |               | Sensitivity analysis for interest rate risk as at 31 December 2013 |                            |               |                            |                 |                |
|----------------------------------|------------------|---------------|--|----------------------------|---------------|----------------------------|-----------------|----------------|
|                                  | Carrying amount  | Value at risk | WIBOR  |                            |               |                            | EURIBOR         |                |
|                                  |                  |               | WIBOR + 95 bp  |                            | WIBOR -95 bp  |                            | EURIBOR + 23 bp | EURIBOR -23 bp |
|                                  |                  |               | Profit/(Loss)  | Other comprehensive income | Profit/(Loss) | Other comprehensive income | Profit/(Loss)   | Profit/(Loss)  |
| Deposits                         | 30 831           | 30 831        | 293  | -                          | (293)         | -                          | -               | -              |
| Loans granted                    | 189 310          | 189 310       | 1 798  | -                          | (1 798)       | -                          | -               | -              |
| Cash and cash equivalents        | 636 909          | 636 909       | 5 921  | -                          | (5 921)       | -                          | 21              | (21)           |
| Preferential loans               | 63 986           | 63 986        | (608)  | -                          | 608           | -                          | -               | -              |
| Arm's length loans               | 1 327 012        | 33 265        | (292)  | -                          | 292           | -                          | (6)             | 6              |
| Bank overdrafts                  | 93 645           | 88 602        | (842)  | -                          | 842           | -                          | -               | -              |
| Issued bonds                     | 4 300 522        | 4 300 522     | (40 855)   | -                          | 40 855        | -                          | -               | -              |
| Derivatives (liabilities)        | 160 931          | 159 762       | -  | 75 397                     | -             | (75 397)                   | -               | -              |
| <b>Total</b>                     |                  |               | <b>(34 585)</b>  | <b>75 397</b>              | <b>34 585</b> | <b>(75 397)</b>            | <b>15</b>       | <b>(15)</b>    |

**50.3.4.2. Currency risk sensitivity analysis**

The Group identifies its exposure to the risk of EUR/PLN, CZK/PLN and USD/PLN exchange rate changes. The tables below present sensitivity of the gross financial profit/loss to reasonably possible changes in the exchange rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

**Year ended 31 December 2014**

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

The exposure to risk as at 31 December 2014 is representative for the Group's exposure to risk during the annual period preceding the aforementioned date, except for material transactions which took place close to the end of the year 2014. They concern the class of bonds issued containing the bonds issued in EUR in December 2014 (Note 35.2) and Derivatives – assets and liabilities which include CCIRS transaction entered into by the Group in November 2014 (Note 37).

### Year ended 31 December 2013

| Classes of financial instruments                                    | 31 December 2013 |               | Sensitivity analysis for currency risk as at 31 December 2013 |                   |                   |                   |
|---|------------------|---------------|---|-------------------|-------------------|-------------------|
|   | Carrying amount  | Value at risk | EUR/PLN   |                   | CZK/PLN           |                   |
|   |                  |               | exchange rate   | exchange rate     | exchange rate     | exchange rate     |
|   |                  |               | EUR/PLN<br>+7.75%   | EUR/PLN<br>-7.75% | CZK/PLN<br>+9.91% | CZK/PLN<br>-9.91% |
|   |                  |               | Profit/(Loss)   |                   | Profit/(Loss)     |                   |
| Trade receivables and other financial receivables                   | 2 155 388        | 11 491        | 316   | (316)             | 735               | (735)             |
| Cash and cash equivalents   | 636 909          | 13 595        | 724   | (724)             | 422               | (422)             |
| Derivatives (assets)  | 34               | 34            | 3   | (3)               | –                 | –                 |
| Arm's length loans  | 1 327 012        | 2 551         | (198)   | 198               | –                 | –                 |
| Overdrafts  | 93 645           | 5 130         | (398)   | 398               | –                 | –                 |
| Trade payables and other financial liabilities                      | 1 180 717        | 21 079        | (1 569)   | 1 569             | (82)              | 82                |
| Finance lease   | 78 970           | 4 807         | (373)   | 373               | –                 | –                 |
| Commitments resulting from purchases of fixed and intangible assets | 665 768          | 411           | (32)  | 32                | –                 | –                 |
| Derivatives (liabilities)   | 160 931          | 41            | (3)   | 3                 | –                 | –                 |
| <b>Total</b>  |                  |               | <b>(1 530)</b>  | <b>1 530</b>      | <b>1 075</b>      | <b>(1 075)</b>    |

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

## 51. Financial and capital management

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

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

In 2014, the Capital Group was fully able to pay its liabilities within contractual deadlines.

The key objective of the capital management policy developed by the Group is maintaining a good credit rating and safe capital ratios supporting its operations and increasing its shareholder value.

The Group manages its capital structure and modifies it in accordance with changes in economic conditions. In order to maintain or adjust the capital structure, the Group may establish dividend policy for its shareholders, return equity to them, issue new shares or influence external debt level accordingly.

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

Net financial debt is the financial debt of the TAURON Group due to interest-bearing borrowings and securities and due to finance lease reduced by cash and short-term investments with maturity up to one year. EBITDA is the operating profit of the Group increased by amortization/depreciation. Financial debt means the obligation to pay or refund money (both principal and interest). The value of the ratio is also monitored by the Company's creditors, rating agencies and has a measurable impact on the Company's ability to obtain funding and its costs, as well as on evaluation of its credit standing.

As at the end of the reporting period, the debt ratio was 1.8 which is classified as safe and allowing contracting further financial liabilities according to the valid market standards.

|                                  | As at<br>31 December 2014 | As at<br>31 December 2013 |
|----------------------------------|---------------------------|---------------------------|
| <b>Net financial debt:</b>       | <b>6 665 318</b>          | <b>5 211 348</b>          |
| Financial debt of TAURON Group   | 8 113 766                 | 5 864 135                 |
| Cash and cash equivalents        | (1 420 909)               | (636 909)                 |
| Short-term investments           | (27 539)                  | (15 878)                  |
| <b>EBITDA:</b>                   | <b>3 627 100</b>          | <b>3 661 484</b>          |
| Operating profit of TAURON Group | 1 830 113                 | 1 934 066                 |
| Depreciation and amortization    | 1 796 987                 | 1 727 418                 |
| <b>Debt ratio</b>                | <b>1.8</b>                | <b>1.4</b>                |

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

Information concerning the fee of the certified auditor has been presented in the Management Board's report on the activities of TAURON Polska Energia S.A. Capital Group for the year ended 31 December 2014 (Note 4.13).

## 53. Events after the end of the reporting period

### *Redemption of bonds*

On 30 January 2015, the Company redeemed Tranche B bonds with the par value of PLN 150 000 thousand at their maturity.



These consolidated financial statements of the TAURON Polska Energia S.A. Capital Group, prepared for the year ended 31 December 2014 in accordance with the International Financial Reporting Standards have been presented on 97 consecutive pages.

**Management Board of the Company**

Katowice, 10 March 2015

Dariusz Lubera – President of the Management Board .....

Aleksander Grad – Vice-President of the Management Board .....

Katarzyna Rozenfeld – Vice-President of the Management Board .....

Stanisław Tokarski – Vice-President of the Management Board .....

Krzysztof Zawadzki – Vice-President of the Management Board .....