

**REPORT OF THE MANAGEMENT BOARD
ON OPERATIONS
OF TAURON POLSKA ENERGIA S.A. CAPITAL GROUP
FOR THE FINANCIAL YEAR 2014**

MARCH 2015

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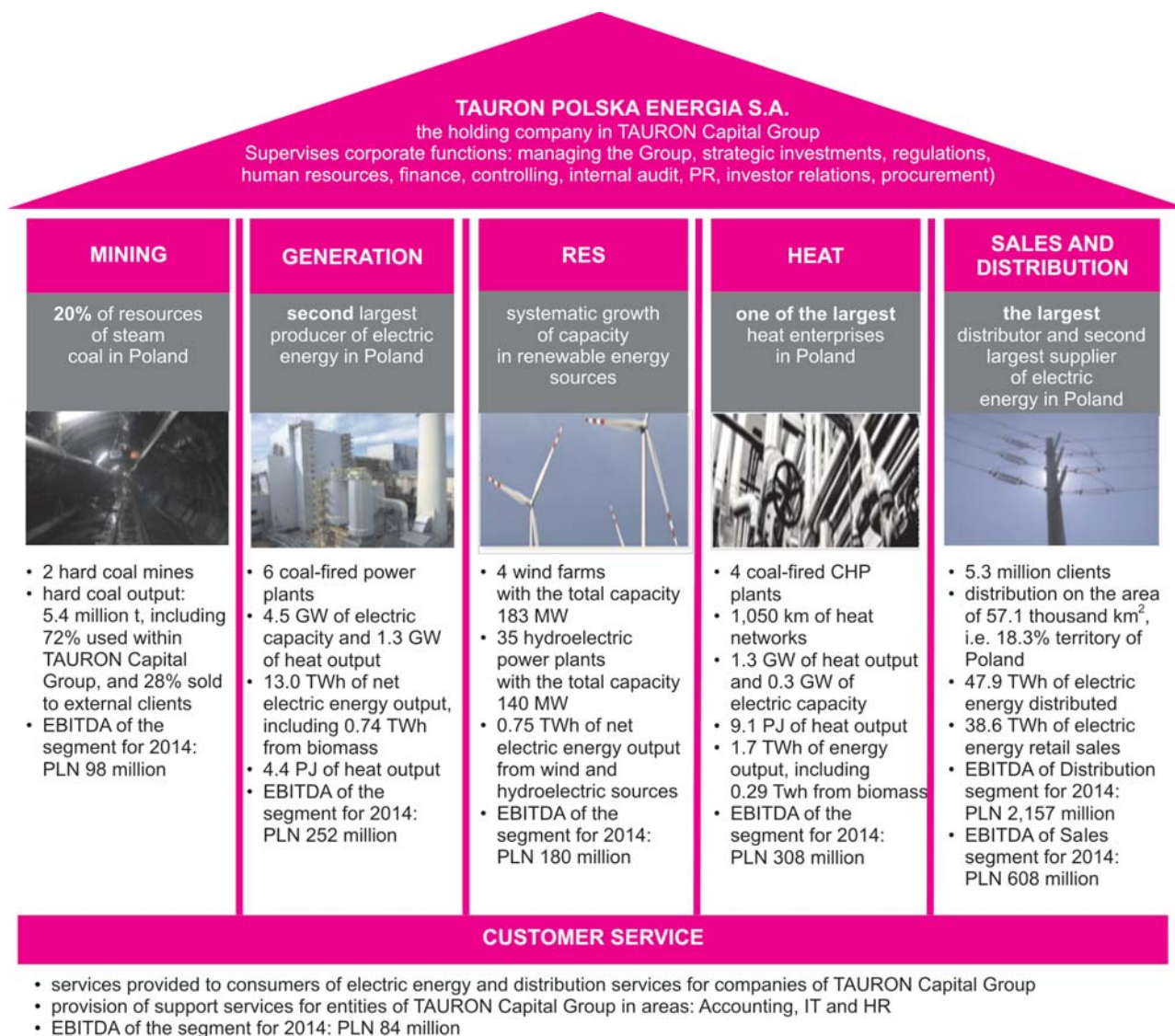
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1. TAURON CAPITAL GROUP

1.1. Basic Information on TAURON Capital Group

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

Figure no. 1. TAURON Capital Group*



* The data does not include the assets of Zakład Wytwarzania Nowa and the branch of Elektrownia Blachownia that were transferred to TAMEH POLSKA company as of 10 December 2014.

1.2. Areas of activities

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



Mining Area, comprising mainly mining, preparation and sale of hard coal in Poland – the activity provided by TAURON Wydobycie S.A. (TAURON Wydobycie).



Generation Area, comprising mainly generation of electric energy in conventional sources, including co-generation, as well as generation of electric energy within the process of biomass burning and co-burning, and other thermally acquired energy. The basic fuels used by the Generation Business Area include hard coal, biomass and coke-oven gas as well as high-methane gas. These activities are carried out by TAURON Wytwarzanie S.A. (TAURON Wytwarzanie). In January 2014, heat assets comprising Oddział Zespołu Elektrociepłowni Bielsko-Biała (ZEC Bielsko-Biała) were separated from the structures of TAURON Wytwarzanie and incorporated into TAURON Ciepło S.A. within the process of division of the TAURON Wytwarzanie company. On 10 December 2014 assets comprising Blachownia Power Plant were separated from TAURON Wytwarzanie structures and incorporated into TAMEH POLSKA sp. z o.o. (TAMEH POLSKA) by means of division of the TAURON Wytwarzanie company.



Renewable Energy Sources Area (RES), comprising generation of electric energy from renewable sources (hydroelectric power plants and wind farms). The activity is conducted by TAURON EKOENERGIA sp. z o.o. (TAURON EKOENERGIA). As of 2 January 2014, incorporation of subsidiaries, BELS INVESTMENT sp. z o.o. (BELS INVESTMENT) and MEGAWAT MARSZEWO sp. z o.o. (MEGAWAT MARSZEWO) took place.



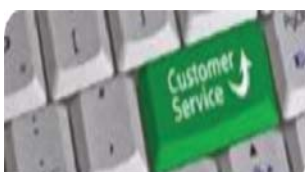
Heat Area, comprising the generation, distribution and sale of heat and, to a lesser extent, other energy products (electric energy, wind of blast furnace, compressed air). The activities are conducted by TAURON Ciepło sp. z o.o. (TAURON Ciepło). Since January 2014 the heat assets of ZEC Bielsko-Biała, taken over from TAURON Wytwarzanie, have been included in the Heat Area. On 10 December 2014, assets comprising Zakład Wytwarzania Nowa (ZW Nowa) were separated from the TAURON Ciepło structures and incorporated into TAMEH POLSKA by means of dividing the TAURON Ciepło company.



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



Sales Area, comprising sales of electric energy to end-customers and wholesale trading of electric energy, as well as trading and management of CO₂ emission allowances and property rights arising from the energy certificates of origin and trading of fuels. Operations in this area are conducted by the companies: TAURON Polska Energia S.A. (TAURON or the Company), TAURON Sprzedaż sp. z o.o. (TAURON Sprzedaż), TAURON Sprzedaż GZE sp. z o.o. (TAURON Sprzedaż GZE) and TAURON Czech Energy s.r.o. (TAURON Czech Energy).



Customer Service Area, covering mainly services provided to clients of TAURON Capital Group (both in the scope of sales and supply of energy). As of 2013 the activities have been expanded by the provision of support services for the companies of TAURON Capital Group in the area of accounting, communication and IT, as a result of centralisation of processes taken over from the companies of TAURON Capital Group. Operations in this area are carried out by the company TAURON Obsługa Klienta sp. z o.o. (TAURON Obsługa Klienta).

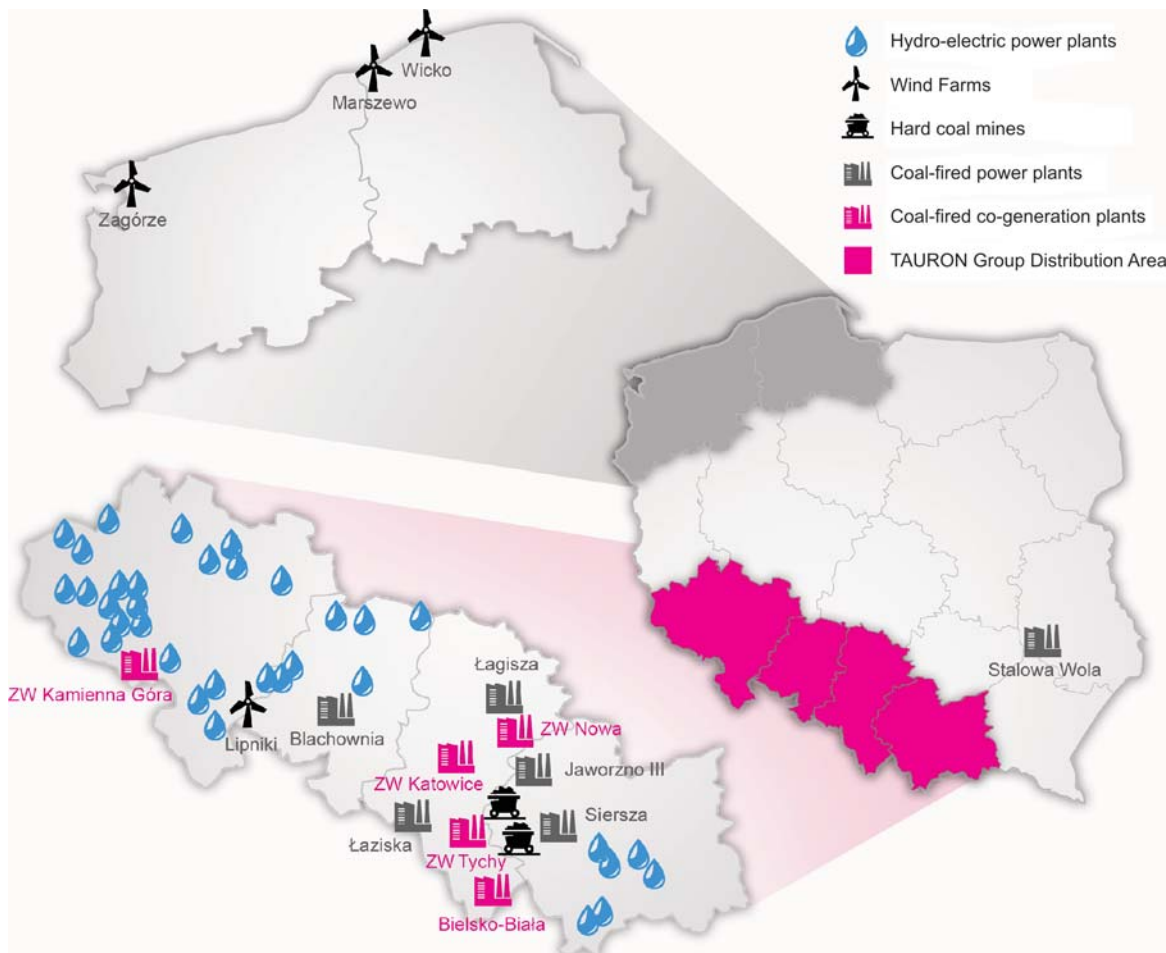


Other Area, comprising mainly activities in the area of extraction of stone, including limestone, for the needs of power engineering industry, metallurgy, construction and road building as well as production of sorbing agents for installations of flue gas desulphurisation using the wet method and for application in fluidized bed boilers (activity provided by the company Kopalnia Wapienia "Czatkowice" sp. z o.o. (KW Czatkowice)). This Area also comprises the company Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. in liquidation (PEPKH in liquidation) and TAURON Sweden Energy AB (publ) dealing with financial activity.

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

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

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



* As of 10 December 2014, ZW Nowa and Blachownia Power Plant Branch were transferred to the TAMEH POLSKA company.

1.3. Organisation and structure of TAURON Capital Group

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

As of 31 December 2014, the key companies of TAURON Capital Group, besides the parent company, TAURON, included 14 subsidiaries subject to consolidation, indicated in item 1.3.1. hereof. Moreover, the Company holds, directly or indirectly, shares in other 44 companies.

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

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

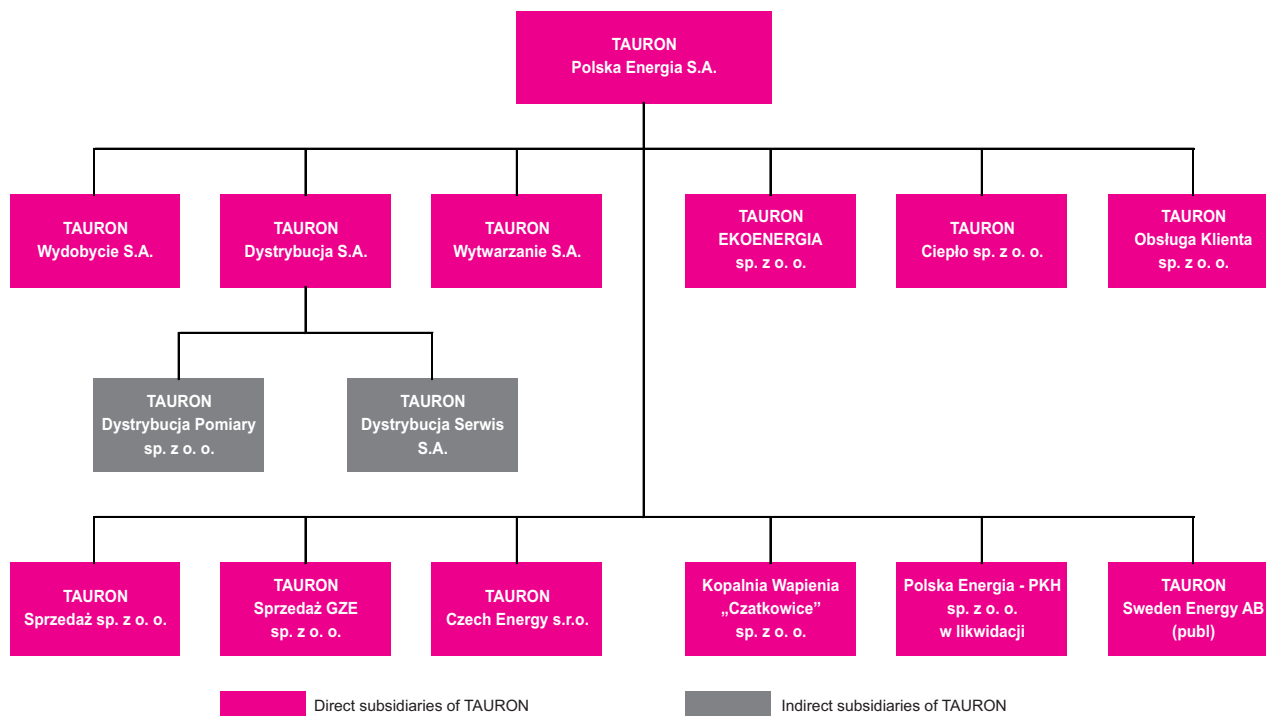
Figure no. 3. Value chain in TAURON Capital Group



1.3.1. Entities subject to consolidation

The chart below presents the structure of TAURON Capital Group, including the companies subject to consolidation, according to the status as at 31 December 2014.

Figure no. 4. Structure of TAURON Capital Group, including companies subject to consolidation, as at 31 December 2014



TAURON Capital Group also holds investments in joint projects: Elektrociepłownia Stalowa Wola S.A. (EC Stalowa Wola), Elektrownia Błachownia Nowa sp. z o.o. (Elektrownia Błachownia Nowa) and TAMEH HOLDING sp. z o.o. (TAMEH HOLDING), which are measured by equity method in the consolidated financial statements.

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

1.3.2. Changes in organisation of TAURON Capital Group

In 2014 the following changes in organisation of TAURON Capital Group took place:

Purchase of shares or stocks of other companies

- On 15 January 2014 the General Meeting (GM) of Kompania Węglowa S.A. (Kompania Węglowa) approved the sales of 16,730,525 registered shares of TAURON Wydobywanie, consequently, the last condition precedent required for the transfer of ownership of the said shares to TAURON was fulfilled.

The above mentioned event was the consequence of the agreement signed on 10 December 2013 concerning the purchase of 16,730,525 registered shares of TAURON Wydobywanie by TAURON from Kompania Węglowa, representing 47.52% of the share capital of this company, authorising to the execution of 31.99% votes at its GM. The total purchase price of the shares amounted to PLN 310,000 thousand. The amount of PLN 232,500 thousand was paid on the day of signing the agreement, whereas the remaining amount of PLN 77,500 thousand was paid on 22 January 2014 following the fulfilment of the conditions precedent related to the assignment of ownership of TAURON Wydobywanie shares. On the same day, the ownership of TAURON Wydobywanie shares belonging to Kompania Węglowa was transferred to the Company.

The purchase of TAURON Wydobycie shares was aimed at taking over the full control over the company significant in terms of interests of TAURON Capital Group, representing the element of the value chain and implementing the strategic objectives in the Generation Area. The above transaction has contributed to the growth of TAURON Capital Group value. At the same time, those activities enabled comprehensive implementation of corporate standards in the TAURON Wydobycie company, applicable in TAURON Capital Group, in the scope of TAURON Capital Group management.

2. On 28 August 2014 the Company purchased 18,473,553 shares of the TAURON Wydobycie company from its subsidiary, TAURON Wytwarzanie, constituting 52.48% of the share in its initial capital, and 30,812 shares of the company KW Czatkowice, constituting 100% share in its initial capital. The transfer of the ownership of TAURON Wydobycie shares and KW Czatkowice shares took place by means of *datio in solutum*, under the agreement concluded between TAURON and TAURON Wytwarzanie in exchange for releasing TAURON Wytwarzanie from its obligations towards TAURON due to the partial redemption of bonds.

The above transaction was aimed obtaining 100% of direct share by TAURON Group Compliance in the TAURON Wydobycie and KW Czatkowice share capital, which enabled to increase the Tax Capital Group (PGK) by TAURON Wydobycie and KW Czatkowice.

Disposal of shares or stocks of other companies

1. On 12 August 2014, the following subsidiaries of TAURON: TAURON Wytwarzanie, TAURON Wydobycie and TAURON Dystrybucja, concluded the conditional agreement with the investor – PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2 (Closed-end Investment Fund of Non-Public Assets), with its seat in Warsaw, concerning sales of the total of 14,984 shares of Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA-Jaworzno III sp. z o.o. with its seat in Jaworzno (ELVITA), constituting 98.82% in the share capital (including: TAURON Wytwarzanie sold 4,825 shares, TAURON Wydobycie sold 4,520 shares and TAURON Dystrybucja sold 5,639 shares). As a result of fulfilment of the conditions defined in the aforementioned agreement, as of 2 December 2014 the ownership of the said ELVITA company shares to the purchaser occurred.

The above transaction was executed under the reorganisation of TAURON Capital Group companies, conducted in TAURON Capital Group, with the purpose of streamlining its structure, among others, through the elimination of activities which were not associated with the core business operations.

2. On 23 October 2014 the Company sold 36,179 shares of the company Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. with its seat in Tychy in favour of TAURON Ciepło, for the price of PLN 1,853 thousand, constituting 1.2% share in the initial capital of this company. The disposal of shares was executed under the project related to the reorganisation of heat companies, with the purpose of concentration of heat companies' shares in TAURON Ciepło, as the company leading in the Heat Area.

Merger of companies

1. On 2 January 2014 the District Court for Wrocław-Fabryczna in Wrocław, 9th Commercial Department of the National Court Register issued the decision concerning entering of the merger of the following companies to the register: TAURON EKOENERGIA (Acquiring Company) with the MEGAWAT MARSZEWO company and BELS INVESTMENT company (Acquired Companies). The merger was executed pursuant to art. 492 § 1 item 1 of the *Code of Commercial Companies (Ksh)*, i.e. through the assignment of the total assets of the Acquired Companies to the Acquiring Company.

The objective of this merger was to streamline the structure of TAURON Capital Group within the framework of implementation of the reorganisation programme of companies in the RES Area.

2. On 2 January 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on entering of the merger of the following companies to the register: Spółka Ciepłowniczo-Energetyczna Jaworzno III sp. z o.o. (the Acquiring Company) with the company ECOPEC sp. z o.o. (EKOPEC) (the Acquired Company). The merger was executed pursuant to art. 492 § 1 item 1 of the *Ksh*, i.e. through the assignment of the total assets of the Acquired Company to the Acquiring Company.

The objective of this merger was to streamline the structure of TAURON Capital Group within the framework of implementation of the reorganisation programme of companies in the Heat Area.

3. On 30 April 2014 the District Court for Wrocław-Fabryczna in Wrocław, 6th Commercial Department of the National Court Register issued the order on entering the merger of the following companies to the register: TAURON Dystrybucja Serwis (the Acquiring Company) with Zakład Obsługi Zaplecza Transportu Energetyki "EL-AUTO" sp. z o.o. (EL-AUTO) and "AUTOZET" sp. z o.o. (AUTOZET) (the Acquired Companies). The merger was executed pursuant to art. 492 § 1 item 1 of the *Ksh*, i.e. through the assignment of the total assets of the Acquired Companies to the Acquiring Company.

The merger was aimed at reorganisation and consolidation of service activities for the area of operations of the TAURON Dystrybucja company within a single organisation, in accordance with the implemented project on reorganising TAURON Capital Group companies.

4. On 30 April 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on entering of the merger of the following companies to the register: Enpower service sp. z o.o. (Enpower service) (the Acquiring Company) with TAURON Ciepło S.A. (the Acquired Company). The merger was executed pursuant to art. 492 § 1 item 1 of the Ksh, i.e. through the assignment of the total assets of the Acquired Company to the Acquiring Company. The merged entity operates under the enterprise name "TAURON Ciepło sp. z o.o."

The project on merger of TAURON Ciepło S.A. and Enpower service was compliant with the schedule of reorganisation of entities in TAURON Capital Group, approved in TAURON.

5. On 4 December 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on entering of the merger of the following companies to the register: TAURON Wytwarzanie Serwis sp. z o.o. (TAURON Wytwarzanie Serwis) (the Acquiring Company) with the company Przedsiębiorstwo Eksploatacyjno-Uługowo-Handlowe Zespołu Elektrociepłowni Bielsko-Biała "CARBON-BIELSKO" sp. z o.o. (the Acquired Company). The merger was executed pursuant to art. 492 § 1 item 1 of the Ksh, i.e. through the assignment of the total assets of the Acquired Company to the Acquiring Company.

The merger was performed under the reorganisation programme of service companies in the Generation Area and its aim was to streamline the structure of the Generation Area within TAURON Capital Group and to simplify the ownership supervision.

Division of companies

1. On 2 January 2014 the District Court for Katowice-Wschód, 8th Commercial Department of the National Court Register issued the decision on entering the division of the TAURON Wytwarzanie company (the Divided Company) by the apportionment pursuant to art. 529 § 1 item 4 of the Ksh, consisting in the assignment of the apportioned components of assets, i.e. the organized part of the enterprise in the form of ZEC Bielsko-Biała, to the TAURON Ciepło S.A. company (the Acquiring Company) in exchange for the shares of TAURON Ciepło S.A., which had been acquired by one of the shareholders of TAURON Wytwarzanie, i.e. TAURON, including the proportional reduction of TAURON's share in the initial capital of TAURON Wytwarzanie.

As a result of the aforementioned division, the share capital in the TAURON Wytwarzanie company was reduced from the amount of PLN 1,553,036 thousand to the amount of PLN 1,494,863 thousand, whereas in the TAURON Ciepło S.A. company the share capital was increased from the amount of PLN 1,238,077 thousand to the amount of PLN 1,409,747 thousand. As a result of the division, the share of TAURON in TAURON Wytwarzanie decreased to 99.76% (in the initial capital) and to 99.79% (in the votes at the GM), whereas the share of TAURON in TAURON Ciepło S.A. increased to 96.57% (in the share capital) and to 97.14% (in the votes at the GM).

The division was performed under the implementation of the project on construction of the Heat Area, in accordance with the *Development Strategy of the Heat Area in TAURON Group for 2011–2015 with estimates up to the year 2020*.

2. On 10 December 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on entering the division of the following companies to the register: TAURON Wytwarzanie, TAURON Ciepło and ArcelorMittal Poland S.A. (ArcelorMittal) (Divided Companies) through the apportionment, pursuant to Article 529 § 1 item 4 of the Ksh, of their partial assets and their assignment to the TAMEH POLSKA company (Acquiring Company).

In connection with the above operation, the share capital of the TAMEH POLSKA company was increased from the amount of PLN 5 thousand to the amount of PLN 340,118,500, i.e. by the amount of PLN 340,113,500, through creation of 3,401,135 new shares with the nominal value of PLN 100 per share. As a result of the increase in the share capital, TAURON acquired 3,293,313 of TAMEH POLSKA shares with the total nominal value of PLN 329,331,300.

The division was performed under the execution of the joint project of TAURON Capital Group and ArcelorMittal Group companies, aimed at establishment of the entity to implement investment and operating tasks in the scope of industrial power engineering.

Establishment of new companies

1. On 31 July 2014 the District Court for Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on incorporation of two limited liability companies with the seat in Dąbrowa Górnicza in the Register of Entrepreneurs: TAMEH HOLDING and TAMEH POLSKA, established on 9 July 2014 by TAURON which, as the sole shareholder of the aforementioned companies, took over shares in each of them, with the total nominal value of PLN 5 thousand.

On 24 November 2014 the President of OCCP issued the approval concerning the concentration, consisting in establishing of a joint entrepreneur, TAMEH HOLDING.

The above companies have been established for the needs of implementation of the joint project with ArcelorMittal, aimed at establishment of an entity to execute investment and operational tasks in the scope of industrial power engineering.

On 19 December 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on increasing of the TAMEH HOLDING share capital from the amount of PLN 5 thousand to the amount of PLN 658,680,600, i.e. by the amount of PLN 658,675,600, through creation of 6,586,756 new shares with the nominal value of PLN 100 per share, as a result of which TAURON acquired 3,293,378 shares with the total nominal value of PLN 329,337,800, in exchange for the in-kind contribution in the form of 3,293,363 shares held in the share capital of TAMEH POLSKA, with the total nominal value of PLN 329,336,300.

2. On 22 September 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on registering of a limited liability company, Marselwind sp. z o.o. with its seat in Katowice (Marselwind), in the Register of Entrepreneurs, established on 3 September 2014 by TAURON which, as the sole shareholder, took over all 100 shares with the total nominal value of PLN 5 thousand.

The company was established in order to enable the implementation of the project comprising the division of the company TAURON EKOENERGIA, through the apportionment of an organised part of the enterprise in the form of wind farms and its contribution to the Marselwind company.

On 8 October 2014 the Extraordinary GM of the Marselwind company adopted the resolution on increasing of the share capital by the amount of PLN 100 thousand, from the amount of PLN 5 thousand to the amount of PLN 105 thousand, and TAURON, as the sole shareholder, took over 2 thousand new shares with the nominal value of PLN 50 each.

On 3 November 2014 the division plan of the subsidiary, TAURON EKOENERGIA, was announced, according to which the division shall be performed pursuant to Article 529 § 1 item 4 of the Ksh, through the separation and assignment to the acquiring company, Marselwind, of the separated part of TAURON EKOENERGIA assets in the form of wind farms, constituting an organised part of the enterprise, in exchange for the acquiring company shares, to be fully taken over by TAURON.

3. On 14 November 2014 the company TAURON Sweden Energy AB (publ) (TAURON Sweden Energy) was established by TAURON, with its registered office in Stockholm, in which TAURON, as the sole founder, acquired all 55 thousand of shares, with the nominal value of EUR 1 each, i.e. with the total nominal value of EUR 55 thousand.

TAURON Sweden Energy is the company operating pursuant to the Swedish law, established in order to participate in the process associated with the acquisition of financing for TAURON Capital Group in the German market.

Other changes in the structure of TAURON Capital Group

1. On 14 January 2014, TAURON concluded the agreement with TAURON Wytwarzanie concerning the establishment of the usufruct right in relation to the total assets of the TAURON Wytwarzanie Serwis company held by TAURON Wytwarzanie, currently representing 71.69% of the share in the share capital of this company.

Concluding of the agreement was aimed at TAURON taking over direct control over the indirect subsidiary in the area of corporate governance as well as establishing and securing the real influence of TAURON on its activities.

2. On 14 January 2014 the Management Board of TAURON Wytwarzanie adopted the resolution concerning the redemption of shares purchased by the company pursuant to art. 418¹ of the Ksh. In connection with the foregoing, on 4 March 2014, the District Court for Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on registering the reduction of the share capital of TAURON Wytwarzanie by the amount of PLN 383,420, i.e. from the amount of PLN 1,494,862,990 to the amount of PLN 1,494,479,570. As a result of the performed shares redemption and reduction of the share capital, the share of the Company in the initial capital of TAURON Wytwarzanie increased from 99.76% to 99.79%.

On 24 April 2014 the Ordinary GM of TAURON Wytwarzanie adopted the resolution concerning the compulsory purchase (squeeze out) of shares of this company held by shareholders representing no more than 5% of the share capital by the majority shareholder – TAURON. Within the execution of this process, on 14 May 2014 TAURON paid the receivable equal to the price of all the shares purchased to the bank account of the TAURON Wytwarzanie company. As a result of execution of the said process, on 1 August 2014, due to the registration of the reduction in the share capital of TAURON Wytwarzanie by the District Court Katowice-Wschód in Katowice, TAURON became the sole shareholder of TAURON Wytwarzanie, holding 100% share in the initial capital of this company.

The aforementioned activity was aimed at streamlining the proprietary structure of TAURON Wytwarzanie.

3. On 17 February 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register issued the decision on deleting the company Przedsiębiorstwo "Ekspar" sp. z o.o. in liquidation from the register (the subsidiary of TAURON Ciepło S.A.) from the Register of Entrepreneurs. The decision became legally binding on 4 March 2014.

The liquidation was performed within the implementation of reorganisation of companies in TAURON Capital Group.

- On 14 March 2014 the Extraordinary General Meeting of the TAURON Ciepto S.A. company adopted the resolution concerning the compulsory purchase of shares of this company held by shareholders representing no more than 5% of the share capital by the majority shareholder – TAURON. On 3 April 2014 TAURON paid the receivable equal to the price of all the shares purchased to the bank account of the TAURON Ciepto S.A. company. As a result of implementation of the said process, TAURON became the sole shareholder of TAURON Ciepto S.A., holding 100% shares in the initial capital of this company.

The aforementioned activity was aimed at streamlining the proprietary structure of TAURON Ciepto S.A.

- On 2 July 2014 the Extraordinary Shareholders' Meeting (SM) of the PEPKH company, with its registered office in Tarnów, adopted the resolutions on winding-up and liquidation of the PEPKH company, in which TAURON holds 100% share in the initial capital and 100% share in the general number of votes at the SM, and on the appointment of its liquidators. The Resolutions of the Extraordinary SM entered into force on the day of their adoption.

Decision on the liquidation of the company was taken for economic reasons and it is also an element of the reorganisation measures intended to simplify and streamline the structure of TAURON Capital Group. Revenues generated by the liquidated company, in 2013 constituted approximately 1% of the TAURON Capital Group revenues.

On 27 October 2014 the liquidators of PEPKH filed for bankruptcy liquidation of the aforementioned company to the District Court in Tarnów, 5th Commercial Department. The reason for filing the motion was the reporting of potential future claims by PEPKH customers, the value of which exceeds the value of the PEPKH.

On 11 December 2014, the District Court in Tarnów, 5th Commercial Department, issued the decision on dismissal of the motion filed by the PEPKH company in liquidation concerning the declaration of its bankruptcy comprising the liquidation of the assets. In the justification of the decision, the District Court indicated that no premises existed which would enable to declare the bankruptcy of PEPKH either pursuant to Article 11 item 1, or pursuant to Article 11 item 2 of the *Act of 28 February 2013 on Bankruptcy and Restructuring Law*.

- On 24 February 2014 the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register entered the change of the company enterprise from "Południowy Koncern Węglowy S.A." to "TAURON Wytwarzanie S.A." to the register, whereas on 30 October 2014 the District Court in Rzeszów, 12th Commercial Department of the National Court Register, issued the decision on registering the change of the enterprise of the company BUDO-TRANS sp. z o.o., direct subsidiary of TAURON to Biomasa Grupa TAURON sp. z o.o. (Biomasa GT).

The changes in companies' enterprises were associated with the need to identify the aforementioned companies in the external environment as entities belonging to TAURON Capital Group.

Events concerning the organizational changes after 31 December 2014

On 14 January 2015, the Company purchased 4,267 shares of the company Biomasa GT, with the total nominal value of PLN 237,885.25, representing 100% share in the initial capital, from its subsidiary, TAURON Wytwarzanie. The transfer of the ownership of Biomasa GT shares took place by means of *datio in solutum*, under the agreement concluded between TAURON and TAURON Wytwarzanie in exchange for releasing TAURON Wytwarzanie from its obligations towards TAURON due to the partial redemption of bonds.

The above transaction was aimed at gaining 100% of the direct share in the initial capital of Biomasa GT by TAURON, which shall enable its incorporation into PGK.

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

1.4.1. Development policy of TAURON Capital Group

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

On 2 June 2014 TAURON Management Board adopted and the Supervisory Board issued a positive opinion on the document entitled *Corporate Strategy of TAURON Group for 2014–2017 with an outlook until 2023* (Corporate Strategy), which is an update of the corporate strategy adopted and approved in 2011. In 2014, activities performed so far were comprehensively reviewed and evaluated, and the assumptions accepted in the then existing economic, market and regulatory environment were verified in detail. When updating the Corporate Strategy the changing regulatory regime, market environment and general trends in the energy sector were taken into account, among which the most important factors affecting the sector are the EU and national regulations related to the conditions for the functioning of the energy sector in Poland, including, in particular, the energy and climate package (achievement

of the 3x20 targets), the Polish Act on Energy Efficiency, Energy Efficiency Directive, European Union (EU) assistance funds, European Commission's activities aimed at emission abatement, the Polish energy regulations package, regulations related to electricity distribution and development of smart technologies, Energy Policy of Poland until 2030, the Polish Nuclear Power Programme and Energy Roadmap 2050.

The description of the changing macroeconomic environment is included in item 2.2.2.1. of this report.

The updated Corporate Strategy has maintained the existing mission, vision and overall objective of TAURON Capital Group.

The mission of TAURON Capital Group is "To ensure energy supply for our customers based on best practices that guarantee an increase of shareholder value", and its vision is "To become one of the leading energy companies in the region".

The continuous growth of value to ensure return on invested capital for shareholders remains to be the overall strategic objective of TAURON Capital Group. The implementation of the aforementioned objective is measured on the basis of underlying indicators of value development, i.e. EBITDA growth and ROIC level.

1.4.1.2. Implementation of Corporate Strategy

The key direction of the Corporate Strategy is to focus on growth in areas of operations where the highest potential for achieving high rates of return on investments and diversification of the generation portfolio exist. The goal of continued effectiveness improvement, perceived as the uninterrupted strive for operational excellence and building an effective organization through raising the effectiveness of the TAURON Capital Group operations, has been sustained. The next goal is managing market and regulatory risk exposure which, due to the specific nature of TAURON Capital Group activities, continues to be significant.

Implementation of the Corporate Strategy in 2014 allowed for the accomplishment of the EBITDA growth indicator to the level of PLN 3,627 million and ROIC – to the level of 5.3%.

In the scope of implementing the investment tasks:

- 1) the agreement with the consortium of RAFAKO S.A. (RAFAKO) (consortium leader) and MOSTOSTAL WARSZAWA S.A. (MOSTOSTAL), concerning the construction of the 910 MW_e capacity power unit at Jaworzno III Power Plant was concluded,
- 2) construction and installation works are in progress and the supply of machinery and equipment has been completed for individual technological systems and unit installations for the construction of the CCGT unit of 449 MW_e capacity, including the heat generation component with the heat capacity of 240 MW_t at EC Stalowa Wola,
- 3) activities are on-going, aimed at launching the implementation of the construction of the CCGT unit of 413 MW_e capacity at Łagisza Power Plant,
- 4) works are continued aimed at implementation of the joint investment project by PGE Polska Grupa Energetyczna S.A. (PGE), TAURON, KGHM Polska Miedź S.A. (KGHM) and ENEA S.A. (ENEA), comprising the construction and exploitation of the first Polish nuclear power plant with the capacity of approximately 3 thousand MW_e capacity.

Moreover, activities were conducted in the Generation Area, associated with the construction of "Grzegorz" shaft, including the infrastructure, and the construction of a 800 m level, at Zakład Górniczy Janina (ZG Janina) as well as in the Heat Area, comprising the construction of a new 50 MW capacity unit in Zakład Wytwarzania Tychy (ZW Tychy) and the extraction (pass-out) and condensing turbogenerator at ZW Nowa.

The assumed targets connected with the improvement of cost effectiveness have been achieved, mainly through the restructuring programmes conducted in the Generation, Heat and Distribution Area. TAURON Capital Group took measures aimed at enhancement of the organizational effectiveness, by continuing the process of building the target business model and integrating its companies.

The Corporate Strategy focuses on four main goals which jointly enable the growth in TAURON Capital Group value:

- 1) growth in the most attractive lines of business,
- 2) OPEX and CAPEX efficiency in line with best practices,
- 3) management of exposure to market and regulatory risks,
- 4) developing an effective organisation.

Growth in the most attractive lines of business

The growth will focus on the areas of operations where the highest potential for achieving high rates of return on investments exists. In the Generation, Heat and RES Areas, restoring and increasing of installed generation capacity

up to the level of approximately 6.15 GW in 2023 from the current 5.4 GW is planned. Distribution and Sale Areas are also important growth drivers.

The growth will be associated with the commissioning of high efficiency hard coal and gas fired generation units, as well as wind farms. Further down the line, it is planned that the energy mix will also include nuclear energy through the involvement of TAURON Capital Group in the construction of such a unit jointly with strategic partners.

In the framework of the launched investment projects generation capacity at a level of approximately 2,200 MW will be commissioned, including in particular:

- 1) 1,030 MW from hard coal fired units (910 MW at Elektrownia Jaworzno III, co-generation capacity: 55 MW at ZW Nowa (as of 10 December 2014 included in TAMEH POLSKA), 65 MW at ZW Tychy),
- 2) approximately 675 MW from gas fired units (225 MW at EC Stalowa Wola and about 450 MW at Łagisza Power Plant),
- 3) approximately 500 MW from wind generation.

It is planned that in 2023 TAURON Capital Group will have wind sources with the total capacity of approximately 700 MW available will allow TAURON Capital Group to accomplish its RES capacity goal of 800 MW (including biomass).

At present, 92% of the generation capacity installed in TAURON Capital Group comes from hard coal technology. Within the generation portfolio, the Corporate Strategy assumes that until 2023 the share of capacity based on coal technology will drop to approximately 74%, including 25% to come from state-of-the-art, high efficiency hard coal fired units. The share of low emission technologies, i.e. gas, wind, hydro and biomass, will approximately 26%.

In view of the need to develop a diversified generation portfolio which is the consequence of, among others, growing constraints related to the CO₂ emission, TAURON Capital Group takes actions aimed at participating in the project on construction of the first nuclear power plant in Poland. The undertaking will be carried out through purchasing a 10% stake from PGE in the share capital of the established special purpose vehicle, PGE EJ1 sp. z o.o. (PGE EJ1).

The growth is also associated with the development of the smart grid infrastructure in the Distribution Area, where investment projects will mainly comprise connecting of new consumers and new sources and the associated grid development as well as modernisation and replacement of the existing assets.

The updated Corporate Strategy places a lot of weight on developing a model for managing the research and development (R&D) activities in TAURON Capital Group. The goal of effective management of research and development activities in subsidiaries of TAURON Capital Group is aimed at intensifying the innovation development processes and maximising the benefits arising from the access to knowledge and experience gained by implementing such undertakings.

Operational and investment effectiveness at the level of best practice

While implementing the Corporate Strategy stipulating further improvement of operational and investment effectiveness, in 2014 the restructuring activities were continued through the improvement of governance processes and integration of support functions. It also comprises limiting of non-core activities, outsourcing of areas which are not directly associated with the core activity of TAURON Capital Group, as well as conducting of the common procurement policy in the scope of consolidated and strategic purchases.

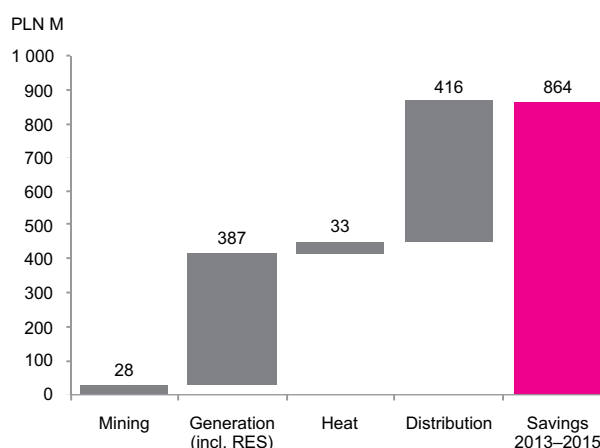
Treating budgetary discipline as a priority in the scope of investment expenditure and operating costs applies in each Business Area. The executed activities related to the improvement of operational and investment effectiveness enabled to prepare TAURON Capital Group to the functioning under the changeable market conditions, in particular, in terms of the significant volatility in prices of fuel, energy, emission allowances, etc.

In 2014 the OPEX efficiency improvement Programme in TAURON Capital Group for 2013–2015 was continued, adopted by the TAURON Management Board on 15 January 2013. The aforementioned The Programme was developed and is implemented taking into account the goal, i.e. ensuring the growth of value of TAURON Capital Group.

The consolidation and restructuring projects have been prepared the execution of which shall result in cost reduction at a level of approximately PLN 864,000 thousand over the years 2013–2015 (the total amount for the entire 3-year period). The effectiveness improvement programmes in individual Areas of operations were adopted by management boards of the subsidiaries and constituted the basis for the development of the programme at a level of TAURON Capital Group. According to the Company estimates, the scale of OPEX reduction under the effectiveness improvement Programme shall increase year by year by the amount around PLN 300,000 million annually, with the highest savings planned for 2015. TAURON Capital Group strives to reduce operating costs in the majority of the Areas – with the highest share allocated to the Distribution Area and Generation Area. According to the assessment of the Company, the implementation of the target will allow for strengthening of the competitive position due to the limitation of the cost base of TAURON Capital Group. The said OPEX reduction programme is one of the pillars for maintaining the high competitive position.

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

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



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

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

Table no. 1. Implementation of the effectiveness improvement programme

No. Segment	Savings accomplished in 2013–2014 (in PLN million)	Savings planned for 2013–2015 (in PLN million)	Percentage of implementation (%)	Major initiatives
1. Mining	27	28	97	1) Construction of nitrogen generation installation 2) Expansion of the sludge dehydration station 3) Drinking water treatment 4) Electronic auctions in public procurement proceedings 5) Using the mechanic lining for excavation drilling
2. Generation (including RES)	322	387	83	1) Restructuring of employment and optimisation of processes 2) Limitation of repairs for the least effective units 3) Optimisation of overhead costs 4) Outsourcing of some functions, mainly in repairs area 5) Improvement of equipment efficiency, optimisation of production volume and operating costs in hydroelectric power plants 6) Reduction of costs of service and maintenance of wind farms
3. Heat	42	33	127	1) Restructuring of employment 2) Limiting the losses of compressed air 3) Restructuring of assets 4) Optimisation in costs of external services 5) Optimisation of procurement policy
4. Distribution	292	416	70	1) Implementation of the target business model, elimination of duplicated functions 2) Change in rules of classification of expenses as expenditures or costs 3) Optimisation of balance sheet differences 4) Optimisation of IT processes 5) Integration of business functions in the service area 6) Optimisation of external services
5. Other Segments	36	–	–	1) Restructuring of employment 2) Optimisation in costs of external services
Total	719	864	83	

Management of exposure to market and regulatory risks

Due to the specific nature of TAURON Capital Group activities and the strong exposure to amendments in the regulations of the national and the EU law, management of market and regulatory risk is one of the key elements

of Corporate Strategy implementation and it is based, among others, on the continuous monitoring of the legislative activity related to the energy market at the EU level and in Poland. Market risk management takes place in all Business Areas (in particular, in regulated areas, such as Distribution and Heat), and it is coordinated by TAURON. In the scope of market risk, the management focuses mainly on energy trading.

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

Effective strategy of securities will cover the whole actions in the value chain of TAURON Capital Group, starting from the security of the assumed volume of fuel supply from the sources held, ending up with coverage of the specific volume of electric energy sold to end customers from own generation units. The policy conducted shall guarantee the secure functioning of the assets held in the Generation Area through provision of fuel supplies and maintaining of its price at an acceptable level.

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

In 2014 the Company continued its activity in the scope of promotion and development of strategic energy technologies and preparation of nuclear energy development. In this area, activities were undertaken, associated with the involvement of the Company in research and development projects, co-financed both from national sources (e.g. through the National Centre of Research and Development (NCBiR)) and from international sources (e.g. the Community of Knowledge and Innovation – KIC InnoEnergy (KIC InnoEnergy)).

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

Building an effective organisation

Within implementation of this goal, TAURON Capital Group has focused its activities on effectiveness improvement in each Business Area and the quality of the services offered as well as on centralisation of the support function and providing tools for human capital management. Building an effective organisation is associated with ensuring the appropriate employment structure, growth of employees' competence through the implementation of the relevant processes associated with human capital development, including managing through objectives, which affects building of an organisation oriented to the external and internal client.

The activities performed in 2014 comprised the follow-up implementation of the target organisational structure and completing the integration of the general corporate function, including mainly in the areas of accounting and IT services. In the Sales and Customer Service Areas, many activities were conducted aimed at improving the quality and growth of client satisfaction level, among others, through the harmonisation of processes, standardisation of documents, making the remote e-BOK channel available. The centralisation of billing systems for business clients was completed, the centralisation of billing systems for mass clients was continued. The centralisation of the service of financial and accounting processes and the IT service was continued. The measures implemented will ultimately contribute to the implementation of the Corporate Strategy in the whole value chain and to the strengthening of the position of TAURON Capital Group among the leading energy companies in the region.

1.4.2. Assessment of implementation opportunities of investment projects

In 2014 the main expenditures on strategic investments were implemented in companies of TAURON Capital Group, whereas their financing was managed centrally at the level of the Company. On the basis of the conducted analyses, the Management Board of the Company assesses that TAURON Capital Group is able to finance the current and future investment projects from funds generated from operating activities and by acquisition of debt financing.

1.4.3. Main domestic and foreign investments

1.4.3.1. Purchase of equity securities

Among the events described in item 1.3.2 in the scope of purchase of shares and stocks in companies, the following main investments of the Company should be listed:

Purchase of TAURON Wydobyćie shares

On 10 December 2013 the agreement was signed on sale of 16,730,525 registered shares of TAURON Wydobyćie by Kompania Węglowa (the Seller) to the benefit of TAURON (the Buyer); the shares represented 47.52% of share capital of this company and authorised it to exercise 31.99% of votes at its WZ.

On 15 January 2014 the General Meeting of Kompania Węglowa approved the sale of TAURON Wydobyćie shares, consequently, on 22 January 2014, following the fulfilment of conditions precedent, the transfer of ownership of these shares to TAURON took place.

On 28 August 2014, the Company purchased 18,473,553 shares of the TAURON Wydobyćie company from the subsidiary, the TAURON Wytwarzanie company, representing 52.48% share in the initial capital of this company.

As a result of the aforementioned transaction, TAURON directly holds 100% shares in the initial capital of TAURON Wydobyćie.

Purchase of shares in KW Czatkowice

On 28 August 2014, TAURON purchased 30,812 shares of the KW Czatkowice company from the subsidiary, the TAURON Wytwarzanie company, representing 100% share in the initial capital of this company.

As a result of the aforementioned transaction, TAURON directly holds 100% shares in the initial capital of KW Czatkowice.

1.4.3.2. Implementation of strategic investments

Key strategic investment projects under implementation

The table below presents the activities carried out in TAURON Capital Group in 2014, in connection with the implementation of the key strategic investment project.

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

No.	Investment	Status of implementation of the investment project
1.	<p>Construction of the CCGT unit of 449 MW_e capacity, including the heat generation component of 240 MW_t capacity in Stalowa Wola (the investment is implemented with participation of the strategic partner – Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG)).</p> <p>Contractor: Abener Energia S.A. (Abener Energia)</p> <p>Scheduled date of investment project completion: 2015</p>	<p>Execution of construction and installation works is in progress in the scope of main unit equipment as well as the accompanying systems and economies, including: assembly of the gas and steam turbine set as well as installation of the waste heat boiler. Works related to the modernisation of the retaining dam on the San river entered their final stage. Machinery, equipment and components included in the unit have been supplied to the construction site.</p>
2.	<p>Construction of new generation capacity in co-generation at the level of 50 MW_e and 86 MW_t in ZW Tychy (TAURON Ciepło).</p> <p>Contractor: Elektrobudowa S.A.</p> <p>Planned date of investment project completion: 2016</p>	<p>In 2013 the investment project was completed in its part related to the modernisation of the existing fluidised bed boiler and its adjustment to biomass burning and the construction of the coal-fired water boiler (40 MW_t). In the part of the investment project related to the construction of the 50 MW_e co-generation unit, construction and development works are implemented. In 2014, the assembly of the steel construction and boiler drum was completed, as well as the construction of turbogenerator foundation on which the generator was placed, and works associated with the construction of the foundations and walls for transformers (step-up and tap transformers).</p>
3.	<p>Construction of a new power unit of 910 MW_e capacity, for supercritical parameters on the premises of Jaworzno III Power Plant (TAURON Wytwarzanie).</p> <p>Contractor: RAFAKO and MOSTOSTAL consortium</p> <p>Scheduled date of investment project completion: 2019</p>	<p>In April 2014 the master contract for the construction of the unit was signed with the consortium of RAFAKO and MOSTOSTAL. In November 2014 the contractor submitted the basic design of the unit, whereas the client handed over the site of the unit. Contractors for the construction of the first part of the carbonation system were selected. The process of designing and tendering of contractors for ash removal systems, water treatment station and wastewater treatment plant, track system and others, is ongoing. The decision on the building permit was obtained for the construction of the 1st stage of the overhead 400 kV power line.</p>
4.	<p>The construction of the installation for flue gas de-nitrification in 6 units of Jaworzno III Power Plant and 4 units of Łaziska Power Plant belonging to TAURON Wytwarzanie.</p> <p>Contractor: Jaworzno III Fortum Power and Heat Oy i ZRE K-ce, Łaziska - Strabag Sp. z o.o. and Strabag AG</p> <p>Scheduled date of investment project completion: 2016</p>	<p>Until the end of 2014 modernisation works were completed at seven of ten units.</p>

No.	Investment	Status of implementation of the investment project
5.	<p>Construction of the CCGT unit of 413 MW capacity, including the heat generation component of 266 MW_t capacity on the premises of Łagisza Power Plant (TAURON Wytwarzanie).</p> <p>Contractor: selection process in progress</p> <p>Scheduled date of investment project completion: 2018</p>	<p>In March 2014, TAURON and Polskie Inwestycje Rozwojowe S.A. (PIR) signed the preliminary agreement concerning the financing of the unit construction. In April 2014 the connecting agreement with the Transmission System Operator, GAZ-SYSTEM S.A. (GAZ-SYSTEM) was signed. Procedures associated with the selection of the Contract Engineer are under implementation. In November 2014 the call for tender was announced for selection of the contractor for the CCGT unit in Łagisza Power Plant. The environmental impact assessment report was prepared and preparations were commenced in relation to the documentation required to obtain the building permit and permit for design works for the generation unit.</p>
6.	<p>Construction of "Grzegorz" shaft (TAURON Wydobycie), including the infrastructure (surface and underground) and the accompanying headings.</p> <p>Contractor: call for tender announced in 2015</p> <p>Scheduled date of investment project completion: 2022</p>	<p>In 2014 the access road to the investment site was constructed, including the reconstruction of the transportation system, and the site was provided with the required connections. The basic design was developed and the control geological bore was made, providing basis for the preparation of the geological documentation. The construction of the electrical switching station has commenced. Preparations to launch the procedure for the selection of the general contractor are in progress.</p>
7.	<p>Construction of a 800 m level, including the commissioning of the fourth wall at ZG Janina in Libiąż (TAURON Wydobycie).</p> <p>Contractor: Consortium of KOPEX and Przedsiębiorstwo Budowy Szybów S.A. (main task – shaft drilling)</p> <p>Scheduled date of investment project completion: 2019</p>	<p>The deepening of the shaft and drilling of access workings is in progress. Supplies of mining infrastructure equipment are under implementation. The technological concept for the modernisation of the Mechanical Coal Processing Plant has been developed. The construction of the haulage and stone container has been commenced.</p>
8.	<p>Construction of the 18 MW Marszewo Wind Farm, constituting the 2nd stage of construction of the wind farm with the total capacity of 100 MW in Marszewo location.</p> <p>Contractor: Iberdrola Engineering and Construction Poland sp. z o. o. and Iberdrola Ingeniería y Construcción S.A.U. consortium</p> <p>Scheduled date of investment project completion: 2015</p>	<p>In 2014 the Contract Engineer and the General Contractor were selected for the investment project, including the supply of turbines.</p>

Project associated with the construction of the nuclear power plant

In relation to the earlier arrangements concerning joint implementation of the nuclear energy project in Poland, on 3 September 2014 PGE, TAURON, ENEA and KGHM signed PGE EJ 1 Shareholders' Agreement (Shareholders' Agreement) concerning the project of preparation for the construction of a nuclear power plant in Poland. In accordance with the aforementioned Shareholders' Agreement, TAURON, ENEA and KGHM, as Business Partners, will purchase from PGE, under a separate agreement, 30% shares in total (each of the Business Partners will purchase 10% shares) in a special purpose vehicle – PGE EJ 1 which is responsible for the preparation and execution of the investment comprising the construction and operation of the first Polish nuclear power plant of approximately 3 thousand MW_e capacity. In accordance with the assumptions, PGE will act as the leader of the Project and the PGE EJ1 company will fulfil the function of the plant operator in the future.

In accordance with the Shareholders' Agreement, the parties committed jointly, proportionally to the shares held, to finance activities scheduled for 2014–2016 under the preliminary stage of the project, in order to define such elements as prospective partners, including the strategic partner, technology supplier, EPC (Engineering, Procurement, Construction) contractor, nuclear fuel supplier and obtaining funds for the Project, as well as organisational and competence related preparation of PGE EJ 1 to the role of the future operator of the nuclear power plant responsible for its safe and efficient operation (Integrated Procedure). Pursuant to the Shareholders' Agreement, financial involvement of TAURON during the preliminary stage of the project should not exceed the amount of approximately PLN 107 million and it should be based on contribution of funds up to the said amount to increased share capital of PGE EJ 1.

On 25 September 2014 the parties extended the binding term of the agreement in connection with the procedure pending before the President of the Office for Competition and Consumer Protection (OCCP) concerning the intended concentration.

On 7 October 2014, the President of OCCP issued the unconditional approval to perform the concentration, based on establishment of the joint entrepreneur, PGE EJ1, by the parties to the Shareholders' Agreement.

Project on construction of CCGT unit at Blachownia Power Plant

The portfolio of investment projects of TAURON Capital Group also comprises the project on the construction of the new CCGT unit with the capacity within the range of 850 on the premises of Blachownia Power Plant. Pursuant to the

Memorandum of Understanding concluded on 30 December 2013 by KGHM, TAURON and TAURON Wytwarzanie, under which it was decided to temporarily suspend the implementation of the project on construction of the CCGT unit in the company Elektrownia Blachownia Nowa (KGHM share: 50%, TAURON Wytwarzanie share: 50%), expressing the willingness to continue the project, the Parties undertook to ensure the continued functioning of the company Elektrownia Blachownia Nowa, securing the existing results of the Project, in particular to update its documentation, and also committed to continuous monitoring of the energy market and the regulatory environment for possible early resumption of the project. As at the day of compiling this report, the aforementioned project is still suspended.

Investment expenditure

In 2014, the capital expenditures of TAURON Capital Group amounted to PLN 3,089,592 thousand and they were lower by approximately 18.3% as compared to the expenditure incurred in 2013, which amounted to about PLN 3,779,555 thousand. It results mainly from the termination of strategic investments in the RES Area in 2013: construction of the Wicko 40 MW Wind Farm and Marszewo Wind Farm stage I, 80 MW capacity.

In terms of value, in 2014, the highest capital expenditure was incurred on:

- 1) construction of 800 m level at w ZG Janina (PLN 82 million) – Mining Area,
- 2) construction of new capacity in Jaworzno Power Plant (910 MW) (PLN 58 million) and construction of the installation for NO_x emission reduction (PLN 191 million) – Generation Area,
- 3) modernisation of hydroelectric power plants (PLN 84 million) – RES Area,
- 4) replacement of capacity at ZW Tychy (including the construction of the BC-50 unit) (PLN 128 million) and investment associated with the development and maintenance of heat networks (PLN 84 million) – Heat Area,
- 5) construction of new connections (PLN 512 million) and modernisation and replacement of existing grids (PLN 1,151 million) – Distribution Area.

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

1.4.4. Priorities of the TAURON Capital Group in 2015

In view of the demanding market situation and the associated challenges for the energy sector, in 2015 TAURON Capital Group will focus on:

- 1) consistent implementation of the strategy of OPEX reduction and maintaining of the budgetary discipline in all Business Areas,
- 2) development of profitable projects, in particular, in the Distribution Segment, with simultaneous care for long-term effectiveness and expansion of the capacity of the Generation Segment, as well as using the opportunities in other Segments,
- 3) strengthening of the competitive position in core areas of operations.

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

1.5.1. The management rules of the Company and TAURON Capital Group

Management Rules of the Company

In accordance with the provisions of the *By-laws of the Management Board of TAURON Polska Energia Spółka Akcyjna with its seat in Katowice*, the Management Board conducts all issues of the Company and represents it in all judicial and extra-judicial proceedings. All issues connected with managing the Company, which are not restricted by legal regulations and provisions of the Company Articles of Association to the competence of the General Meeting or the Supervisory Board lie within the competences of the Company Management Board. Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for submitting statements on behalf of the Company.

Issues covered by competences of the Management Board as a collective body are described in detail in item 6.8.1. of this report.

The management rules of the Company are also specified in the *Organisational Regulations of TAURON Polska Energia S.A.* (Organisational Regulations), pursuant to which the Company is managed by directly by the Management Board and through proxies, Directors of Departments and plenipotentiaries. The President of the Board – Chief Executive Officer, manages business as usual of the Company and takes decisions on all issues concerning the Company, which are not subject to decisions of the Management Board or other governing bodies of the Company, and supervises the performance of the division which reports to him directly.

The President of the Board:

- 1) manages the internal business of the Company and represents it within the external contacts,

- 2) coordinates all the issues connected with the performance of the Company Management Board,
- 3) performs actions in the scope of labour law on behalf of the employer,
- 4) supervises the performance of the division which reports to him directly,
- 5) issues the internal regulatory acts and intra-corporate regulatory acts in accordance with the binding regulations,
- 6) takes decisions related to managing of the Company business as usual,
- 7) performs all the real functions and legal acts, taking into consideration implementation of the Company's goals and targets,
- 8) undertakes any other activities providing for effective and efficient performance of the Company.

Vice-Presidents of the Management Board:

- 1) manage the internal business of the Company and represent it within the external contacts,
- 2) manage the current business operations of the Company within the scope delegated as well as supervise the performance of the divisions which report to them directly,
- 3) take decisions on issues which are not subject to decisions of the Management Board, within the scope of functions delegated to the subordinated business units as well as other decisions within the powers of attorney and authorisations granted to them by the Management Board or the President of the Board,
- 4) perform all the real functions and legal acts, taking into consideration implementation of the Company's goals and targets,
- 5) undertake any other activities providing for effective and efficient performance of the Company.

Directors of Departments:

- 1) manage the departments which report to them, being responsible for their performance results,
- 2) determine the goals, targets and tasks of individual business units included in the department they manage, within their subjective competence,
- 3) coordinate the structures subordinated to them, in accordance with the Company's interest and in compliance with the legal regulations,
- 4) implement the guidelines and recommendations of the Management Board Members and keep them informed of the performance of the subordinated department,
- 5) undertake any other necessary activities providing for effective and efficient performance of the subordinated department.

Business relations in the Company are based on the principle of a single person management which means that each employee has one direct supervisor from whom he/she receives instructions and tasks and towards whom he/she is responsible for execution of these instructions and tasks.

An exception to this rule is the so-called project reporting which is of temporary nature and based on a matrix. Such reporting system exists in relations among employees of the Company or the employees of the Company and companies of TAURON Capital Group, and it refers to persons who are members of project teams.

Management rules of "TAURON Group"

TAURON Capital Group comprises companies of TAURON Capital Group selected by the Management Board, managed jointly as a consistent economic body consisting of autonomous commercial law companies, led by the Company, as a parent entity.

The main internal regulatory act of "TAURON Group" is the *Code of TAURON Group* adopted by the Management Board of the Company, which regulates its operations, ensuring the implementation of the goals through the special tailored solutions in the area of managing "TAURON Group" entities, including, in particular, determining companies' operating objectives, enabling the achievement of the effects assumed in the Corporate Strategy.

In 2014 the improvement of TAURON Capital Group management process was continued. Considering the changes in the organisation of the TAURON Capital Group, the Management Board of the Company updated the allocation of membership of the companies to "TAURON Group".

Within "TAURON Group", Business Areas operate, established by the Company Management Board, comprising the companies of "TAURON Group" as well as the established Management Areas within which the relevant cooperation rules apply. In addition, within "TAURON Group" permanent committees of "TAURON Group" operate:

- 1) Project Assessment Committee,
- 2) TAURON Group Management Committee,
- 3) TAURON Group Compliance Committee,
- 4) Risk Committee.

The aforementioned Committees were established in order to enable the performance of activities in accordance with the principles of operational consistence of the “TAURON Group”, in compliance with the law and the interests of “TAURON Group” and its stakeholders.

The Committees fulfil the following functions:

- 1) opinion-making function for the Company Management Board,
- 2) decision-making function,
- 3) supervisory function for the management boards of TAURON subsidiaries.

The core task of the Committees is to provide surveillance over implementation of the consistent actions by all the participants of the “TAURON Group”, compliant with the *TAURON Group Code* and to the benefit of “TAURON Group” interests. The specific functions of the Committees are provided in detail in the by-laws of their operations adopted by the Company Management Board.

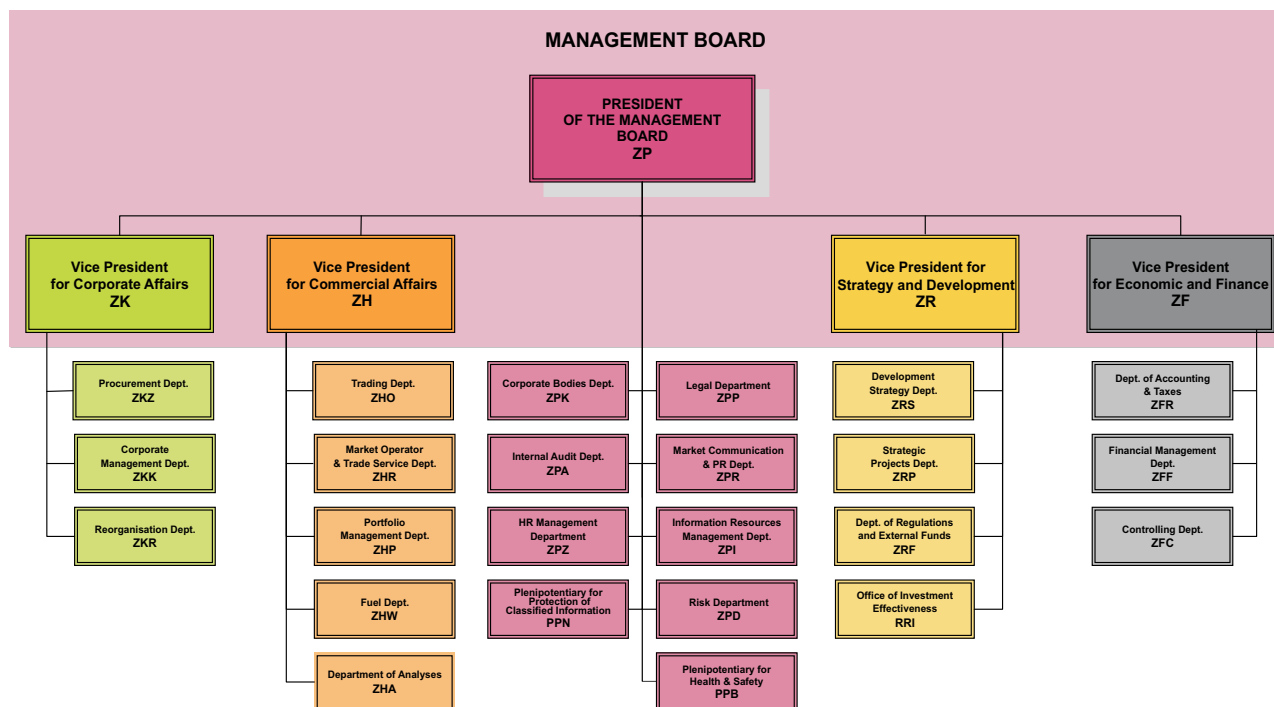
1.5.2. Changes in the management rules of the Company and TAURON Capital Group

Changes in the management rules of the Company

In 2014, no significant changes in the Company management rules were introduced. On the other hand, changes adopted in the Company organisational structure were associated with the current needs and were aimed at improvement and harmonisation of processes as well as increasing of the effectiveness and transparency of the organisation.

The figure below presents the structure of divisions reporting to individual Board Members of the Company, to the level of business units reporting directly to the Members of the Management Board, according to the status as at completion of this report.

Figure no. 6. Organisational chart of TAURON Polska Energia S.A. as at the day of this report



Changes in the management rules of “TAURON Group”

In 2014 no changes in the management system of “TAURON Group” were introduced, however, changes were implemented in terms of assigning the companies to Business Areas and updating the Rules of Cooperation in the Governance Areas. The update in the scope of defining the allocation of “TAURON Group” companies to the specific Business Area or Business Areas resulted from the processes taking place in the structure of TAURON Capital Group, described in item 1.3.2. of this Report.

1.6. Organisational or capital links

The table below presents the list of significant direct and indirect subsidiaries, subject to consolidation, in which the Company held shares and stocks according to the status as at 31 December 2014.

Table no. 3. Specification of significant subsidiaries covered by consolidation as at 31 December 2014 in which the Company holds direct and indirect share

No.	Company name	Registered Office	Core business area	TAURON share in the company capital and governing body
1.	TAURON Wydobywanie	Jaworzno	Hard coal mining	100.00%
2.	TAURON Wytwarzanie	Katowice	Generation, transmission and distribution of electric energy and heat	100.00%
3.	TAURON EKOENERGIA*	Jelenia Góra	Electric energy generation and electric energy trade	100.00%
4.	TAURON Dystrybucja	Kraków	Distribution of electric energy	99.71%
5.	TAURON Dystrybucja Serwis**	Wrocław	Services	99.71%
6.	TAURON Dystrybucja Pomiary**	Tarnów	Services	99.71%
7.	TAURON Sprzedaż	Kraków	Electric energy trade	100.00%
8.	TAURON Sprzedaż GZE	Gliwice	Electric energy trade	100.00%
9.	TAURON Czech Energy	Ostrava (Czech Republic)	Electric energy trade	100.00%
10.	TAURON Ciepło***	Katowice	Production and distribution of heat	100.00%
11.	TAURON Obsługa Klienta	Wrocław	Services	100.00%
12.	KW Czatkowice	Krzeszowice	Mining, crushing and grinding of limestone rocks and stone extraction	100.00%
13.	PEPKH in liquidation****	Tarnów	Electric energy trade	100.00%
14.	TAURON Sweden Energy	Stockholm (Sweden)	Services	100.00%

* On 2 January 2014 the merger of TAURON EKOENERGIA and MEGAWATMARSZEWO and BELS INVESTMENT was registered.

** The share in TAURON Dystrybucja Serwis and TAURON Dystrybucja Pomiary is held by TAURON indirectly, through the subsidiary, TAURON Dystrybucja. In addition, TAURON is the user of shares/stocks held by TAURON Dystrybucja.

*** On 30 April 2014 the merger of companies: Enpower Service and TAURON Ciepło S.A. took place. At the same time, change of the acquiring company name to "TAURON Ciepło sp. z o.o." took place.

**** On 2 July 2014 the PEPKH company was put into liquidation.

The table below presents the list of significant co-subsiaries in which the Company held direct and indirect share, according to the status as at 31 December 2014.

Table no. 4. Specification of significant subsidiaries covered by consolidation as at 31 December 2014 in which the Company holds direct and indirect share

No.	Company name	Registered Office	Core business area	TAURON share in the company capital and governing body
1.	EC Stalowa Wola*	Stalowa Wola	Generation, transmission, distribution and trade of electric energy	50.00%
2.	Elektrownia Blachownia Nowa*	Kędzierzyn Koźle	Generation of electric energy	50.00%
3.	TAMEH HOLDING	Dąbrowa Górnicza	Activities of parent companies and holdings	50.00%
4.	TAMEH POLSKA**	Dąbrowa Górnicza	Generation, transmission, distribution and trade of electric energy and heat	50.00%
5.	TAMEH Czech s.r.o.**	Ostrava (Czech Republic)	Production, trade, services	50.00%

* The share in EC Stalowa Wola and in Elektrownia Blachownia Nowa is held by TAURON indirectly, through the subsidiary, TAURON Wytwarzanie.

** The share in TAMEH POLSKA and TAMEH Czech s.r.o. (TAMEH Czech) is held by TAURON indirectly through the co-subsiary, TAMEH HOLDING.

2. BUSINESS OPERATIONS OF TAURON CAPITAL GROUP

2.1. Factors essential for development

The operations of TAURON Capital Group shall be most significantly affected, as in the past, by the such factors as:

- 1) the macroeconomic situation, especially in Poland, and the economic situation in the area in which TAURON Capital Group operates, as well as at the EU level and global economy level, including volatility of interest rates and currency rates, etc., influencing the valuation of assets and liabilities recognised by the Company in the statement of financial situation,
- 2) political environment, especially in Poland as well as at the European Union level, including the opinions and decisions of public administration institutions and bodies, for example: OCCP, Energy Regulatory Office (ERO) and the EC, in particular:
 - lack of the EU approval of the obligatory targets for individual Member States in the scope of use of renewable energy sources and defining of the sole general target for the EU in this area, which shall enable to optimise the generation portfolio and its adjustment to the real needs and capacities of a given country as well as to the current market conditions,
 - the Act on renewable energy sources adopted by the Parliament at the beginning of 2015, which shall change the support system by introducing the so-called auction system; implementation of these changes as of 2016 is assumed,
- 3) changes in regulations concerning the energy sector as well as changes in the legal environment, including: tax law, commercial law, environmental protection law, in particular: the announced liberalisation of electric energy prices for households, the announcement of the ERO President related to the application of maximum prices in tariffs for G group (instead of fixed priced), in order to protect consumers against rapid changes of prices upon full liberalisation,
- 4) recovery of the support system for electric energy generation in high-performance co-generation, resulting, on the one hand, in the increased costs of redemption of “red” and “yellow” certificates for suppliers of electric energy to end customers, not transferred in electric energy price, in particular, for consumers from G group (the tariff for such consumers has remained unchanged since January 2014, whereas the obligation related to redemption of such certificated was resumed as of May this year), on the other hand, in the increased revenue on sales of the “red” and “yellow” certificates for generators of energy in co-generation,
- 5) situation in electric energy sector, including the activity and measures undertaken by competition in the energy market,
- 6) the number of CO₂ emission allowances allocated free of charge, as well as the price of the allowances purchased – under the circumstances of the deficit in free allowances,
- 7) geological and mining conditions,
- 8) electric energy prices on the wholesale market;
- 9) sales prices of electric energy and coal as well as distribution tariffs, as factors influencing the level of revenues,
- 10) prices of certificates of origin of energy from renewable sources and co-generation,
- 11) prices of energy resources,
- 12) scientific and technical progress,
- 13) potential failures of equipment, installations and grids owned by TAURON Capital Group,
- 14) demand for electric energy and other products of the energy market, including changes arising from seasonality and weather conditions.

The activity of TAURON Capital Group demonstrates seasonality which refers, in particular, to production, distribution and sales of heat, distribution and sales of electric energy to individual consumers and sales of coal to individual consumers for heating purposes. Sales of heat depends on the atmospheric conditions, in particular, on the air temperature, and it is higher in the autumn and winter season. The level of electric energy sales to individual consumers depends on the length of a day, which usually makes electric energy sales in this group of consumers lower in the spring and summer season and higher in the autumn and winter season. Sales of coal to individual consumers is higher in the autumn and winter season. The seasonality of the remaining areas of TAURON Capital Group operations is limited.

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

2.2.1. Internal factors and their assessment

The activities and results of TAURON Capital Group in 2014 were affected, among others, by the following internal factors:

- 1) implementation of OPEX effectiveness improvement programme in TAURON Capital Group, including the consolidation and restructuring programmes, voluntary redundancy programmes,
- 2) integration process of heat assets, including, through acquisition of ZEC Bielsko-Biala by TAURON Ciepło from TAURON Wytwarzanie,
- 3) implementation of key investment projects, in particular, in the scope of construction of new and modernisation of the existing generation capacity, building new connections and modernisation of the existing distribution grids, heating networks, construction of underground excavations,
- 4) marketing actions in the scope of acquisition of new clients and loyalty activities in terms of maintaining existing clients,
- 5) management of fuel purchases by the Company for the needs of generation entities included in TAURON Capital Group.

Impact of the aforementioned factors on the financial result achieved in 2014 is described in item 4 of this Report. Effects of this impact are visible both in a short-term and long-term perspective.

2.2.2. External factors and their assessment

2.2.2.1. Macroeconomic environment

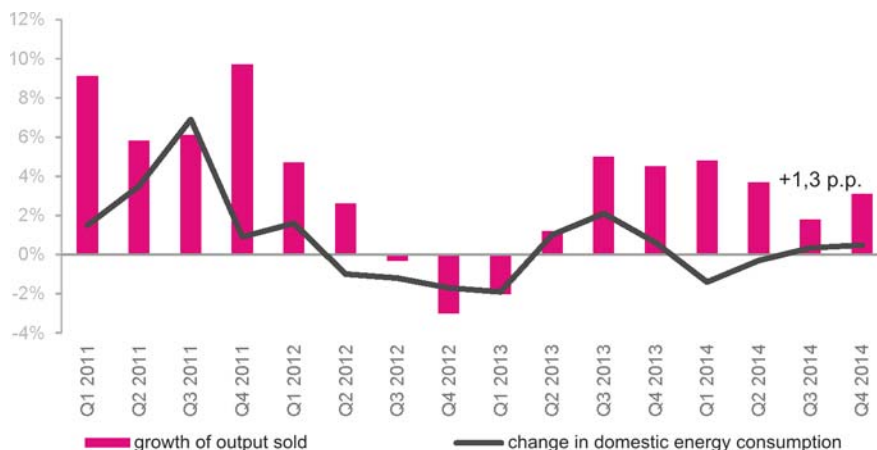
The basic area of TAURON Capital Group operations is the Polish market within which the Company uses positive trends occurring in it as well as is affected by such changes. The macroeconomic situation, both in individual sectors of economy and in financial markets, is a significant factor affecting the results achieved by TAURON Capital Group.

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

Positive factors affecting economy included the policy of maintaining low interest rates and the declining prices of energy raw materials. However, on the other hand, mutual embargoes for exchange of commodities with Russia, weakened this trend. According to the EC forecasts, the economic growth in the euro area in 2014 shall reach only 0.8%, and in the whole EU – 1.3%. The International Monetary Fund (IMF) estimated that the Gross Domestic Product (GDP) of Poland in 2014 should grow by 3.2%, as compared to 2013 when the GDP of Poland increased by 1.6%. In accordance with the forecast of the Central Statistical Office (GUS), the economic growth in 2014 shall reach 3.3%. It confirms the continuation of the stable economic growth rate, fostered by growing investments and declining unemployment as well as lower interest rates.

In 2014, the data related to consumer inflation were found surprising which, according to the IMF, shall reach 0.1% at the end of the year against 0.9% in 2013. According to GUS estimates, the average annual inflation in 2014 reached 0.0% (the lowest level since 1972). In the Euro area inflation also remained at a level below the inflation target determined by the European Central Bank. The low level of inflation translated into low interest rates which, in turn, had an impact on the significant decline in costs of debt financing acquired by companies, including TAURON Capital Group.

A significant factor affecting the results of TAURON Capital Group, taking into account the position of the Group in the electric energy market, is the domestic demand for electric energy and heat. In 2014 the growth of the average gross electric energy consumption by 0.49% YoY was noticeable. In the sole Q4 2014, the growth amounted to approximately 0.9%. During the year the dynamics of energy consumption was diversified, mainly due to quite high average temperatures which occurred in Q1. Besides the growth in energy consumption, the domestic electric energy production dropped by 3.65% YoY (in December 2014 the dynamics in production decline dropped to the level of 0.64%, a similar level of the decline was maintained in January 2015), mainly due to the change in the direction of electric energy flow in the interconnector exchange. In 2014 energy import exceeded export whereas in 2013 export exceeded import of electric energy. Industry is a significant consumer of electric energy produced, being responsible for approximately 45% of the domestic electric energy consumption. In connection with the economic growth observed, industrial output in 2014 increased by approximately 3.3%, only in Q4 2014 the growth in output sold was higher by 1.3 percentage points than in Q3 2014.

Figure no. 7. Growth in industrial output sold and change in electric energy consumption (YoY change)

Source: PSE

2.2.2.2. Market environment

Prices of electric energy and related products

In 2014, prices in the wholesale energy market increased explicitly. The main reason was the introduction of power market elements in the form of payments for maintaining of the OPR (Operating Power Reserve), lack of possibility to import cheaper energy from the neighbouring countries and the inter-operator interconnector exchange used by Polskie Sieci Elektroenergetyczne S.A. (PSE) in order to maintain the stability of the National Power System (KSE). In addition, the growth of energy was affected by weather conditions which did not foster energy generation from hydro and wind sources. The average price on the Day-Ahead Market (RDN) of the Power Exchange (Towarowa Giełda Energii S.A.) (TGE) in 2014 amounted to PLN 179.86/MWh, on the balancing market (CRO) it reached PLN 184.82/MWh. The levels of the aforementioned energy prices in relation to 2013 were higher, respectively, by PLN 26.04 and 28.31/MWh.

Introduction of the payment mechanism due to OPR has significantly contributed to the improvement of results of energy companies, including the Generation Area of TAURON Capital Group.

The significant decline in prices of energy coal, crude oil and natural gas as well as the higher supply of energy from renewable sources, contributed to the decline in electric energy prices in the remaining countries of Europe. In Germany, in 2014 the renewable sources covered approximately 27% of the energy demand which, according to the preliminary estimates in relation to 2013, declined by almost 5%.

The aforementioned downward corrections in commodity markets caused that the price of Brent crude barrel at the end of 2014 reached only ab. USD 57, whereas in mid-June 2014 its cost amounted to ab. USD 115. On average, in 2014 the cost of crude oil barrel reached USD 99.45/bbl, i.e. by approx. USD 9.25 less than in 2013. The energy coal market, due to the considerable oversupply, recorded decline in prices in 2014. At the end of December 2014, annual CIF ARA Y-15 contracts dropped to USD 66.58/Mg in relation to prices at the beginning of 2014 which stayed at the level of USD 86.70/Mg.

Balance of the National Power System and prices in the Balancing Market

In 2014, the situation in KSE did not demonstrate any significant changes. According to the PSE data, in 2014, in relation to 2013, the insignificant growth in the domestic electric energy consumption occurred, only by less than 0.5%, reaching 158.7 TWh. On the other hand, electric energy production in Poland dropped by 3.7%, to 156.6 TWh. The balance was compensated through energy import from the neighbouring countries. In 2014 Poland imported over 2.1 TWh of energy, whereas in the previous years it was the net exporter; in 2013 only export reached 4.5 TWh of energy. Import resulted mainly from higher SPOT market prices in Poland. The decline in energy production was visible in the whole generation sub-sector. For generation sources based on lignite, the decline of -4.8% was recorded, whereas for those based on hard coal it reached -5.1%. Even the quantity of energy produced in wind sources increased by only 23.4% in 2014, reaching 7.2 TWh, mainly due to poor wind conditions and the decline in the dynamics of wind sources installation in the system. At the end of 2014, capacity installed in wind farms reached 3,707 MW, whereas at the end of 2013, it reached 3,343 MW.

In accordance with the data provided by the TSO, the weighted average price of electric energy sold freely on the Balancing Market (RB) in 2014 was higher than the price in 2013 by over PLN 18/MWh, which mainly resulted from:

- 1) growth in prices of CO₂ emission allowances affecting the level of the clearing price (CRO) on the RB (by over PLN 6/Mg, on average),

- 2) introduction of new OPR payment mechanism with the maximum reference price of PLN 37.13/MWh in peak hours.

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

- 1) explicit decline of output in main coal-fired power plants by ab. 5.1%, and in lignite-fired power plants by ab. 4.8%,
- 2) increase in electric energy production in wind farms (by ab. 23.4%),
- 3) decline in electric energy production in the country (by ab. 3.7%),
- 4) minor increase in domestic electric energy consumption (by ab. 0.5%),
- 5) significant change of direction in the cross-border exchange from export to import, which has reduced the aggregate domestic output by ab. 6.7 TWh YoY.

This range of growth in imports had an impact on the volume of sales from domestic generation units, also from the Generation Area units. On the other hand, growth in prices on the Balancing Market (and, simultaneously, on the SPOT market) and payments for OPR has a positive impact on the result of the Generation Area.

The figure below presents the average monthly energy prices on the SPOT and RB markets and the average temperatures.

Figure no. 8. Average monthly energy prices on the SPOT and RB markets and the average temperatures



In the forward electric energy market, growth in prices was observed both for BASE Y-15 and for PEAK contracts. The annual contract traded with the delivery in 2015, BASE Y-15 recorded growth by almost PLN 20 throughout 2014, reaching the level of PLN 177.00/MWh at the end of December 2014. The average price of the aforementioned contract in the whole period of quotations reached the level of PLN 168.11/MWh, and it was higher by PLN 7.71 in relation to quotations of annual contracts with the delivery in 2014. The highest growth of prices was observed in PEAK contracts whose average price with the delivery in 2015 increased to the level of PLN 219.93/MWh, from the average price for this type of contracts with the delivery in 2014 amounting to PLN 180.54/MWh. At the end of 2014 the price of PEAK Y-15 contracts reached the level of PLN 233.95/MWh, which represents a growth by PLN 41.45/MWh over a year. The growth in prices on the market of forward transactions was affected by fees for maintaining OPR, paid only during peak hours (PEAK).

Contrary to Poland, prices of analogical contracts in Germany recorded the decline by almost EUR 2.6 during 2014, reaching the level of EUR 33.44/MWh.

The figure below shows the results of Base Y-15 contract trading.

Figure no. 9. Trading of BASE Y-15 contracts



In 2014, volatile situation in the natural gas market was observed, both in Poland and in the neighbouring countries. In the Polish SPOT TGE market, significant price volatility was noticeable, resulting both from seasonal character of gas consumption and from the general global downward trend. Minimum prices at the level of PLN 64.70/MWh were recorded in July, and maximum prices at the level of PLN 120.00/MWh were noted in October 2014. The arithmetic mean of quotations on the RDG market in the whole 2014 amounted to PLN 92.61/MWh, whereas the volume-weighted price reached PLN 103.59/MWh. It should be stressed that gas trading on the spot market reached only approximately 32 GWh. The Polish market is significantly dependent on the situation in the neighbouring markets, in particular, on the German market. For the analogical period, spot prices in balancing areas of GasPool and NCG markets in Germany, converted into PLN, ranged between PLN 62.10/MWh and PLN 112.82/MWh. The total trading volume for both areas reached 50 GWh of gas and the annual average weighted prices amounted to PLN 89.42/MWh for Gaspool and PLN 88.95/MWh for NCG. The forward market also demonstrated significant volatility. Within quotations of Y-15 contracts for the product with the delivery in 2015, the average price settled at the level of PLN 110.47/MWh and ranged between PLN 100.70–113.00/MWh. The trading volume of such contracts amounted to almost 25.5 TWh, although they achieved liquidity only in June 2014.

The figure below presents the average monthly gas prices on the SPOT market and in the quotations of Y-15 contracts.

Figure no. 10. Average monthly gas prices on the SPOT market and in the quotations of Y-15 contracts



In 2014, upward trends were noted in the market of CO₂ emission allowances. Intensive work of the EC related to the European Union CO₂ Emission Trading System (EU ETS) had an impact on the growth of prices. Still in Q2 2013 the EUA units were quoted below EUR 3/Mg of CO₂, due to the significant oversupply estimated at a level of over 2 billion pcs. In February 2014, due to the approval of the so-called accelerated backloading path by the EC, allowing for withdrawal of even 400 million of allowances in the same year, their price reached the level of over EUR 7/Mg of CO₂. It was almost a double growth as compared to the levels of 2013. Despite the decreased auction volumes, the warm

end of 2014 winter and the projected high oversupply of allowances in the system, affected the decline in prices to the levels of EUR 4.50–5.00/Mg of CO₂. According to the EC, such low prices are insufficient to stimulate investment in low-emission technologies and significantly deviate against the assumed EUR 20–30/Mg of CO₂. Accordingly, the EC proposed the establishment of the Market Stability Reserve (MSR). The main task of this system shall be the fluent regulation of the quantity of allowances in the market through the annual transfer of maximum 12% of allowances surplus to the reserve, until it reaches less than 833 million. In the situation when the aforementioned reserve drops below 400 million, the system has a possibility to introduce 100 million allowances to the market during a given year. It is estimated that MSR shall cause the growth of allowances prices by approximately EUR 15–20/Mg of CO₂. The EC proposed 2021 as the first year of operation of the stabilisation reserve. It should be also added that the previous year was a turning point in terms of long-term targets of the EU climate policy. On 23 October 2014, heads of state of the EU member states agreed on new climate targets until 2030. The EU countries have committed to aim at 40% reduction in emission of greenhouse gases in relation to 1990. It is a very ambitious goal considering that until 2020 emissions should be reduced by 20% only, also in relation to 1990. This information had a significant impact on the demand on the market of CO₂ emission allowances. At the end of 2014 the price of EUA contracts reached the level of approximately EUR 7/Mg of CO₂, while the average price of the allowances in 2014, it reached the level of EUR 5.96/Mg of CO₂ and it was higher in relation to 2013 by almost EUR 1.50 (+32%).

The figure below presents the impact of EC activities and political events on quotations of the forward product, EUA Dec-14.

Figure no. 11. Impact of EC activities and political events on quotations of the forward product, EUA Dec-14



2014 brought significant changes in the market of property rights, associated mainly with the amendments to the legal regulations for the co-generation units. In the first two months of 2014, prices of the OZEX_A index increased from PLN 192.49 to 250.47/MWh, and the balance of the register from January to the final date of redemption on 31 March decreased by almost 5 TWh. Subsequently, until the end of the year, in connection with the uncertainty related to the provisions of the draft amendment to the *Act on renewable energy sources* and the growing oversupply of certificates in the balance, prices of PMOZE_A property rights declined to PLN 153.02/MWh. In this period, the surplus in the PMOZE balance rose by almost 7 TWh to 12.8 TWh. The average price of PMOZE_A units in 2014 reached PLN 186.53/MWh and it was higher by PLN 15.35 than in 2013.

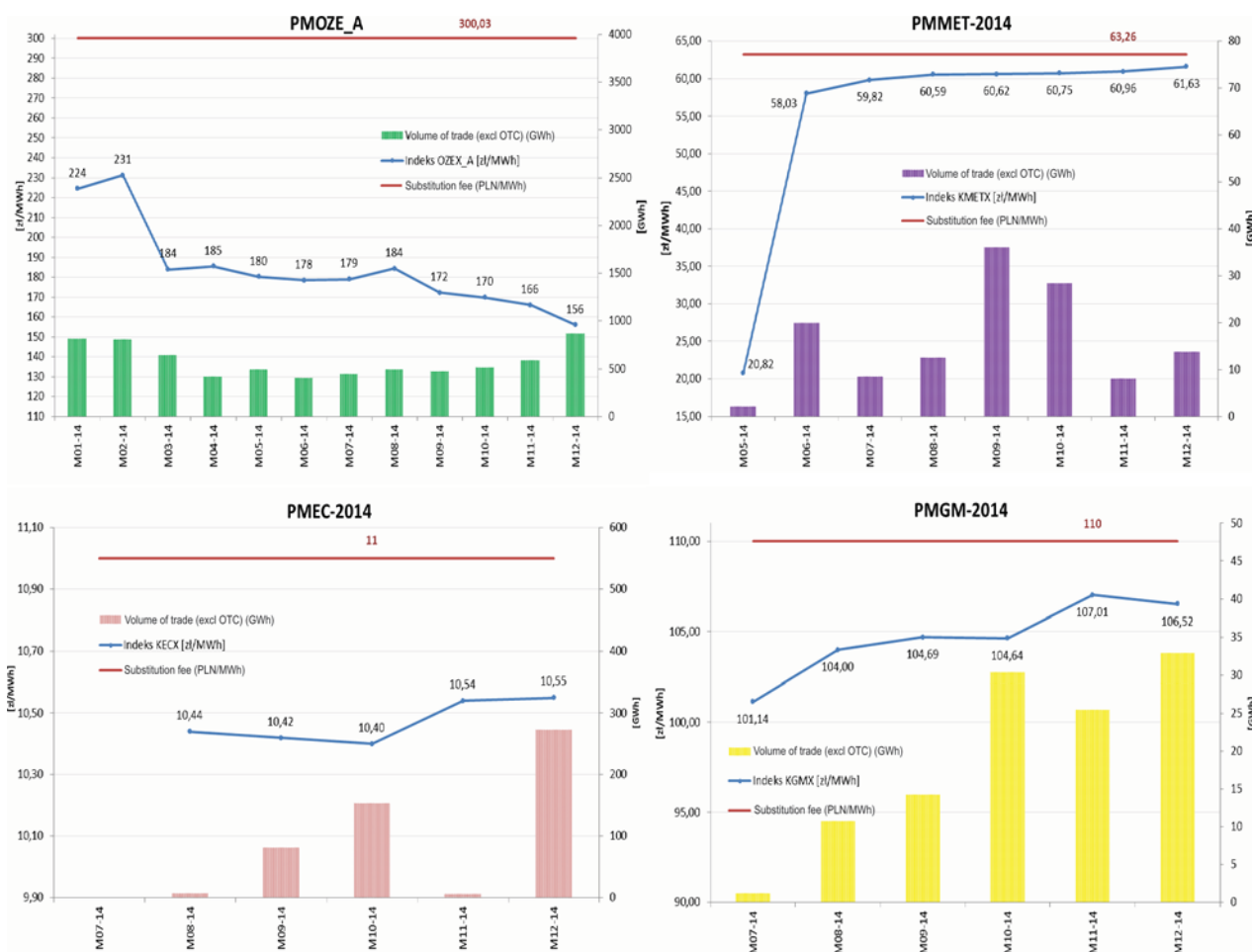
Since mid-2014, due to the amendment to the *Act of 10 April 1997 on Energy Law*, the redemption obligation of property rights confirming generation of electric energy in high-performance coal and gas co-generation has been resumed. Trading of PMEC-2014 and PMGM-2014 certificates was not executed until mid-2014. Sales of property rights for PMGM-2014 gas co-generation started only at the end of July 2014 at a price of PLN 101.14/MWh, which reached the level over PLN 106/MWh by the end of 2014. On the other hand, sales of property rights for PMEC-2014 coal co-generation started in mid-August 2014 at a price of PLN 10.50/MWh, which was maintained within the narrow brackets from PLN 10.35/MWh to PLN 10.53/MWh until the end of 2014. Only rights issued for production in the second half of 2014 shall be eligible for the redemption obligation.

For the PMMET-2014 property rights confirming energy production during methane combustion, the redemption obligation comprised certificates for production in the whole 2014. Prices of these rights in May 2014 remained at a very

low level of approximately PLN 20/MWh. However, already in the consecutive month, the prices increased to almost PLN 59/MWh, reaching the level of PLN 61.50/MWh by the end of 2014.

The figure below shows indices of property rights – the so-called “green”, “violet”, “red” and “yellow” certificates.

Figure no. 12. Indices of property rights



2.2.2.3. Regulatory environment

Changes in the regulations of the energy sector

In 2014 the President of ERO maintained the obligation to submit tariffs for households for approval. Accordingly, the trading enterprises had a limited influence on the margin generated in this sales segment (G tariff).

Arrangements in the scope of CO₂ emission allowances

Since 2013 Phase III of the EU ETS is ongoing which, contrary to Phase II enabled to transfer the surplus of allowances from the previous phase. As of 2009, surpluses of CO₂ emission allowances appeared in the EU ETS, as a result of the economic crisis in the EU countries. The large number of allowances on the market has significantly affected the decline in their price which, in relation to the main assumption of the EU ETS, did not encourage industry to invest in modern, low emission technologies. In order to raise prices of allowances, in 2014 the EC reduced the number of allowances issued for auction by 400 million. The said reduction is the result of the so-called backloading, i.e. the reform based on issuing a smaller quantity of allowances for auctions, in the quantity of 900 million in the years 2014–2016 and their increased supply in the years 2019–2020. However, the tool introduced was found insufficient. In order to raise prices of emission allowances, the EC proposed establishing of the MSR.

The detailed description concerning the functioning of the MSR mechanism is included in item 2.2.2.2.

Lack of final settlements on the scope of the Act on renewable energy sources (in 2014)

In 2014, several consecutive drafts of the *Act on renewable energy sources* appeared, which, having been subject to the strong lobbying during social and industry consultations, have not been accepted by the interested parties until the end of 2014. In connection with the foregoing, the final shape of the Act was not adopted in 2014 (the Parliament passed the Act on 20 February 2015). The lack of explicit provisions concerning the assumptions of the support system for the technology of energy generation in renewable sources inhibits the investment and modernisation processes in the Polish energy sector.

Adoption of the Act on the amendment to the Act on Energy Law – co-generation

On 14 March 2014 the Parliament of the Republic of Poland adopted the *Act on the amendment to the Act on Energy Law and certain other acts*, i.e. the so-called co-generation act. Following its signing by the President of the Republic of Poland, it was published in the *Journal of Laws on 15 April 2014*, which means that its provisions entered into force as of 30 April 2014.

The co-generation act recovered the support system for the high-performance coal co-generation and gas co-generation functioning until the end of 2012. The support has been introduced for the years 2014–2018. The entry into force of the new co-generation act means the obligation imposed on energy suppliers in terms of purchase and redemption of energy certificates of origin (the so-called “red” certificates – for coal co-generation, the so-called “yellow” certificates for gas co-generation) or payment of the substitution fee. Energy suppliers were charged with additional costs to be incurred in order to fulfil the statutory obligation of redemption of “red” and “yellow” certificates. For the “red” certificates, in each of the years 2014–2018, this obligation amounts to 23.2% of the volume of the energy sold, whereas in case of the “yellow” certificates, this obligation shall grow from 3.9% in 2014 to 8% in 2018, which should contribute to the development of the co-generation sources operating based on gas fuel.

In accordance with the said Act, the ERO President defined the so-called substitution fees for 2014 and 2015 at the following level:

- 1) PLN 11/MWh, both in 2014 and in 2015, for the “red” certificates,
- 2) PLN 110/MWh in 2014 and PLN 121.63/MWh in 2015, for the “yellow” certificates.

The level of the substitution fees for the consecutive years will be defined by the ERO President according to the following rules:

1. In case of coal-fired co-generation, the level of the substitution fee, which represents the benchmark for their prices in the system of certificates, may not have a value lower than 5% and higher than 40% of the average price of electric energy sales on the competitive market in the preceding year.
2. In case of gas-fired co-generation, the level of the substitution fee, may not be lower than 15% and higher than 110% of the average price of electric energy sales on the competitive market. The co-generation act, thus, grants broad powers to the ERO President in the scope of development of the substitution fee level.

It will be possible to redeem the certificates originating from production in co-generation in individual years only within the settlement for a given year, i.e. until June of the consecutive year, which is a significant difference in relation to the previously operating mechanisms, when the possibility of “banking” the certificates of the previous years led to the disturbance of the balance between supply and demand and the instability in prices of certificates.

The impact of this regulation on TAURON Capital Group will occur in various Areas and it will be subject to partial mutual compensation. In the Generation and Heat Area revenues due to sales of “red” and “yellow” certificates will be generated, whereas in the Sales Area the need to purchase such certificates will appear for the purpose of redemption.

Implementation of the service of Operational Power Reserve (OPR)

In connection with the amendment introduced to the Instructions of Transmission Grid Operation and Maintenance (IRiESP), since the beginning of 2014, the payment mechanism due to the OPR has been functioning. The OPR refers to the generation capacity of active, centrally dispatched generation units, and its settlement is performed exclusively for the peak hours of demand, i.e. between 7:00 a.m. and 10:00 p.m. on all business days. At the same time, this mechanism was undoubtedly one of the driving factors of the growth in electric energy prices in the SPOT and RB markets on peak hours covered by the payment for the reserve.

Modification of OPR settlement rules

On 6 November 2014, with the effectiveness as of 1 January 2015, the ERO President approved the IRiESP update card – Balancing of the system and management of system congestions, constituting the modification of the OPR settlement rules. The basic element of this modification is the adjustment of the method of developing the price for OPR, which should ensure the stability of accomplishment of this mechanism’s budget in the period of effectiveness of the TSO tariff and mitigation of external factors’ impact on the performance of this mechanism. This change shall affect the decline of revenues due to OPR in 2015, gained by the Generation Area company.

Obligation of public sales of electric energy by generators

In 2014, the so-called “exchange obligation” was still applicable, according to which the generating enterprises were obliged to sell the obligatory volume at TGE. In 2014 companies of TAURON Capital Group were covered, in accordance with provisions of Article 49a of the *Act of 10 April 1997 on Energy Law*, by the obligation to sell not less than 15% of electric energy generated in a particular year on the commodity exchange (within the meaning of the *Act of 26 October 2000 on commodity exchanges*), or on the market organised by the entity maintaining the regulated market on the territory of the Republic of Poland. It means that sales of electric energy produced by the generation companies of TAURON Capital Group, for the needs of securing the sales position of TAURON Capital Group, may be conducted on the OTC market.

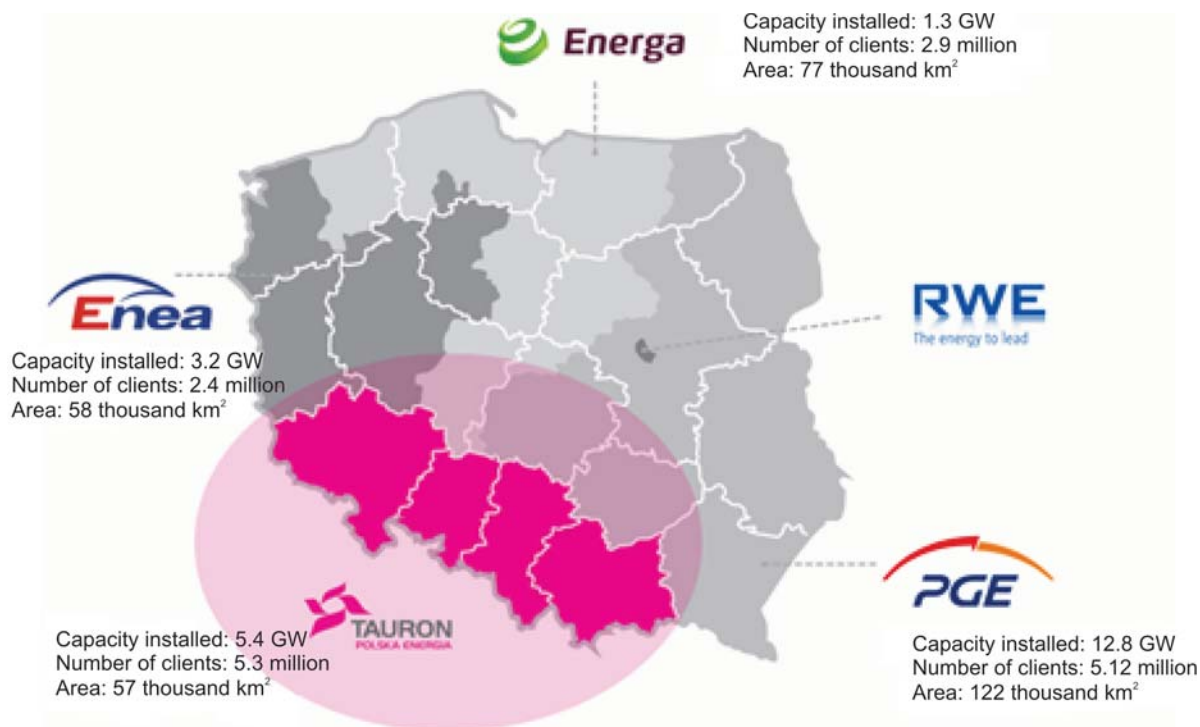
2.2.2.4. Competitive environment

Energy Groups in Poland

As a result of the reorganisation and consolidation of energy enterprises conducted in Poland, besides TAURON Capital Group, three large, vertically integrated energy groups currently operate: PGE, ENEA and ENERGA S.A. (ENERGA).

The figure below presents the competitive environment of TAURON Capital Group according to the data for 2013.

Figure no. 13. Competitive environment of TAURON Capital Group (data for 2013)



Owing to the vertically integrated structure, the above entities have a strong position on the domestic market. Moreover, as a result of privatisation performed in the previous years in some energy enterprises, foreign energy groups are also present on the Polish market.

According to the data for 2013 in the generation sub-sector the consolidated energy groups (PGE, TAURON, ENEA, ENERGA) held over 60% of market share. Moreover, smaller, although important entities on the Polish market of electric energy included: EDF Polska Centrala sp. z o.o (EDF) (10%), Grupa Kapitałowa Zespół Elektrowni Pątnów - Adamów - Konin S.A. (ZE PAK) (7%) and GDF SUEZ Energia Polska S.A. (GDF SUEZ) (5%). The ZE PAK Group is the second generator of electric energy from lignite in Poland, with the share of electric energy generated based on lignite resources at a level of approximately 97%. On the other hand, EDF, besides the 10% share in the domestic electric energy production, has the 15% share in the market of network heat. GDF SUEZ occupies the leading position in the country in terms of biomass use.

In the electric energy distribution sector the energy groups (TAURON, PGE, ENEA, ENERGA) held over 90% of share in the electric energy distribution market. Among other electric energy distributors, RWE Stoen Operator sp. z o.o. is one of the largest, supplying electric energy to approximately 900 thousand clients in Warsaw and the neighbourhood.

TAURON Capital Group is the biggest distributor of electric energy in Poland. In 2013, share of TAURON Capital Group in electric energy distribution to end clients amounted to approximately 37%. The distribution grids of TAURON Capital Group cover over 18% of the territory of the country. On the other hand, the share in the market of sales to end consumers amounted to approximately 28%.

TAURON Capital Group is the second biggest electric energy producer in Poland. According to the data for 2013, both in terms of installed capacity and production of electric energy, it was preceded only by PGE. The share in the domestic electric energy production market reached approximately 38% for PGE and 13% for TAURON. Share of both PGE in the Polish market of distribution and sales of electric energy to end consumers reached 26% and 30%, respectively.

The third biggest energy enterprise in Poland is ENEA (data for 2013), with the share in the market of energy production reaching ab. 8%, in the distribution market – ab. 14% and in sales market – ab. 11%.

On the other hand, ENERGA holds share in the Polish market of electric energy production reaching approximately 3% and, respectively, ab. 17% and 15% for each, distribution and sales.

The table below shows information on the capacity installed as at 31 December 2013 and electric energy generated in 2013.

Table no. 5. Capacity installed and production of electric energy according to energy groups

No.	Group	Capacity installed		Generation*	
		Quantity (GW)	Share (%)	Quantity (GW)	Share (%)
1.	PGE	12.8	33	62	38
2.	TAURON	5.4	14	22	13
3.	ENEA	3.2	8	12	7
4.	EDF	3.0	8	16	10
5.	PAK	2.5	6	11	7
6.	GDF Suez	1.9	5	8	5
7.	ENERGA	1.3	3	5	3
8.	CEZ	0.6	1	3	2
9.	Other	8.0	21	25	15
Total		38.6	100	164	100

* Quantity of gross electric energy generated in 2013.

Source: ARE, information of companies published on websites, own estimates in case of companies publishing net production

The table below presents the basic information concerning the share of individual energy groups in the scope of electric energy distribution, according to the data for 2013

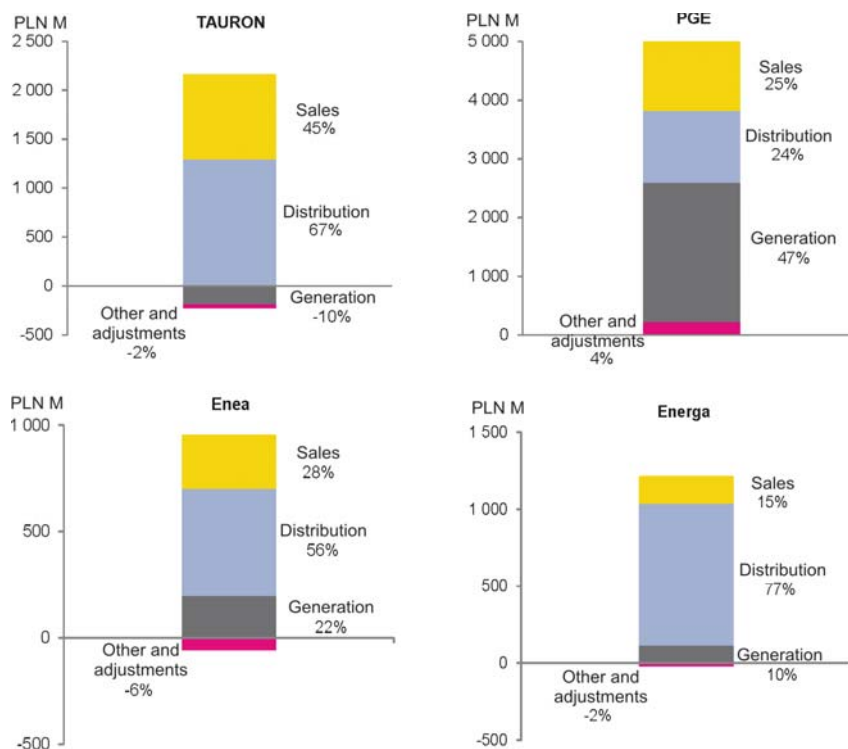
Table no. 6. Distribution of electric energy to end consumers, according to energy groups

No.	Group	Distribution	
		Quantity (TWh)	Share (%)
1.	TAURON	45	37
2.	PGE	32	26
3.	ENERGA	20	17
4.	ENEA	17	14
5.	Other	8	6
Total		122	100

Source: ARE, information of companies published on the websites.

The figures below show information concerning EBIT in the structure, according to main segments.

Figure no. 14. EBIT – estimated structure according to the main segments in 2013*



* In order to maintain comparability of the presented segments, in the Generation Segment, Mining, RES and Heat are also presented; in the Sales Segment: wholesale and retail sale is included.
Source: Annual reports of Companies

The structure of assets held by TAURON Capital Group, with the considerable share of distribution activities, influences the stabilisation of revenues and results, which positively distinguishes TAURON Capital Group in comparison with other energy groups.

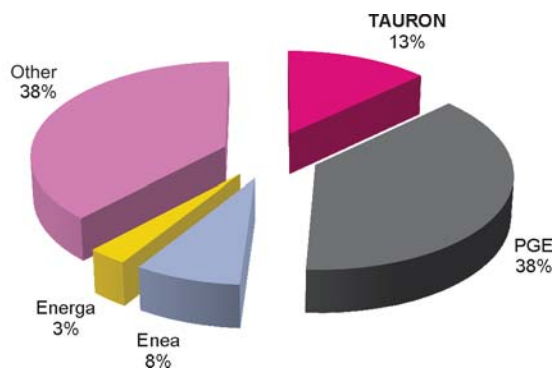
TAURON Capital Group is the energy enterprise fully integrated vertically, using synergies arising from the scale and scope of the activities carried out

TAURON Capital Group is a vertically integrated energy enterprise controlling the whole value chain, from coal mining to supply of electric energy to end clients. It performs activities in all key segments of the energy market (excluding electric energy transmission), i.e. in the area of coal mining, generation, distribution as well as trade of electric energy and heat. Access to own coal resources and control of own generation assets increases the stability of revenues and margins of TAURON Capital Group.

Generation

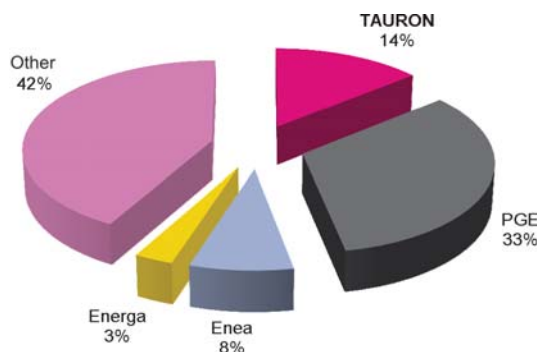
The figures below present information on electric energy generated in 2013 and the capacity installed as at 31 December 2013.

Figure no. 15. Gross electric energy output – estimated market share in 2013



Source: ARE, information of companies published on the websites.

Figure no. 16. Installed capacity – estimated market share in 2013



Source: ARE, information of companies published on the websites.

TAURON Capital Group is the second biggest producer of electric energy in Poland, holding generation assets located in the attractive region of Poland, which enables it to participate actively in building of new generation capacity.

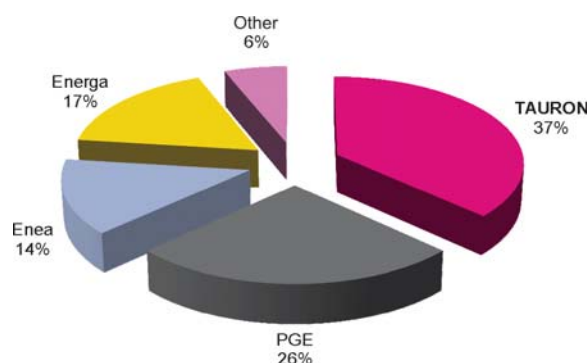
Based on ARE data for 2013, the share of TAURON Capital Group in the domestic market of electric energy generation, measured by the gross electric energy output, amounted to approximately 13%, which placed TAURON Capital Group on the second position in Poland. The generation assets of TAURON Capital Group are concentrated in southern Poland. In this region, coal deposits are also located, used for combustion processes in power plants and co-generation plants of TAURON Capital Group. The location of generation assets of TAURON Capital Group in the vicinity of coal deposits allows for optimisation of costs associated with the transport of this raw material.

The generation assets of TAURON Capital Group, due to their location in southern Poland, have also access to the most developed part of the transmission system in the country, which has positive impact, among others, on enhancement of reliability of the activities carried out and on implementation of the planned investments in the scope of construction of new generation capacity. Thus, the location of assets of TAURON Capital Group in the area of well-developed transmission network and rich coal resources also influences the maintaining of the competitive advantage of TAURON Capital Group against other energy enterprises on the Polish market.

Distribution

The following chart presents the basic information concerning the share of individual energy groups in the scope of electric energy distribution according to the data for 2013.

Figure no. 17. Electric energy distribution – estimated market share in 2013



Source: ARE, information of companies published on the websites.

TAURON Capital Group is the biggest distributor of electric energy in Poland.

According to the data for 2013, 2012 and 2011 TAURON Capital Group, with the volume of electric energy supplied to end clients, at the level of, respectively, 45.2 TWh, 45.2 TWh and 33.6 TWh, occupied the first position in terms of the quantity of electric energy supplied. In 2014, the volume of energy supplied to end consumers amounted to approximately 45.6 TWh. TAURON Capital Group is the largest electricity distributor in Poland, also in terms of revenues gained from distribution activity.

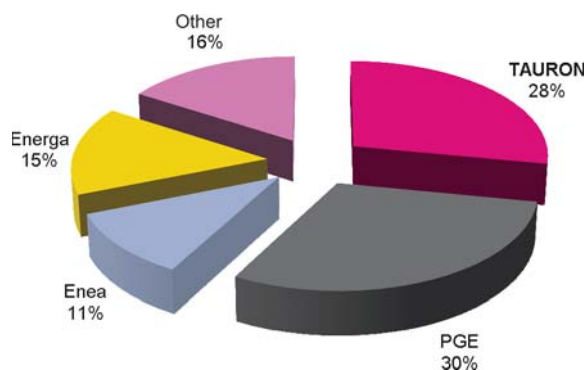
It should be stressed that the distribution activity of TAURON Capital Group, due to the natural quasi monopoly at the indicated area, is the source of stable and predictable revenues, constituting the essential part of consolidated

revenues of the whole TAURON Capital Group. The geographical area of electricity distribution, where the companies of Distribution and Sales Areas have been operating historically, is the area characterised by its high level of industrialisation and dense population, which influences the relevant demand for electric energy, both among households and among enterprises. The number of clients of the Distribution Area exceeds 5.3 million.

Sales

The following chart presents the basic information concerning the share of individual energy groups in the scope of electric energy sales to energy consumers, according to the data for 2013

Figure no. 18. Sales of electric energy to end consumers – estimated market share in 2013



Source: ARE, information of companies published on the websites.

TAURON Capital Group, with the volume of electric energy sales to end consumers at a level of 34.2 TWh in 2013, is the second electric energy supplier in this segment in Poland. On the other hand, in 2013, retail sales of electric energy reached the level of 41.3 TWh. In 2014 the volume of sales of electric energy reached the level of approximately 38.6 TWh, including about 30.9 TWh to end consumers. The number of clients of the Sales Area amounts to approximately 5.3 million.

Sources of competitiveness

Individual energy groups are associated with areas where they fulfil the function of DSO. Additionally, the broader and more open competition among the groups is limited by the G tariff regulation (individual clients). However, such limitations do not refer to clients using other tariffs, under which energy groups may compete much more flexibly, in accordance with the adopted assumptions of their market strategies.

The table below presents the main sources of competitiveness.

Table no. 7. Sources of competitiveness

No.	Area of operations	Area of initiatives	Sources of competitiveness
1.	Mining, Generation	Reducing market risk and supply security risk	Own coal resources
	RES, Heat	1) New investment projects 2) Operating expenses	1) Diversified portfolio of generation capacity 2) Improvement of operational effectiveness
2.	Distribution	1) Operating expenses	1) Implementation of target business model
		2) Investment effectiveness	2) Cooperation with the ERO President in the scope of remuneration on investment
		3) Improvement of grid reliability indicators	3) Implemented IT systems, separated processes, clear distribution of responsibilities
3.	Sales	1) Operating expenses	1) Maintained cost discipline
		2) Margin on sales, development of products adjusted to clients' needs, development in new business areas	2) Brand, current client base, held sales channels, experience in the scope of product and procurement portfolio management

2.3. Timeline of key events

The following table presents the timeline of selected key events associated with the operations of TAURON Capital Group which occurred in 2014.

Figure no. 19. Timeline of key events

EVENTS IN TAURON CAPITAL GROUP IN 2014	
JANUARY FEBRUARY	<ol style="list-style-type: none"> 1. Merger of TAURON EKOENERGIA with MEGAWAT MARSZEWO and BELS INVESTMENT companies. 2. Merger of SCE Jaworzno III with the EKOPEC company. 3. Division of TAURON Wytwarzanie through separation of ZEC Bielsko-Biała from its structures and transfer of its assets to TAURON Ciepło. 4. Assignment of the ownership of TAURON Wydobyćie shares held to Kompania Węglowa to the Company, following the approval of their sales by the GM of Kompania Węglowa. 5. Obtaining corporate approvals for the implementation of an investment project comprising the construction of two WR-12 boilers on the premises of Central Heating Plant in Zawiercie (TAURON Ciepło). 6. Change of company enterprise from "Potudniowy Koncerny Węglowy S.A." to "TAURON Wydobyćie S.A.". 7. Commencement of the 2nd stage of works under the project comprising the modernisation of the heating system in municipalities: Dąbrowa Górnicza, Sosnowiec, Będzin and Czeladź.
MARCH APRIL	<ol style="list-style-type: none"> 1. Appointment of TAURON Management Board of the 4th common term. 2. Signing of the agreement by the Company and PIR concerning the financing of the power unit of 413 MW_e at Łągisza Power Plant (TAURON Wytwarzanie). 3. Concluding of the agreement for the intervention cold reserve by TAURON Wytwarzanie with PSE, to comprise two units of Siersza Power Plant and one unit of Stalowa Wola Power Plant. 4. A ground breaking ceremony at ZW Tychy (TAURON Ciepło) for the construction of the heating unit with the capacity of 50 MW_e and 86 MW_t. 5. Concluding of the agreement with GAZ-SYSTEM by TAURON Wytwarzanie, concerning the connection of the CCGT unit of 413 MW capacity, to be established on the premises of Łągisza Power Plant, 6. Concluding of the agreement by TAURON Wytwarzanie with the consortium of RAFAKO - MOSTOSTAL for the construction of the power unit of 910 MW_e capacity, for supercritical parameters at Jaworzno III Power Plant (Power Plant II). 7. Approval of the TAURON tariff for gas fuels by the ERO President.
MAY JUNE	<ol style="list-style-type: none"> 1. Adoption of the resolution by the Ordinary TAURON GM on allocating a part of the profit for the financial year 2013 in the amount of PLN 332,984,384.86 for the dividend. 2. Commencement of the deepening of "Janina VI" shaft in TAURON Wydobyćie, under the project on <i>Increasing the production capacity of TAURON Wydobyćie through the construction of level 800 m.</i> 3. Adoption of the updated <i>Corporate Strategy of TAURON Group for 2014–2017 with an outlook until 2023</i>. 4. Awarding TAURON with the distinction <i>Hero of the Capital Market</i> granted by the Association of Individual Investors. 5. Signing of a letter of intent by TAURON, ENEA, ENERGA and PGE, concerning the cooperation in the scope of research, development and innovation as well as joint implementation of research and development projects.
JULY AUGUST	<ol style="list-style-type: none"> 1. Concluding of the consortium agreement by TAURON and 22 institutions, including 18 universities, 2 institutes and 2 enterprises, establishing the Motorway of Technology and Innovation Institute. 2. Approval of the tariff for natural high-methane gas for TAURON Sprzedaż by the ERO President. 3. Confirmation of the long-term foreign and local currency ratings for the Company at "BBB" level, with stable outlooks by the Fitch Rating Agency. 4. Concluding of the credit agreement by TAURON and the European Investment Bank (EIB), worth PLN 295 million, for the implementation of investments in the areas of renewable energy and energy distribution. 5. Acquisition of 100% direct share by TAURON in the initial capital of the following companies: TAURON Wytwarzanie, TAURON Wydobyćie and KW Czatkowice. 6. Concluding of the partnership agreement by companies of TAURON Capital Group and companies of ArcelorMittal Group, concerning the establishment of a joint entity for the implementation of the project in the scope of industrial power engineering. 7. Concluding of the agreement by TAURON Ciepło with Control Process S.A. for the construction of three oil and gas boilers with the total capacity of approximately 114 MW_t ZW Katowice. 8. Commencement of the installation of the boiler at the site of the power unit with the capacity of 50MW_e and 86 MW_t at ZW Tychy (TAURON Ciepło).
SEPTEMBER OCTOBER	<ol style="list-style-type: none"> 1. Concluding of the agreement by PGE, TAURON, ENEA, KGHM concerning the implementation of the joint project on construction of the first Polish nuclear power plant with the capacity of approximately 3 thousand MW_e. 2. Launching the procedure aimed at commencement of the implementation of the investment project comprising the construction of a flue gas treatment installation, including the modernisation of boilers at ZW Nowa (in TAURON Ciepło). 3. Launch of the construction of the power unit of 910 MW_e capacity at Jaworzno III Power Plant (Power Plant II). 4. Issuing of the approval of the OCCP President for the concentration based on the implementation of the joint project in the scope of nuclear energy by PGE, TAURON, ENEA, KGHM within the PGE EJ1 company. 5. Confirmation of the long-term foreign and local currency international rating for the Company at "BBB" level, with stable outlooks by the Fitch Rating Agency. 6. Granting the main award to TAURON for <i>The best annual report 2013</i>, for the best annual report of TAURON Capital Group for 2013.

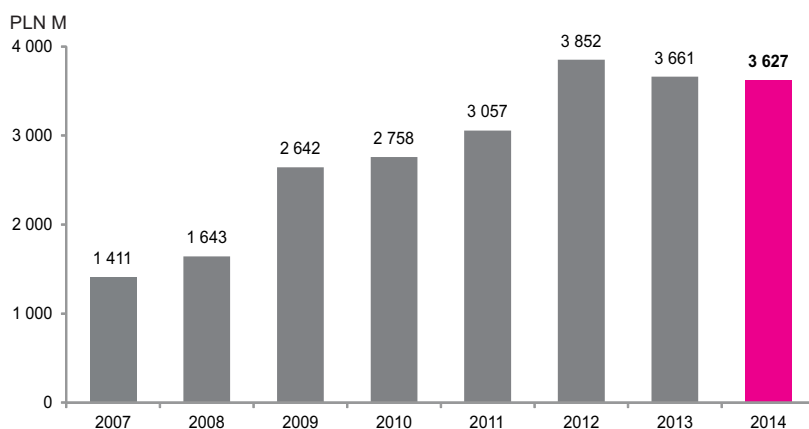
NOVEMBER
DECEMBER

1. Issuance of five-year unsecured bonds with the value of PLN 1,750,000 thousand, by TAURON on the domestic market.
2. Signing the agreement by TAURON EKOENERGIA for the construction of Stage II of Marszewo Wind Farm, with the capacity of 18 MW.
3. Handing over of the construction site of the power unit of 910 MW_e capacity at Jaworzno III Power Plant (Power Plant II) by TAURON Wytwarzanie.
4. Registration of the PGK established for 2015–2017 by TAURON and the key companies of TAURON Capital Group.
5. Issuing of the approval by the OCCP President for the concentration based on implementation of the joint project in the scope of power engineering by TAURON and ArcelorMittal within the TAMEH HOLDING company.
6. Issue of fifteen-year registered bonds with the value of EUR 168,000 thousand by TAURON Sweden Energy on the German market.
7. Approval of the tariff for electric energy for TAURON Dystrybucja and the tariff for electric energy sales for consumers in G tariff groups for TAURON Sprzedaż by the President of ERO.
8. Completion of the heating network modernisation by TAURON Ciepło for the following municipalities: Dąbrowa Górnicza, Sosnowiec, Będzin and Czeladź.

2.4. Financial results of TAURON Capital Group

The figure below presents the EBITDA results of TAURON Capital Group in 2007–2014.

Figure no. 20. EBITDA of TAURON Capital Group in 2007–2014



The table below shows the EBITDA results of TAURON Capital Group, divided into individual Business Areas (Segments) for the years 2012–2014. Data for individual Areas do not include consolidation exclusions.

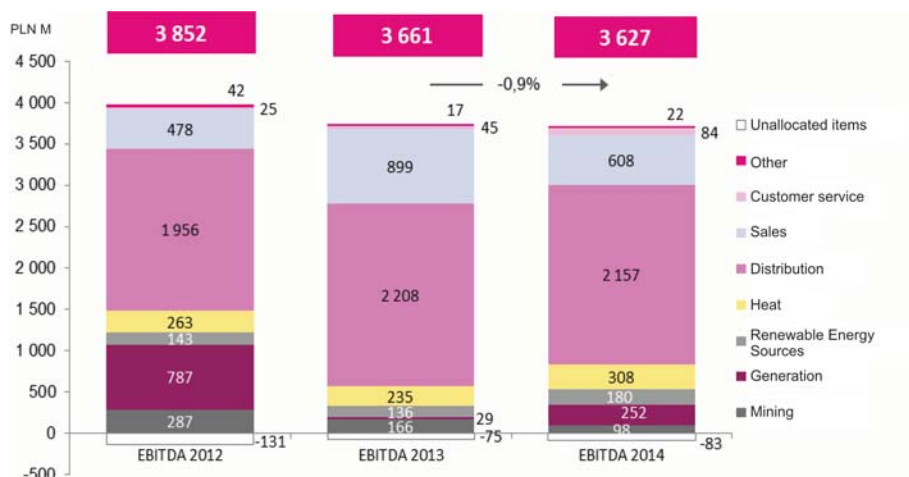
Table no. 8. EBITDA results of TAURON Capital Group, divided into Business Areas*

No.	EBITDA (PLN thous.)	2014	2013	2012	Dynamics (2014/2013)	Change (2014–2013)
1.	Mining	98,412	165,783	287,431	59%	(67,371)
2.	Generation	251,838	28,852	787,322	873%	222,986
3.	RES	180,166	135,563	143,450	133%	44,603
4.	Heat	308,407	235,453	263,052	131%	72,954
5.	Distribution	2,157,136	2,208,381	1,955,896	98%	(51,245)
6.	Sales	608,213	899,208	478,342	68%	(290,995)
7.	Customer Service	84,165	45,283	25,131	186%	38,882
8.	Other	22,158	17,485	42,347	127%	4,673
9.	Unallocated items	(83,395)	(74,524)	(131,346)	112%	(8,871)
	Total EBITDA	3,627,100	3,661,484	3,851,625	99%	(34,384)

* The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in Table no. 34 of this report.

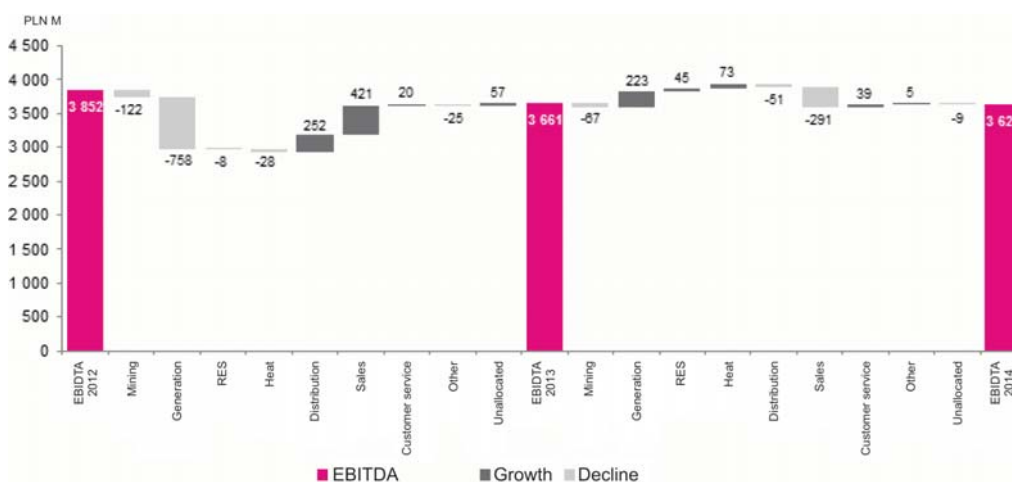
The figure below presents the structure of EBITDA of TAURON Capital Group in 2012–2014.

Figure no. 21. Structure of EBITDA of TAURON Capital Group in 2012–2014



The Distribution Area and Sales Area have the highest share in EBITDA of TAURON Capital Group. The figure below presents the change in EBITDA results of TAURON Capital Group in the years 2012–2014.

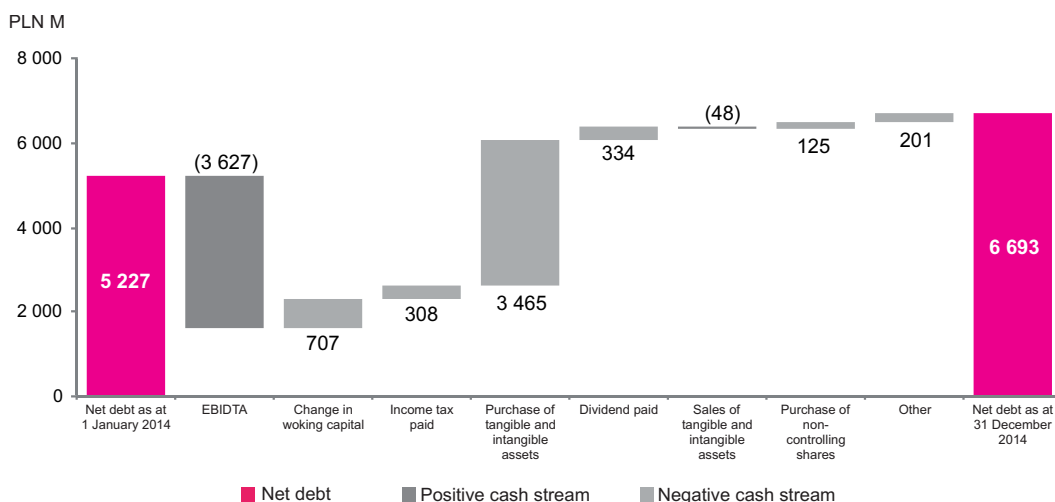
Figure no. 22. Change in EBITDA of TAURON Capital Group in 2012–2014



Cash flows of TAURON Capital Group in 2014

The figure below presents cash flows of TAURON Capital Group in 2014.

Figure no. 23. Cash flows of TAURON Capital Group in 2014



2.4.1. Mining Area

The table below presents the results of the Mining Area in the years 2012–2014.

Table no. 9. Results of Mining Area*

Specification (PLN thous.)	2014	2013	2012	Dynamics (2014/2013)	Change (2014–2013)
Mining					
Revenue on sales	1,194,024	1,397,506	1,477,835	85.4%	(203,482)
<i>coal – coarse and medium assortments</i>	359,857	525,419	493,103	68.5%	(165,562)
<i>steam coal</i>	803,647	835,355	948,567	96.2%	(31,708)
<i>other revenues</i>	30,520	36,732	36,165	83.1%	(6,212)
Operating profit	(6,829)	65,786	174,945	–	(72,615)
Amortisation and depreciation	105,241	99,997	112,486	85.4%	(203,482)
EBITDA	98,412	165,783	287,431	68.5%	(165,562)

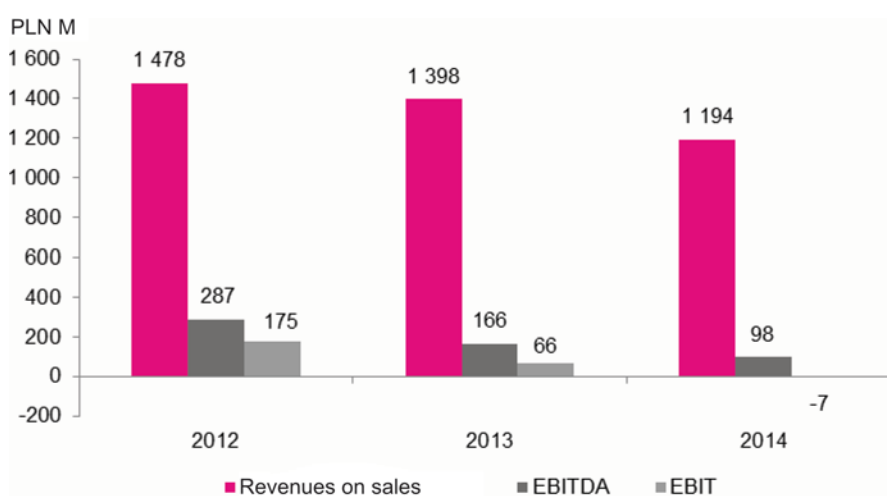
* The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in item 4.7. of this report.

The operating results, EBIT and EBITDA of the Mining Segment in 2014 reached a lower level than in 2013, which was affected by the following factors:

- 1) decline in the volume of coal sold by 10.9%, resulting from the growth of coal import from the eastern markets, decline in export and decreased demand of consumers due to the warm winter. The quantitative decline was recorded in all assortments, but it was most significant in case of coarse and medium assortments,
- 2) lower prices of coal sold, by 4.0% on average, which results from the change in the pricing policy of the largest domestic coal producer, decline of global prices and changes in the sales structure,
- 3) decreased cost of own coal sold, resulting from lower production costs, mainly in the scope of energy consumption costs, stone storage services and forwarding service,
- 4) higher other operating revenues, which is the effect of the VAT refund received, related to free coal allowance, obtained subsidies and cancellation of liabilities in the scope of real estate tax,
- 5) growth in costs associated with actuarial provisions (arising from the change in the discount rate adopted for the actuarial valuation).

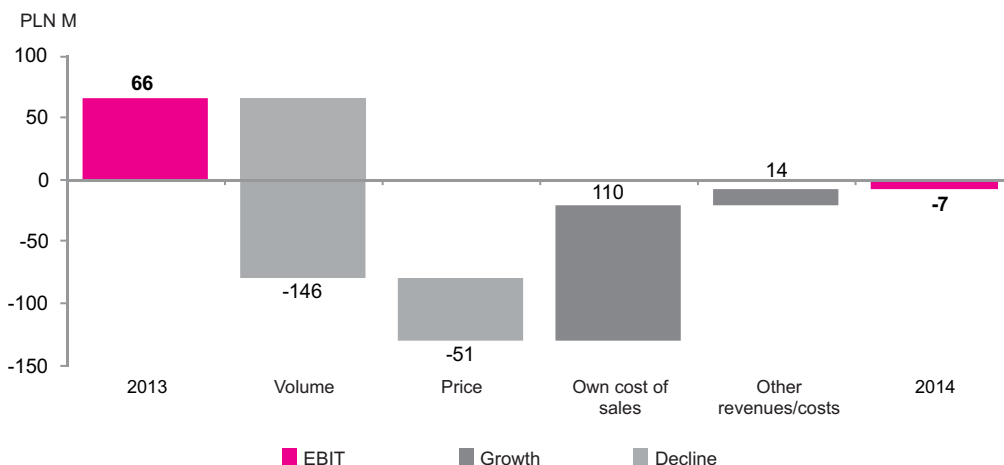
The figure below shows the financial data of the Mining Area for the years 2012–2014.

Figure no. 24. Financial data of the Mining Area for the years 2012–2014



The figure below shows the EBIT result of the Mining Area, including the significant factors influencing the YoY change.

Figure no. 25. EBIT result of Mining Area



Strategy and the strategic priorities

TAURON Capital Group is one of the largest hard coal consumers in Poland. The strategic goal of the Mining Area is to secure the availability of this key fuel for TAURON Capital Group using the natural synergies within TAURON Capital Group as well as to maximise the margin mass generated by sales of other products. The strategic priority in the nearest years will involve gradual growth of commercial coal production, strict control of coal mining costs, continuous enhancement of the Mining Area effectiveness and improvement of the quality of the products supplied.

Major investments

In 2014, in the Mining Area the total capital expenditures incurred reached approximately PLN 189 million, including the following strategic investment projects:

- 1) PLN 22.5 million for the construction of "Grzegorz" shaft, including the construction of infrastructure and the accompanying headings in Zakład Górniczy Sobieski (ZG Sobieski) (the investment will be continued in the following years),
- 2) PLN 82.5 million for increasing of the production capacity of TAURON Wydobywanie based on the deposits held, through the construction of 800 m level and commissioning of the fourth wall in ZG Janina (the investment will be continued in the following years),

The expenditure in this area is incurred for the preparation and service of extraction activity in two mining plants: ZG Sobieski and ZG Janina (mainly the purchase of machines and equipment, tunnelling of excavations, preparation of longwalls).

Development perspectives

According to the available forecasts and analyses, the market conditions under which the producers of hard coal shall act, will continue to be difficult and demanding. Nevertheless, coal will still serve as the basic fuel used in the Polish energy sector, including TAURON Capital Group, and due to the aforementioned investments, the percentage share of coal from own coal mines in the structure of purchases of TAURON Capital Group will continue to grow, with the simultaneous increase in efficiency. Within the Corporate Strategy perspective, reaching of coal fuel supply to TAURON Capital Group from own sources at a level of 5.5 million Mg is assumed, which would constitute 50–70% of TAURON Capital Group demand.

2.4.2. Generation Area

The table below presents the results of the Generation Area in the years 2012–2014.

Table no. 10. Results of the Generation Area*

Specification (PLN thous.)	2014	2013	2012	Dynamics (2014/2013)	Change (2014–2013)
Generation					
Revenue on sales	3,218,162	4,574,265	5,565,468	70.4%	(1,356,103)
<i>electric energy</i>	2,815,018	4,160,801	4,161,753	67.7%	(1,345,783)
<i>heat</i>	129,616	142,067	219,768	91.2%	(12,451)

Specification (PLN thous.)	2014	2013	2012	Dynamics (2014/2013)	Change (2014–2013)
<i>property rights arising from certificates of electric energy origin</i>	237,284	197,798	410,178	120.0%	39,486
<i>greenhouse gas emission allowances</i>	1	43,614	163,591	0.0%	(43,613)
<i>compensation due to LTC termination</i>	0	(18,886)	567,012	–	18,886
<i>other revenue</i>	36,243	48,871	43,165	74.2%	(12,628)
Operating profit	(189,247)	(458,954)	272,294	–	269,707
Amortisation and depreciation	441,085	487,806	515,028	90.4%	(46,721)
EBITDA	251,838	28,852	787,322	872.9%	222,986

* The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in item 4.7. of this report.

In 2014 revenues on sales in the Generation Segment were lower by approximately 30% as compared to 2013. The decrease in revenues on electric energy sales is the result of both the lower sales volume and the lower electric energy sales price. The decline of revenues due to this title was partly compensated by the revenues from operational power reserve.

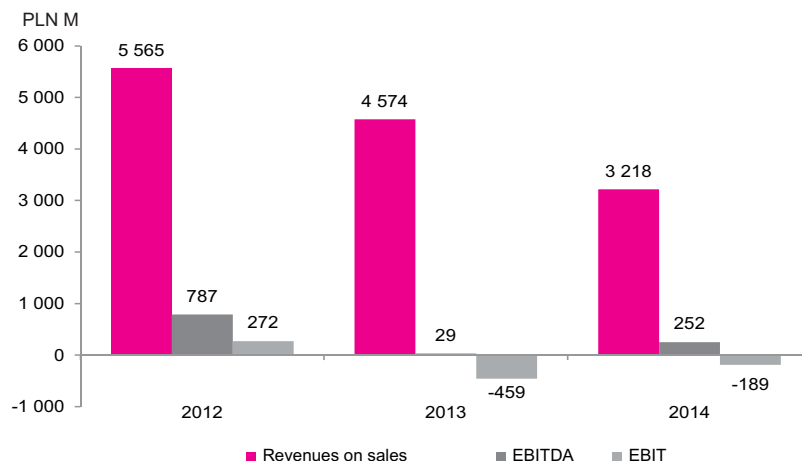
As compared to the previous year, higher revenues were recorded for sales of property rights to certificates of origin of electric energy generated in RES (due to the higher production volume) and in co-generation (in 2013 no support for co-generation was available, in 2014, the support was recovered as of 30 April 2014). Revenues on sales of heat were lower than in 2013, mainly due to high ambient temperatures.

The operating results, EBIT and EBITDA of the Generation Segment in 2014 reached a higher level than in 2013, which was mainly affected by the following factors:

- 1) impairment losses of tangible fixed assets
 - a) as a result of the conducted tests for permanent impairment of value:
 - in 2013 impairment losses of tangible fixed assets for the amount of PLN 275.6 million were applied,
 - in 2014 impairment losses of tangible fixed assets for the amount of PLN 54.9 million were applied (assets included in Stalowa Wola Power Plant),
 - b) in Q4 2014 the reversal of impairment losses of Blachownia Power Plant production assets was performed (included as of 10 December 2014 into TAMEH POLSKA), for the amount of PLN 17.4 million,
- 2) lower average price of electric energy sales (decline by 8.0% YoY),
- 3) lower sales volume of electric energy from own production (2013: 17.2 TWh; 2014: 13.0 TWh) – the above decline was significantly affected by external factors described in item 2.2.2. of this Report as well as the adopted strategy of electric energy volume contracting,
- 4) revenues from operational power reserve: – the result of changes in the rules of determining and settlement of receivables for OPR in the market of systemic services, introduced by TSO as of 1 January 2014,
- 5) lower unit variable cost of electric energy – mainly the effect of lower prices of coal fuel and gas,
- 6) low margin on electric energy trading – as a result of lower trading volume (2013: 3.8 TWh; 2014: 0.9 TWh) and the significantly lower unit margin,
- 7) lower costs of provision for covering the deficit of CO₂ emission allowances – in 2014 in the calculation of CO₂ provision, allowances received free of charge have been included (related to 2013), which results in the surplus of allowances in relation to emission for 2014. At the same time, those allowances were not included in the settlement for 2013, which resulted in high costs of the provision at that time,
- 8) growth in costs associated with actuarial provisions (arising from the change in the discount rate adopted for the actuarial valuation).

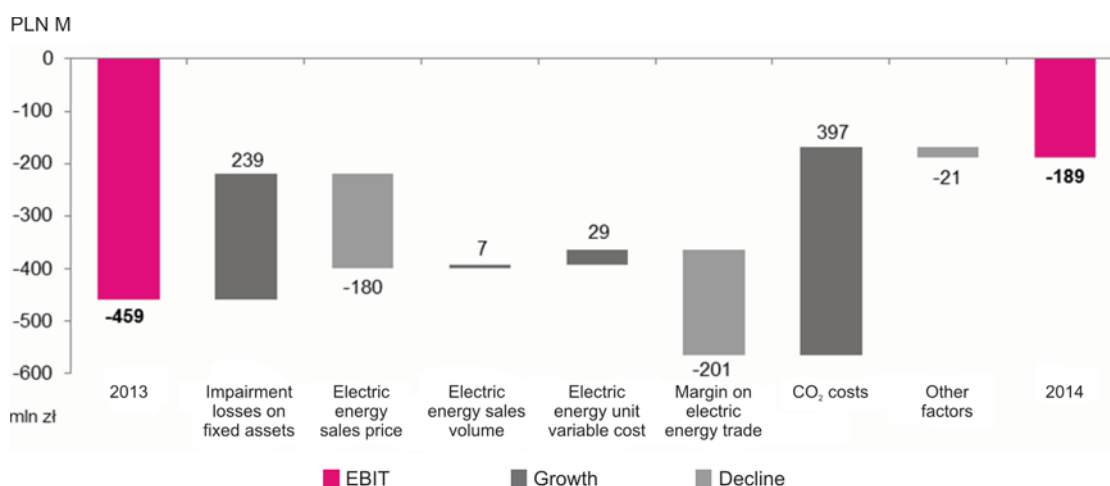
The figure below shows the financial data of the Generation Area for the years 2012–2014.

Figure no. 26. Financial data of the Generation Area for the years 2012–2014



The figure below shows the EBIT result of the Generation Area, including the significant factors influencing the YoY change.

Figure no. 27. EBIT result of the Generation Area



Strategy and the strategic priorities

The strategic goal of the Generation Area is the construction of the portfolio of generation assets, optimum in terms of its profitability and risk, and its effective exploitation. The strategic priorities in the forthcoming years will focus on investment in new generation capacity in diversified technologies (coal, gas) and optimisation of operating costs, as well as mitigation of risk arising from the infringement of environmental use conditions.

Major investments

In 2014, in the Generation Area the total capital expenditures incurred reached PLN 403.5 million, including the following strategic investment projects:

- 1) PLN 190.9 million for two programmes on construction of flue gas denitrification installations and modernisation of 200 MW blocks in Jaworzno Power Plant and in Łaziska Power Plant,
- 2) PLN 58.1 million for construction of the coal-fired unit of 910 MW capacity in Jaworzno III Power Plant.

The investment project in Stalowa Wola is also under implementation, with participation of the strategic partner, PGNiG, comprising the construction of the CCGT unit of 449 MW_e capacity, with the heat generation component of 240 MW_t capacity (the completion of this investment is scheduled in 2015). Moreover, works associated with the construction of the CCGT unit of 450 MW capacity in Łagisza Power Plant are in progress.

Development perspectives

According to the available forecasts and analyses, the macroeconomic and sectoral conditions under which the producers of electric energy will act shall be similar to the current conditions over the next several years. However, certain improvement of the situation may be associated with the difficulties to cover the power demand by the national

generation units, expected from 2016. The main reason is the insufficient scope of construction of new generation sources required to cover the domestic demand for power and electric energy, under the conditions of the growing demand following the economic growth and the necessity to abandon the exploitation of old generation units.

The results of the Generation Area are also positively affected by mechanisms introduced by the TSO due to the aforementioned, forecast deficit in power and electric energy. In 2014, the TSO introduced the OPR based on the rule that the operator shall pay owners of generation sources whose operations are unprofitable for abandoning their disconnecting, on account of the security of the whole power system. Another mechanism is the intervention cold power reserve to be introduced by the TSO as of 2016 based on the principle that the TSO shall pay owners of generation sources for maintaining their preparedness to launch the reserve during the expected period of power deficit. One of the conditions to fulfil in order to be eligible to the tender procedure for this reserve is holding of the temporary derogation of sources applying for the reserve against the requirements of the EU Directive on industrial emissions (IED) to enter into force as of 2016, which shall tighten the environmental protection standards.

2.4.3. RES Area

The table below presents the results of the RES Area in the years 2012–2014.

Table no. 11. Results of the RES Area*

Specification (PLN thous.)	2014	2013	2012	Dynamics (2014/2013)	Change (2014–2013)
RES					
Revenue on sales	280,998	204,495	206,581	137.4%	76,503
<i>electric energy</i>	137,437	118,330	88,730	116.1%	19,107
<i>property rights arising from certificates of electric energy origin</i>	142,283	85,529	117,172	166.4%	56,754
<i>other revenue</i>	1,278	636	679	200.9%	642
Operating profit	102,577	92,978	103,879	110.3%	9,599
Amortisation and depreciation	77,589	42,585	39,571	182.2%	35,004
EBITDA	180,166	135,563	143,450	132.9%	44,603

* The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in item 4.7. of this report.

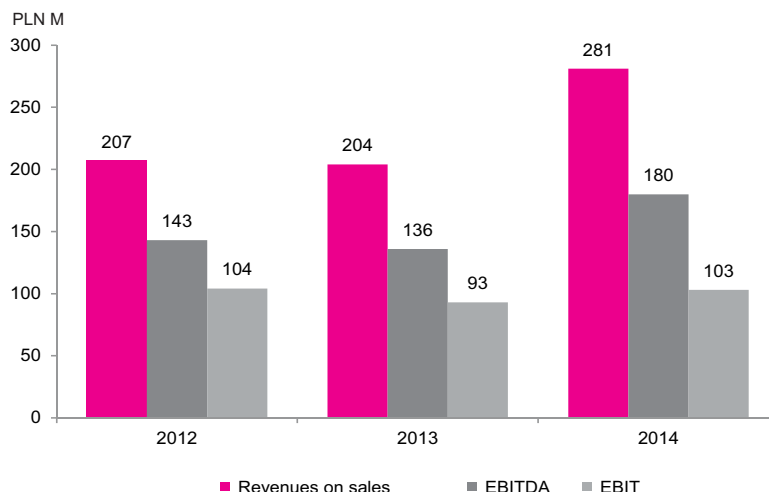
In 2014 revenues on sales in the RES Segment reached a level higher than in 2013, mainly due to the higher sales volume of electric energy and property rights from wind farms (effect of whole year operations of Wicko and Marszewo wind farms) and the higher price of property rights to certificates of origin of electric energy generated from RES. Lower price of electric energy sales had an adverse effect on revenues.

The operating results, EBIT and EBITDA of the RES Segment in 2014 reached a higher level than in 2013, which was mainly affected by the following factors:

- 1) recognising the full year of exploitation of Wicko and Marszewo wind farms commissioned in Q4 2013 (with the total installed electric capacity of 122 MW), which was reflected in the growth of sales volume of electric energy and property rights from the wind farms,
- 2) maintaining the sales level of electric energy and property rights from hydroelectric power plants YoY,
- 3) higher sales prices of green property rights,
- 4) lower sales prices of electric energy,
- 5) growth of fixed costs reflecting the full year of operation of Wicko and Marszewo wind farms.

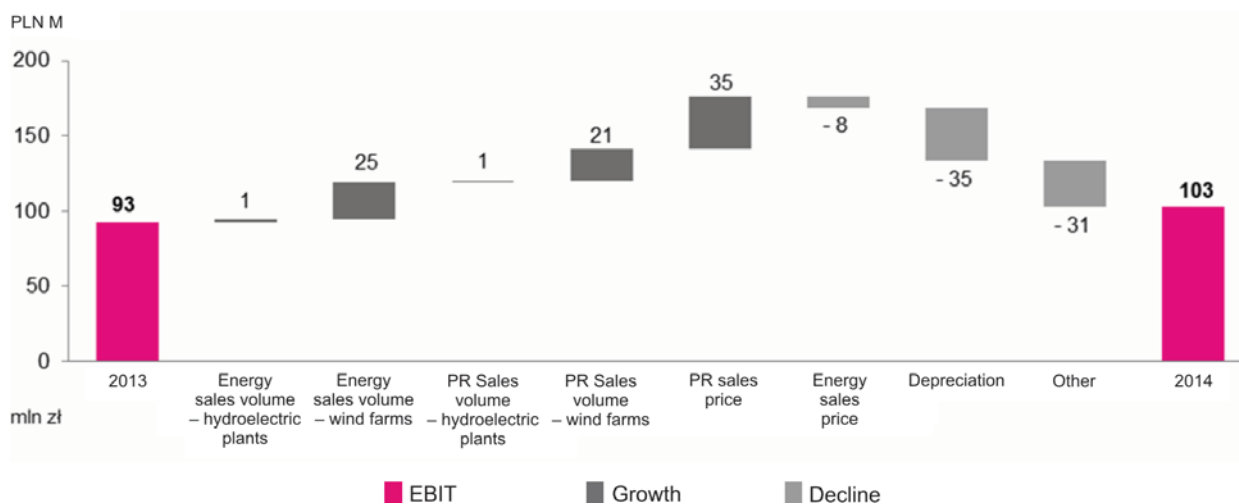
The figure below shows the financial data of the RES Area for the years 2012–2014.

Figure no. 28. Financial data of the RES Area for the years 2012–2014



The figure below shows the EBIT result of the RES Area, including the significant factors influencing the YoY change.

Figure no. 29. EBIT result of the RES Area



Strategy and the strategic priorities

The strategic goal of the RES Area is to increase revenues of TAURON Capital Group from production of energy from renewable sources. This goal shall be achieved through investment in new renewable sources in the most effective technologies and improvement of effectiveness in the use of existing resources.

The activities of the RES Area of TAURON Capital Group are coherent with the assumptions of the energy policy of the EU and the country, namely, the intensification of measures aimed at increasing the renewable energy share in the total production of electric energy. In the perspective of the Corporate Strategy, TAURON Capital Group should hold RES sources at a level of 800 MW (including biomass), which shall constitute 15% of the generation assets portfolio of TAURON Capital Group. Currently, TAURON Capital Group is the owner of hydroelectric power plants and wind farms with the total capacity installed reaching 323 MW. The consistent policy of improvement of the operating effectiveness is also implemented.

Major investments

In 2014, in the RES Area, the total capital expenditure incurred amounted to approximately PLN 116 million, including PLN 20.6 million for the construction of the Marszewo Wind Farm – stage II, with the capacity of 18 MW (the implementation is scheduled in 2015).

Moreover, in 2014 expenditure of approximately PLN 84.3 million was incurred for modernisation of hydroelectric power plants, including improvements representing the strategic investment projects: Otmuchów Hydroelectric Power Plant – PLN 17.3 million (the project was completed in 2014), Pilchowice I Hydroelectric Power Plant – PLN 21.1 million (completion scheduled in 2016), Bobrowice I Hydroelectric Power Plant – PLN 10.3 million (completion schedules in 2015).

Development perspectives

The most significant factors influencing the development perspectives of the area include the regulations of the sector, mainly the provisions related to the support of the so-called clean energy, and the requirements associated with the EU climate policy.

TAURON monitors the market environment and analyses its impact on its own operations. In February 2015 the Parliament adopted the *Act on renewable energy sources*, introducing new rules concerning the support to energy generated in renewable sources. One of the basic amendments to the applicable regulations is the change of the system for the certificates of origin of energy into the auction system. In return for winning of an auction, the support for 15 years shall be guaranteed. The entry into force of the new Act is the risk factor which shall accelerate the implementation of the launched investment projects and result in their completion by the end of 2015. Assessment of the first effects of the new Act will be possible following the analysis of first auction results.

2.4.4. Heat Area

The table below presents the results of the Heat Area in the years 2012–2014.

Table no. 12. Results of the Heat Area

Specification (PLN thous.)	2014	2013	2012	Dynamics (2014/2013)	Change (2014–2013)
Heat					
Revenue on sales	1,355,454	1,337,722	1,136,408	101.3%	17,732
<i>electric energy</i>	<i>312,055</i>	<i>342,310</i>	<i>250,881</i>	<i>91.2%</i>	<i>(30,255)</i>
<i>heat (including transmission)</i>	<i>722,057</i>	<i>745,803</i>	<i>629,691</i>	<i>96.8%</i>	<i>(23,746)</i>
<i>property rights arising from certificates of electric energy origin</i>	<i>58,008</i>	<i>3,194</i>	<i>20,925</i>	<i>1816.2%</i>	<i>54,814</i>
<i>wind of blast furnace</i>	<i>159,422</i>	<i>147,565</i>	<i>146,327</i>	<i>108.0%</i>	<i>11,857</i>
<i>compressed air</i>	<i>71,079</i>	<i>70,272</i>	<i>75,155</i>	<i>101.1%</i>	<i>807</i>
<i>other revenue</i>	<i>32,833</i>	<i>28,578</i>	<i>13,430</i>	<i>114.9%</i>	<i>4,255</i>
Operating profit	158,763	110,909	169,800	143.1%	47,854
Amortisation and depreciation	149,644	124,544	93,252	120.2%	25,100
EBITDA	308,407	235,453	263,052	131.0%	72,954

* The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in item 4.7. of this report.

Revenue on sales of the Heat Segment in 2014 reached a level similar to that achieved in the previous year. The decline was related to the revenue on sales of heat and transmission services of electric energy and heat, whereas the revenues on sales of property rights arising from certificates of electric energy origin and sales of wind of blast furnace and compressed air, were higher.

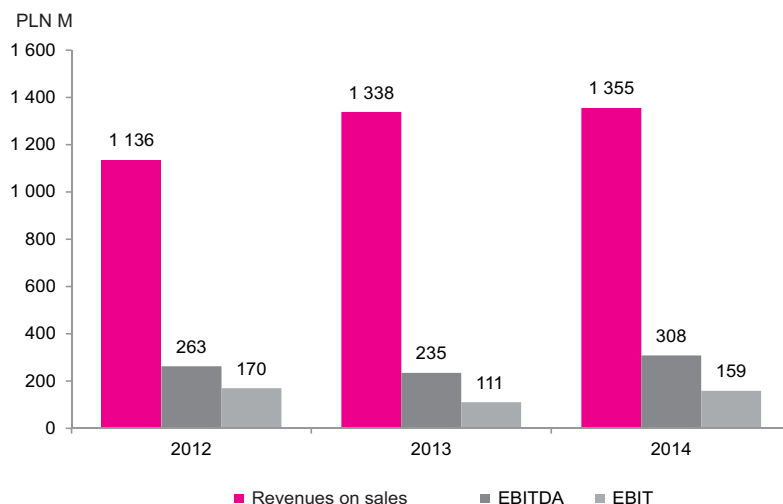
The operating results, EBIT and EBITDA in 2014 reached a higher level than in 2013, which was mainly affected by the following factors:

- 1) recognising the write down on the value of “red” and “yellow” certificates in the first half of 2013 – in connection with the unavailability of the support system for co-generation after 31 March 2013 as well as due to the uncertainty related to the introduction of the planned legal solutions in this area, the write down on the value of the held stocks of “red” and “yellow” certificates was applied, to the zero value (a one-off event),
- 2) recognising the surplus in the value of the acquired shares in the joint project of TAMEH POLSKA over the value of the assets contributed in the form of an organised part of Elektrownia Blachownia and ZW Nowa enterprises (in other operating revenues; a one-off event),
- 3) lower volume of heat sales and distribution arising from the reduced heat demand, caused by higher average ambient temperatures in the heating season of 2014 (+6.5°C) in relation to 2013 (+4.3°C),
- 4) higher sales volume of electric energy from own production (2013: 1.54 TWh; 2014: 1.66 TWh),
- 5) lower average price of electric energy sales (decline by 8.5% YoY),
- 6) higher heat sales prices (increase by 6.5% YoY),

- 7) higher margin on certificates – higher volume of production from biomass (both co-incineration and dedicated installations); in addition, in 2014 revenues on “red” and “yellow” property rights occurred (in 2013 co-generation was not supported),
- 8) higher depreciation costs – due to all-year depreciation costs of BC-50 unit in Bielsko-Biała, commissioned in Q4 2013.

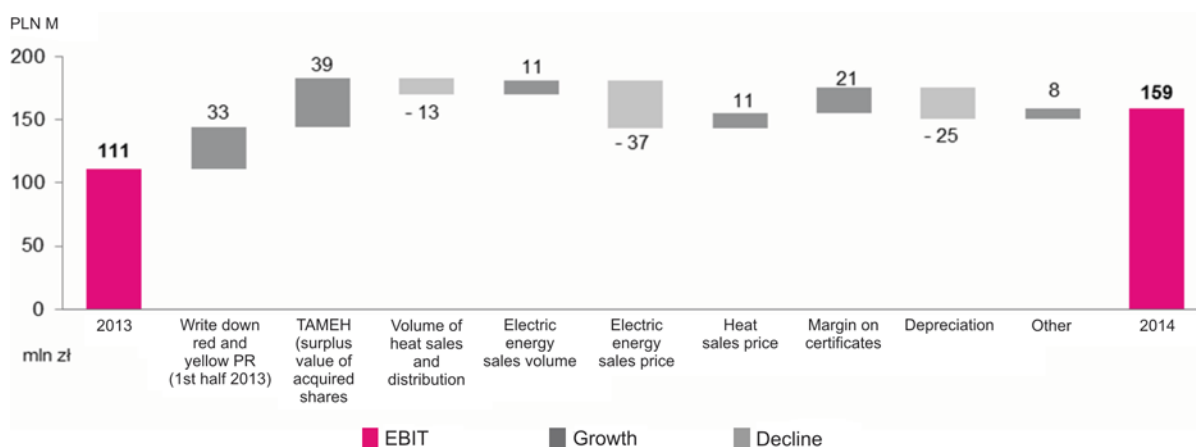
The figure below shows the financial data of the Heat Area for the years 2012–2014.

Figure no. 30. Financial data of the Heat Area for the years 2012–2014



The figure below shows the EBIT result of the Heat Area, including the significant factors influencing the YoY change.

Figure no. 31. EBIT result of the Heat Area



Strategy and the strategic priorities

TAURON Capital Group is the leader on the local heat market. The strategic goal of the segment is to generate stable revenues of TAURON Capital Group due to production of electric energy and heat in co-generation as well as heat distribution and sales, based on the cost effective approach. The strategic priorities in the nearest years shall include growth of production in co-generation, improvement of operational effectiveness through cost optimisation as well as growth of systemic heat sales to the newly developed facilities, so far heated by alternative heat source.

Major investments

In 2014, in the Heat Area the total capital expenditures incurred reached approximately PLN 335.6 million, including the following strategic investment projects:

- 1) PLN 128.4 million for the construction of the BC-50 block in ZW Tychy (scheduled delivery of the project in 2016),
- 2) PLN 21.7 million for the construction of peak load boilers in ZW Katowice (scheduled delivery of the project in 2016).

Moreover, in 2014 expenditure of approximately PLN 84.2 million was incurred for the maintenance and development of heat networks. The value of expenditure at ZW Nowa is also included in the expenditures of the Heat Area.

Development perspectives

The distribution activity in the scope of heat is fully regulated, which affects the stability of the situation in this area. In the EU, production of electric energy in co-generation is perceived as one of the most effective methods for CO₂ emission reduction, which provides good perspectives for this activity for the future. In 2014 support for co-generation until 2018 was recovered in Poland. Within the strategic perspective, the Heat Area shall maintain the portfolio of investments in heat sources and heating networks ensuring covering of the demand for systemic heat.

2.4.5. Distribution Area

The table below presents the results of the Distribution Area in the years 2012–2014.

Table no. 13. Results of the Distribution Area*

Specification (PLN thous.)	2014	2013	2012	Dynamics (2014/2013)	Change (2014–2013)
Distribution					
Revenue on sales	6,074,646	5,997,470	6,077,498	101.3%	77,176
<i>distribution services</i>	5,656,807	5,531,970	5,583,720	102.3%	124,837
<i>connection fees</i>	121,044	160,269	182,632	75.5%	(39,225)
<i>maintenance of street lightning</i>	111,634	105,952	100,090	105.4%	5,682
<i>other revenue</i>	185,161	199,279	211,056	92.9%	(14,118)
Operating profit	1,209,344	1,295,639	1,077,388	93.3%	(86,295)
Amortisation and depreciation	947,792	912,742	878,508	103.8%	35,050
EBITDA	2,157,136	2,208,381	1,955,896	97.7%	(51,245)

* The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in item 4.7. of this report.

In 2014, as compared to 2013, the Distribution Segment achieved growth in revenues by about 1.3%, decline of results at the EBIT and EBITDA level by 6.7% and 2.3%, respectively.

The total revenues gained in 2014 were higher as compared to 2013, due to:

- 1) growth of consumption in case of consumers from A and B tariff groups, determined by the growth in output sold,
- 2) decline in electric energy intake by end consumers connected to the low voltage grid,
- 3) growth of sales price of the distribution service – the application of the tariff adopted for 2014 had an impact on the growth of the average YoY rate for distribution services provided to end consumers by 1.6%, taking into account the structure of sales to individual consumers and the structure of variable and fixed rates (the main factor determining the growth of tariff is the transferred growth of the transitional and qualitative TSO fee),
- 4) decrease of connecting fees – as a result of application, in particular, in the second half of 2014, of lower rates of fees for clients connected to the LV grid, agreed with the ERO for 2014 and as a result of postponing the delivery of the investment projects associated with connecting clients to the MV grid.

Higher costs of operating activities also affected the change in the operating result of the Distribution Segment, in relation to 2013. The main reasons of changes include:

- 1) much higher rate of the transitional and qualitative TSO fee (this growth has been taken into account in the tariff for 2014; considering the level of transfer of the TSO rates in the tariff, the net effect is favourable for TAURON Dystrybucja),
- 2) higher purchase volume of transmission services due to the decline of generation in case of generators connected to the distribution grid,
- 3) lower level of balance difference and lower indicator of the balance difference, as a consequence of the decline in sales to consumers in low voltage grid, strongly exposed to grid losses, and the increase in sales to consumers from high voltage grid, less burdened with grid losses (in Q1 and Q3 2014 the indicator was lower than in the corresponding period of 2013, only in Q4 2014 the indicator reached the level slightly higher than in Q4 2013, in cumulative terms, the deviation of the indicator amounts to 6%); the decline in the volume of losses also arises from the continuous technical activities in the grid,

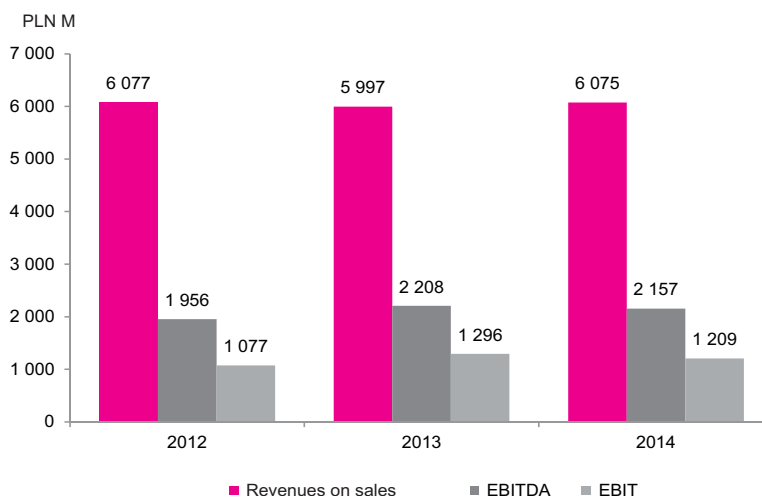
- 4) significantly lower price of balancing energy losses, being the resultant of prices of energy purchase and resale in TAURON Capital Group.

In the scope of fixed costs, growth was recorded in relation to 2013. The following factors affected their level:

- 1) reduction of remuneration costs in their part resulting from employment redundancy (in particular, under the *Voluntary Redundancy Programme*),
- 2) higher costs of actuarial provision (mainly in connection with the change in the discount rate),
- 3) growth of the scope of services provided by companies of TAURON Capital Group (among others, in the area of customer service),
- 4) growth of depreciation costs and tax on grid assets as a result of the implemented investment projects.

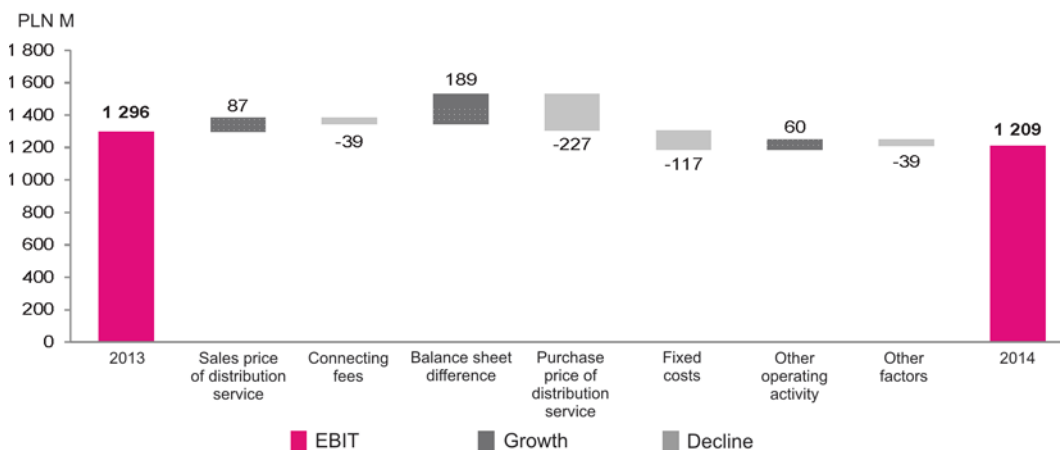
The figure below presents the financial data of the Distribution Area for the years 2012–2014.

Figure no. 32. Financial data of the Distribution Area for the years 2012–2014



The figure below shows the EBIT result of the Distribution Area, including the significant factors influencing the YoY change.

Figure no. 33. EBIT result of the Distribution Area



Strategy and the strategic priorities

The main goal of the Distribution Area is to generate stable revenue with simultaneous cost optimisation and improvement in the quality of the services provided. Management of operating costs level and investment effectiveness are the key areas of generating the financial result of distribution system operators.

As a result of cost optimisation, the Distribution Area implements the effectiveness improvement programme, which mainly focuses on employment reduction and elimination of duplicating functions, optimisation of external services and consumption of materials, as well as optimisation of the balance sheet difference through mitigation of the technical and commercial losses.

The Distribution Area aims at improvement in the quality of the services provided through the increase in the security of supplies and the effectiveness of the network performance. In order to achieve its goals, the Distribution Area shall mainly implement investment in modernisation and replacement of the existing assets as well as connecting new consumers and new sources.

Major investments

In 2014, in the Distribution Area the total capital expenditures incurred reached PLN 1,934.8 million. The main directions of investment included:

- 1) PLN 512.1 million for investment associated with connecting of new consumers,
- 2) PLN 1,151.3 million for investments associated with the modernisation and replacement of the grid.

Moreover, in 2014 the expenditure of approximately PLN 18.3 million was incurred for the implementation of the strategic investment project on *Management System of Grid Assets* (the project will be continued in the following years).

Development perspectives

The economic development in the region and the technological progress in the scope of telemechanics, automatic power system protection, communications and information technology, open new opportunities for the management of electric energy distribution. The latest technical achievements enable instant response to changes in the distribution system in order to ensure the highest standards for the provision of distribution services. Factors essential for the continued development of the energy sector shall include *smart grid* and/or *smart metering*. Such solutions shall introduce additional functionalities, both on the side of suppliers and clients, definitely influencing the development of the sector. The quality of the distribution services provided in Poland, including the number and time of interruptions in supplies, significantly deviates against the European Union standards. In order to achieve the improvement of the quality, significant investment expenditure is required. The direction and pace of changes in the area of electric energy distribution shall depend on the system of regulations and tariff calculation.

2.4.6. Sales Area

The table below presents the results of the Sales Area in the years 2012–2014.

Table no. 14. Results of the Sales Area*

Specification (PLN thous.)	2014	2013	2012	Dynamics (2014/2013)	Change (2014–2013)
Sales					
Revenue on sales	15,277,451	18,017,593	18,529,846	84.8%	(2,740,142)
<i>electric energy, including:</i>	9,708,534	11,702,924	12,516,460	83.0%	(1,994,390)
<i>revenue on retail sales of electric energy</i>	8,313,924	10,128,338	11,503,784	82.1%	(1,814,414)
<i>greenhouse gas emission allowances</i>	183,451	367,103	376,240	50.0%	(183,652)
<i>fuels</i>	1,935,135	2,337,073	1,727,565	82.8%	(401,938)
<i>distribution service (transferred)</i>	3,332,151	3,495,185	3,804,158	95.3%	(163,034)
<i>other services, including commercial services</i>	118,180	115,308	105,423	102.5%	2,872
Operating profit	582,307	864,579	452,113	67.4%	(282,272)
Amortisation and depreciation	25,906	34,629	26,229	74.8%	(8,723)
EBITDA	608,213	899,208	478,342	67.6%	(290,995)

* The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in item 4.7. of this report.

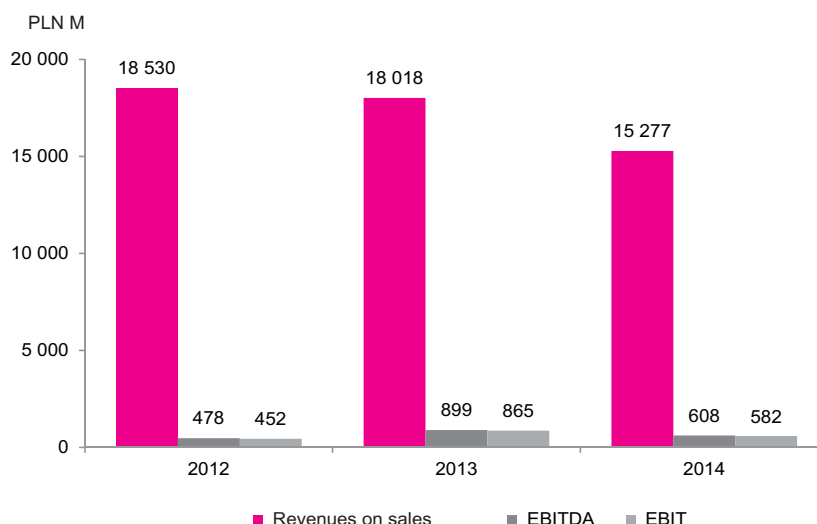
Revenues on sales in 2014 reached the level lower by 15.2% as compared to 2013. Events that occurred during 2013, associated with the contracting in the SPOT market, hedging of property rights, volatility of consumer demand volumes, settlements of the balancing market, caused that in 2013 it was possible to obtain much higher margins than in 2014. At the same time, in 2013 favourable changes of market prices occurred, influencing the high level of results in each portfolio. Moreover, in 2013 one-off events took place which were not recorded in 2014 at a comparable scale; it refers both to transactions on property rights and the accelerated contracting of rights to CO₂ emission.

The operating results, EBIT and EBITDA in 2014 reached a lower level than in the previous year, which was mainly affected by the following factors:

- 1) lower sales prices of electric energy (by 12.1% on average), as well as the lower sales volume (by 2.7 TWh); the lower level of sales price of electric energy in 2014 arises from the reduction of prices for individual clients, approved by the ERO President in the tariff, reduction of sales prices in connection with the loyalty actions; the purchase cost of conventional energy in the wholesale market was also lower, both for forward and SPOT transactions,
- 2) the reduction of retail sales volume was observed, in particular, in the mass segment, in G and C1x tariff groups as well as in business segment. The lower sales to strategic clients was affected by the decline in electric energy demand as well as the intensified activity of competitive companies,
- 3) a one-off event in 2013 (related to property rights trading) resulting in the increase of the result by approximately PLN 78 million,
- 4) growth in costs of the property rights redemption obligation for PMOZE and PMMET in 2014 and the recovery of the redemption obligation of property rights from co-generation (both coal- and gas-fired),
- 5) lower level of revenues on fuel sales, resulting from lower fuel prices and the decline in the demand for electric energy, in particular, energy produced in generation sources using hard coal, which was reflected in the reduced demand for steam coal,
- 6) lower level of revenues on sales of greenhouse gases emission allowances as a result of the accelerated contracting of CO₂ emission rights in 2013.

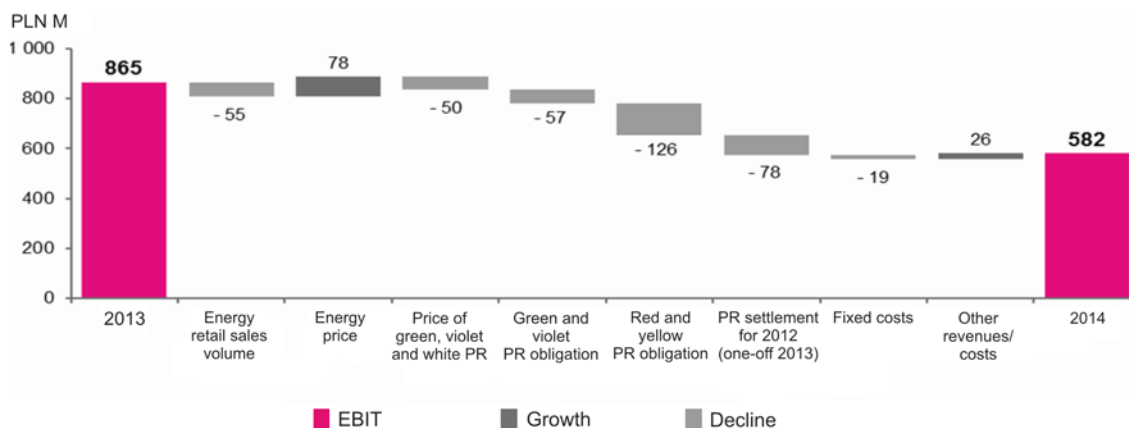
The figure below shows the financial data of the Sales Area for the years 2012–2014.

Figure no. 34. Financial data of the RES Area for the years 2012–2014



The figure below shows the EBIT result of the Sales Area, including the significant factors influencing the YoY change.

Figure no. 35. EBIT result of the Sales Area



Strategy and the strategic priorities

The strategic priority of the Sales Area is to maximise the 1st stage margin from electric energy sales, with the simultaneous optimisation of the level of own costs. The key tasks of the Sales Area include: maintaining of the most profitable clients, creating channels for acquisition of new clients, as well as building of the effective sales organisation.

The basic and direct tool of the sales company to be used for margin generation is the relevant development of final prices, excluding sales prices in G tariff (i.e. in the household segment) for which the approval of prices by the ERO President is still obligatory. The Company shapes retail prices on the basis of costs associated with energy sales and considering the risk associated with the resignation of clients and lack of possibility to acquire new ones. The Sales Area optimises the results of its activities through maximising the mass of margin on electric energy sales and other services, with the simultaneous management of the procurement portfolio and costs of the Area.

Major investments

In 2014, in the Sales Area the total capital expenditures incurred reached PLN 5.9 million, mainly for the purchase of licences and software, and vehicles.

Development perspectives

In the area of sales competition of entities selling electric energy is increasing, leading to margin erosion. The additional factor that may influence the reduction of margins is the situation in the wholesale energy market. The wholesale energy market demonstrates significant volatility in prices, which makes both a threat and an opportunity for conducting sales activities. The threat is associated with the limited possibility to implement the rise in prices for end clients in case of the growth in wholesale energy prices. In addition, the volume is limited, which may not be covered by the change in price due to the contracts concluded with clients for a definite time, at a fixed price determined in advance. On the other hand, the appropriate management of sales prices, in case of decline in wholesale prices, in particular, in the segment of mass clients, enables to obtain the additional margin.

The marked impact on the operating activities of energy enterprises is associated with the continuing liberalisation of the Polish energy market. The target is to liberalise prices in G tariff. The derogation from the obligation to submit the tariffs for approval will liberate the competitive activities in the household segment, which offers a considerable potential for implementation of the margin mass.

Besides the competition stimulated by the regulatory authorities, the competition between energy holdings is also developing in the product and marketing area. In 2014 TAURON Capital Group gained the opportunity of parallel offering of electric energy and natural gas products to its business Clients. Activities aimed at launching projects consisting in combining electric energy sales offers with other suppliers of utilities are under implementation.

2.4.7. Customer Service Area

The table below presents the results of the Customer Service Area in the years 2012–2014.

Table no. 15. Results of the Customer Service Area*

Specification (PLN thous.)	2014	2013	2012	Dynamics (2014/2013)	Change (2014–2013)
Customer Service					
Revenues on sales	610,021	492,583	338,644	123.8%	117,438
<i>customer service, accounting and IT</i>	604,118	486,247	337,312	124.2%	117,871
<i>other revenue</i>	5,903	6,336	1,332	93.2%	(433)
Operating profit	41,120	26,837	12,008	153.2%	14,283
Amortisation and depreciation	43,045	18,446	13,123	233.4%	24,599
EBITDA	84,165	45,283	25,131	185.9%	38,882

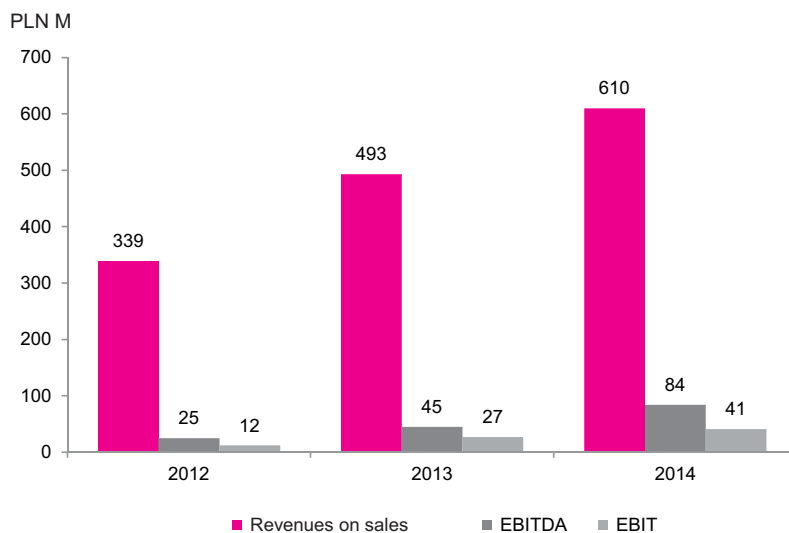
* The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in item 4.7. of this report.

In 2014 the process of migration of customer service, accounting and IT functions from companies of TAURON Capital Group to the Customer Service Segment was continued, including assets used in the companies for the fulfilment of these functions, which has contributed to the growth of revenues of the Area. This process started in 2012; in 2013 migration of IT functions and accounting functions from selected companies of TAURON Capital Group took place, continued in the current reporting year.

The extension of the spectrum of the services provided is associated with the growth in costs of the activities conducted, mainly in the scope of external services and labour costs. The increase in the scope of the services rendered is reflected in the growth of the Customer Service Area results. The value of the assets taken over and the investments carried out both in relation to fixed assets and intangible assets (mainly as a result of implementation of modern IT systems) have an impact on the YoY growth of depreciation value and the value of tangible fixed assets.

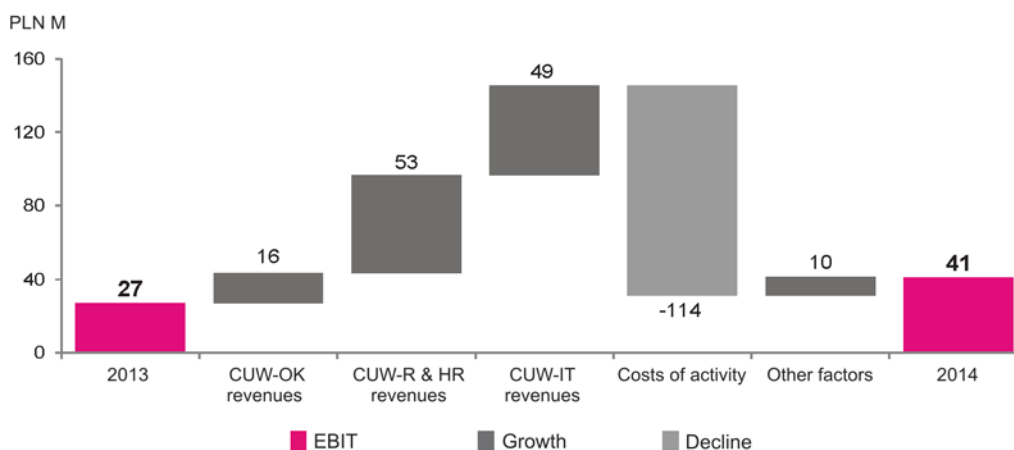
The figure below shows the financial data of the Customer Service Area for the years 2012–2014.

Figure no. 36. Financial data of the Customer Service Area for the years 2012–2014



The figure below shows the EBIT result of the Customer Service Area, including the significant factors influencing the YoY change.

Figure no. 37. EBIT result of the Customer Service Area



Strategy and the strategic priorities

The main goal of the Customer Service Area is to provide services to the Sales and Distribution Areas in the scope of contacts and settlements with clients, at a high qualitative level and cost effective as well as to provide the support function to Business Areas of TAURON Capital Group. The Area harmonises and centralises customer service processes, leading to cost optimisation and quality improvement, providing tools and services enabling business growth in the Sales Area. The Area is responsible for the effective centralisation of support functions in the scope of accounting and IT, which shall contribute to the growth in cost effectiveness of the whole TAURON Capital Group and management quality improvement.

Major investments

In 2014, in the Customer Service Area the total capital expenditures incurred reached PLN 96.3 million. They include mainly the expenditures on IT systems.

Development perspectives

The growing competition in the energy market requires undertaking of measures influencing further improvement of cost effectiveness and the quality of the services provided. The Customer Service Area, through the professional and efficient client service and adjustment of the IT tools to business needs, shall significantly influence the development of the Sales Area. The current market trends explicitly indicate transfer of customer service to alternative channels. The development of online service, the growth in use of Internet and mobile technologies systematically increases, which enforces continuous adjustment of service quality to clients' expectations and requirements. The Customer Service Area continues and finalises the centralisation of common functions in a single entity, consequently improving the efficiency of performance and cost effectiveness of TAURON Capital Group.

2.4.8. Other Area

The table below presents the results of the Other Area in the years 2012–2014.

Table no. 16. Results of the Other Area*

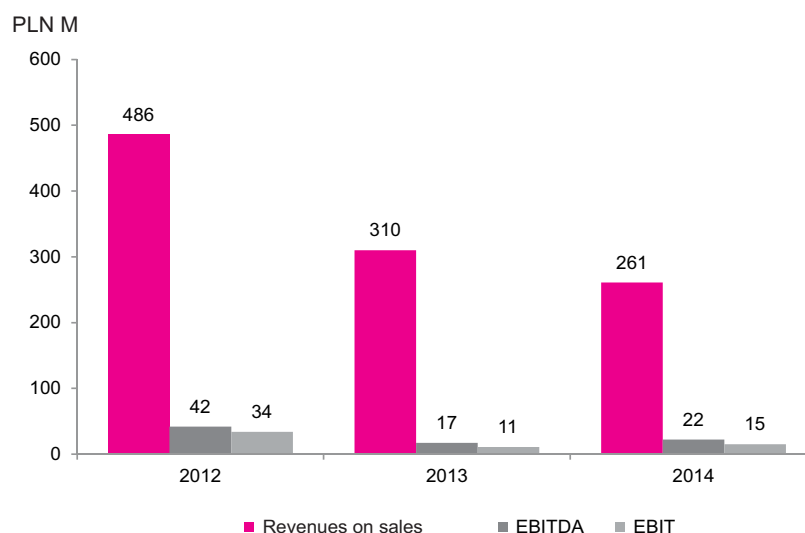
Specification (PLN thous.)	2014	2013	2012	Dynamics (2014/2013)	Change (2014–2013)
Other					
Revenue on sales	261,063	310,212	486,288	84.2%	(49,149)
<i>electric energy</i>	67,395	131,563	311,774	51.2%	(64,168)
<i>property rights arising from certificates of electric energy origin</i>	101,197	86,436	72,594	117.1%	14,761
<i>grinding plant products</i>	54,929	56,834	64,254	96.6%	(1,905)
<i>grit and stone</i>	35,403	33,739	34,893	104.9%	1,664
<i>other revenue</i>	2,139	1,640	2,773	130.4%	499
Operating profit	15,473	10,816	34,048	143.1%	4,657
Amortisation and depreciation	6,685	6,669	8,299	100.2%	16
EBITDA	22,158	17,485	42,347	126.7%	4,673

* The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in item 4.7. of this report.

The revenues of the Other Area gained in 2014 reached 84.2% of the value of revenues gained in the previous year, which was affected by sales of a lower volume of energy and sorbents, with the simultaneous decline in the average sales prices in almost each product offered in the market by companies of the segment. Gaining better YoY results by the Other Area results from achievement of better margins on the sales of products than in 2013 as well as from savings in costs of materials and energy consumption.

The figure below shows the financial data of the Other Area for the years 2012–2014.

Figure no. 38 Financial data of the Other Area for the years 2012–2014



Major investments

In the Other Area the level of capital expenditures incurred in 2014 reached 8.6 million. The investments were mainly implemented by KW Czatkowice with the purpose of optimisation of costs incurred by this company.

Development perspectives

The growing competition on the aggregate market requires undertaking of actions which shall affect further effectiveness improvement. At the same time, the company of the Other Area – KW Czatkowice, conducts the ongoing monitoring of the situation in the markets, searches for new applications for the products currently manufactured, optimises the methods of use of the acquired raw materials, conducts projects with the use of preferential measures aimed at raising the competitiveness of the plant.

2.5. Basic products, goods and services

The table below presents volumes of production and sales in TAURON Capital Group for the years 2014–2012.

Table no. 17. Volumes of production and sales for the years 2014–2012

No.	Volumes of production and sales	unit	2014	2013	2012	Dynamics (2014/2013)
1.	Commercial coal production	<i>M Mg</i>	5.40	5.45	5.57	99.1%
2.	Generation of electric energy (net production of TAURON Capital Group), including:	<i>TWh</i>	15.37	19.39	19.11	79.3%
	<i>Net production of Generation Area</i>	<i>TWh</i>	12.96	17.24	17.60	75.2%
	<i>Net production of RES Area</i>	<i>TWh</i>	0.75	0.61	0.45	123.0%
	<i>Net production of Heat Area</i>	<i>TWh</i>	1.66	1.54	1.06	107.8%
3.	Generation of electric energy from renewable sources of TAURON Capital Group, including:	<i>TWh</i>	1.79	1.38	1.21	129.7%
	<i>Production from biomass of Generation and Heat Area</i>	<i>TWh</i>	1.04	0.77	0.76	135.1%
	<i>Production of hydroelectric power plants and wind farms of RES Area</i>	<i>TWh</i>	0.75	0.61	0.45	123.0%
4.	Heat generation by TAURON Capital Group, including:	<i>PJ</i>	13.41	15.62	16.36	85.9%
	<i>Heat production by Generation Area</i>	<i>PJ</i>	4.36	5.17	7.98	84.3%
	<i>Heat production by Heat Area</i>	<i>PJ</i>	9.06	10.45	8.38	86.7%
5.	Distribution of electric energy	<i>TWh</i>	47.90	47.90	47.85	100.0%
6.	Retail sales of electric energy (in total, by Areas: Sales, Generation and Heat)	<i>TWh</i>	38.59	41.30	44.74	93.4%
7.	Number of clients – Distribution	<i>thous.</i>	5,378	5,334	5,302	100.8%

2.6. Sales markets and sources of supply

2.6.1. Sales markets

Mining Area

The TAURON Wydobycie company acting within the Mining Area is a producer of coal offered for sale on the market in coarse, medium coal assortments and as steam coal dust. Depending on the coal assortment, the coal has the following trade parameters:

- 1) calorific value from 19 MJ/kg to 23 MJ/kg,
- 2) ash content from 9% to 16%,
- 3) sulphur content from 1% to 1.4%.

TAURON Wydobycie conducts the sales of coal in two directions:

- 1) sales of fine coal and coal sludge to power plants and co-generation plants,
- 2) sales of thick, medium and small amount of fine coal sizes through the organized sales network all over the country.

Sales of coal from TAURON Wydobycie is mainly provided in the region of southern and central Poland, in particular, the following provinces: Śląskie, Małopolskie, Podkarpackie, Świętokrzyskie and Dolnośląskie.

In 2014, sales of hard coal by TAURON Wydobycie amounted to approximately 4.9 million Mg, including 3.5 million Mg (about 72%) to the companies of Generation and Heat Segments of TAURON Capital Group. As compared to 2013, it means the decline by approximately 10.9%; the highest decline was recorded in the scope of coarse and medium assortments sold outside TAURON Capital Group.

The lower level of sales results mainly from the market situation of the mining industry, increased import of coal, mainly from the eastern markets, lower production of electric energy from hard coal (in favour of lignite) and increased electric energy production from RES, accompanied by the simultaneous decline in energy demand among consumers. Production of commercial coal in 2014 amounted to approximately 5.40 million Mg and it was lower by ab. 1% in relation to 2013.

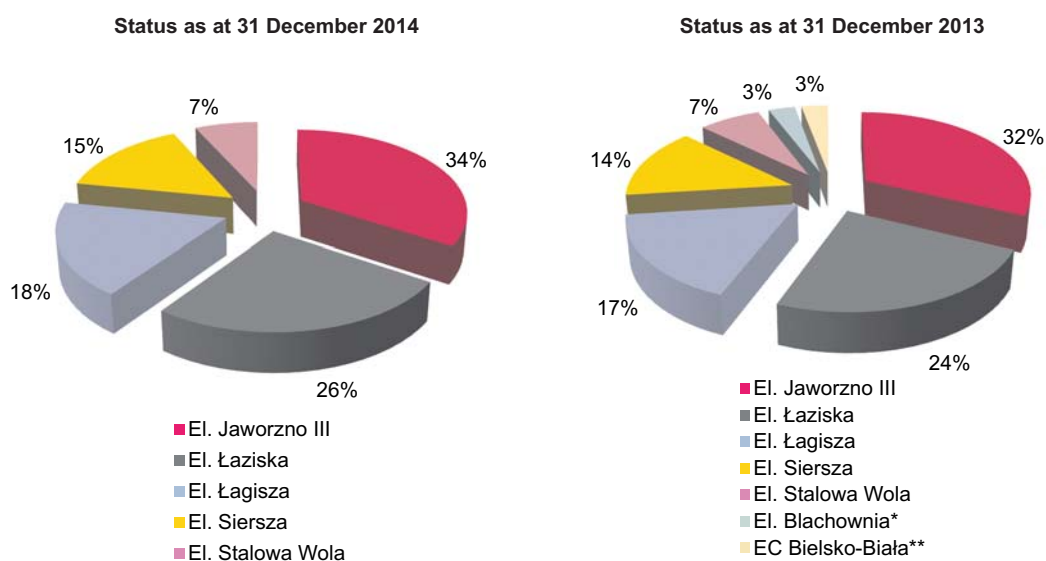
Generation Area

The basic activity of the Generation Area within TAURON Capital Group comprises the generation of electric energy and heat, in 2014 provided by 6 conventional power plants: Jaworzno III, Łaziska, Łagisza, Siersza, Blachownia and Stalowa Wola. As of 10 December 2014, Blachownia Power Plant was incorporated into TAMEH POLSKA.

The total installed electric capacity of the generation units of the Generation Area reached 4,506 MW_e at the end of 2014. The main fuels used in the production process include hard coal, biomass as well as coke-oven gas and high-methane gas.

The figure below presents the structure of installed electric capacity of the Generation Segment according to the status on 31 December 2014 and 31 December 2013.

Figure no. 39. Structure of installed electric capacity of the Generation Segment according to the status as at 31 December 2014 and 31 December 2013



* On 10 December 2014 TAURON Wytwarzanie was divided through separation allocation of Blachownia Power Plant to the TAMEH Polska company.

** On 2 January 2014 TAURON Wytwarzanie was divided through separation allocation of ZEC Bielsko-Biała to the company TAURON Ciepło belonging to the Heat Segment.

In 2014 the electric energy generated by the Generation Area was sold mainly to the Sales Area of TAURON Capital Group (59%), as well as to external consumers, including end consumers. In 2014, the share of energy sales on the balancing market was significantly higher in relation to 2013.

The profitability of the Generation Area is influenced, among others, by the RB mechanisms which, under their shape applicable in 2013, did not transfer the costs of maintaining the so-called “cold reserve”. As of 1 January 2014, pursuant to the decision of the ERO President, a new mechanism for OPR payments was introduced, proposed by the TSO at the end of 2013. The operation of this mechanism is based on payment for power available to the TSO at systemic units, not sold in the wholesale trade. The mechanism enables to recover – partly – the fixed costs incurred by such entities (including the so-called “cold reserve”), which significantly improves the profitability of the Generation Area. Introduction of this mechanism resulted from the necessity to maintain the relevant level of installed capacity in KSE,

in connection with the forecast possibility of KSE imbalance in the nearest years. Following the modifications, this mechanism shall also apply in 2015.

Heat produced by Generation Business Area is sold to TAURON Capital Group companies which deal with distribution and sales of heat, as well as to external consumers.

Moreover, due to electric energy generation in RES as well as in co-generation, the Generation Area acquires certificates of origin, which are subsequently purchased by the companies of the Sales Area and submitted to the President of ERO, to be redeemed. Companies generating electric energy in co-generation started to receive the certificates of energy origin (the so-called "red" and "yellow" certificates) only as of May 2014, due to the delay in the legal provisions regulating the support system for energy generation in high-performance co-generation facilities. As of 30 April 2014 the support system for high-performance co-generation was recovered. The amendment to the *Act of 10 April 1997 on Energy Law* and certain other acts, extends the functioning of the support system for producers of electric energy and heat in the co-generation process until 2018.

RES Area

Electric energy generated in 2014 by the RES Area constituted 5% of the total energy generated within TAURON Capital Group. This energy was sold within TAURON Capital Group to TAURON Sprzedaż (about 50%) and to TAURON (about 4%), as well as outside TAURON Capital Group – to ENEA and ENERGA OBRÓT S.A. companies (approximately 46%). The property rights obtained due to production of electric energy in RES were sold to companies of TAURON Capital Group, for the purpose of redemption, and to ENEA.

Heat Area

The core activity of the company TAURON Ciepło, carried out on the basis of concessions granted by the President of URE covers:

- 1) generation of heat and electric energy,
- 2) heat trading,
- 3) heat transmission and distribution.

This activity is performed on the territory of Śląskie, Dolnośląskie and Małopolskie provinces. TAURON Ciepło has its own heat sources with the total installed heat capacity of 1,282 MW (excluding ZW Nowa transferred to the TAMEH POLSKA company as of 10 December 2014). Heat production in 2014 by the Heat Area reached about 9.1 PJ, and the total heat sales – 12.9 PJ. The share of heat produced in own sources in the total volume of heat sales amounted to about 63% in 2014.

Production of electric energy by the Heat Area reached approximately 1.7 TWh in 2014.

In 2014, an important consumer of heat and electric energy, and other utilities (wind of blast furnace, compressed air, technological steam, etc.) was ArcelorMittal. The output of ZW Nowa (industrial cogeneration plant) is mainly targeted at providing ArcelorMittal with the aforementioned energy media required for the technological process. The level of ArcelorMittal demand and, consequently, the production of ZW Nowa, is determined by the situation in the metallurgical market. In connection with the establishment of a joint undertaking under the form of the TAMEH Polska company by TAURON and ArcelorMittal, as of 10 December 2014 ZW Nowa was transferred to this company.

Distribution Area

The company TAURON Dystrybucja acts as the DSO, pursuant to the decision of the President of ERO. The Distribution Area provides services to approximately 5,380 thousand of end consumers.

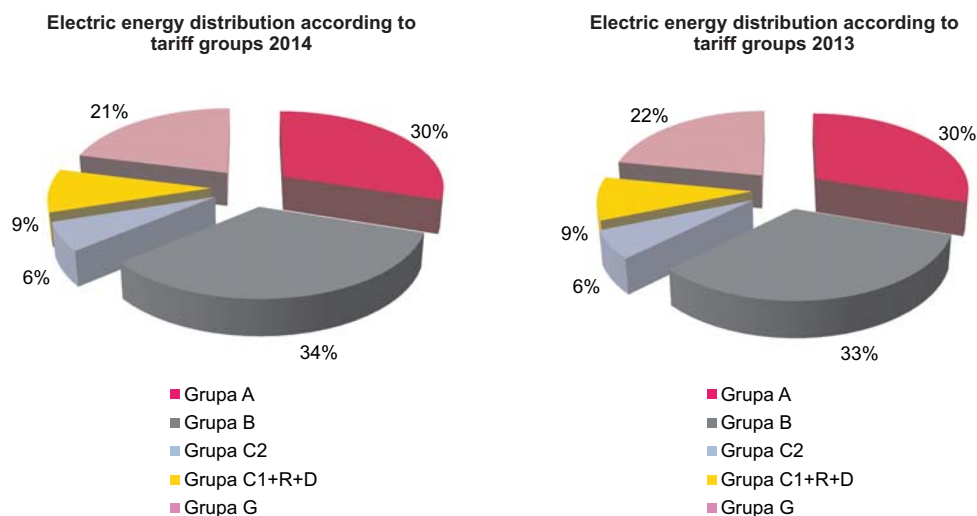
The activities of the Distribution Segment cover the area of about 57 thousand km², located mainly in the Śląskie, Małopolskie, Dolnośląskie and Opolskie provinces and, in addition, in the Podkarpackie, Łódzkie and Świętokrzyskie provinces. The operating functions are fulfilled by eleven branches of the company, located in: Bielsko-Biała, Będzin, Częstochowa, Gliwice, Jelenia Góra, Kraków, Legnica, Opole, Tarnów, Wałbrzych and Wrocław.

In 2014 the sales volume of electric energy distribution services amounted to 47.9 TWh, i.e. that it remained at a level similar to 2013.

In the volume of supply of the distribution services sales to tariff consumers in the scope of individual levels of voltage makes 95.25%: high voltage (A group), medium voltage (B group) and low voltage (C,G,R). The total level of electric energy supplied in 2014 within sales of distribution services to tariff consumers connected to the TAURON Dystrybucja grid, amounted to 45.6 TWh (estimated) and it was higher as compared to 2013 by about 43.5 GWh, i.e. by 1%.

The figure below presents the distribution of electric energy according to tariff groups for 2013 and 2014.

Figure no. 40. Distribution of electric energy according to tariff groups [MWh]



Sales of distribution services is carried out on the basis of comprehensive agreements as well as agreements on provision of distribution services concluded with consumers. The first of the aforementioned types of agreements covers both sales of electric energy by the companies of the Sales Area and supply of energy by the company acting as the DSO. The second type of agreements regulates only supplies of electric energy by the company acting as the DSO. In case of that type of agreements, purchase of electric energy is regulated in separate agreements for electric energy sales, concluded by the consumer with the seller selected by it.

Share of sales value of distribution services under the comprehensive agreements, in the total value of sales of distribution services to end consumers in 2014 reached about 60%. On the other hand, the volume of supply under comprehensive agreements within the total volume of supply to end consumers reached about 41%.

Sales Area

The Sales Business Area comprises activities in the scope of electric energy sales and the wholesale trading of electric energy and other products of the energy market. Operations in the area of sales cover sales of electric energy to end customers, including key accounts. On the other hand, operations within wholesale trading comprise mainly wholesale trade of electric energy, trade and management of CO₂ emission allowances, property rights arising from the energy certificates of origin natural gas trading.

In 2014, in the Sales Area TAURON Capital Group acted in the market environment where the level of competitiveness in individual segments did not change significantly as compared to the previous years. In 2014, the market of households (individual clients), irrespective of its announced liberalisation, was still subject to the obligation of sales prices approval by the President of ERO. The effect of this situation was the low competitiveness in this market segment. According to the data of ERO, from mid-2007 until the end of November 2014, i.e. as of the beginning of the energy market liberalisation, approximately 288 thousand households that changed the energy supplier were recorded. It is much more than in 2013, however, taking into account the potential of this segment, i.e. the total number of households in Poland, this figure makes only a limited percentage and it is only the beginning of the liberalisation process of this market segment.

The opposite situation is observed in the segment of institutions and economic entities (business client) where the competition is high and companies have benefited from the liberalisation of electric energy prices for several years. The progress in liberalisation has caused that a business client with rising awareness expects competitive solutions. The intensified sales activity of energy companies exerts increasing price pressure; new entities competing for a client appeared and the transparency of the mechanisms of energy market is a must in any activities on this market. According to the ERO data, from mid-2007 until the end of November 2014 almost 123 thousand institutional entities which changed the energy supplier were recorded.

In 2014 over 182 thousand consumers of electric energy changed their supplier (including approximately 30 thousand institutional clients and approximately 152 thousand households). In 2014 the dynamics of changes in case of households amounted to 112.2%, and in case of institutional entities – to 32.6%. Since the beginning of the energy market liberalisation, i.e. since mid-2007, approximately 288 thousand households and almost 123 thousand institutional clients have changed their electric energy supplier.

In 2014 the total retail sales of electric energy conducted by the Sales Area to approximately 5.3 million clients reached about 38.3 TWh, i.e. 93.3% of the level reached in 2013 when the sales amounted to about 41.0 TWh. The decline in the volume of sales results mainly from the reduced demand among clients from A and C tariff groups, as well as from the reduced energy demand in the group of strategic and mass clients.

The segmentation of clients used by TAURON Capital Group (strategic, business and mass clients), depending on the quantity of electric energy consumed, is aimed adjusting the product offer, sales channels and marketing communication to the expectations in the specific segment of clients.

The table below presents categories of TAURON Capital Group end clients, resulting from the segmentation used and the specific nature of their business:

Table no. 18. Categories of end consumers of TAURON Capital Group

No.	Group of clients	Description of clients
1.	Strategic clients	Clients with the annual potential energy consumption at a level not lower than 40 GWh or strategic business partners of TAURON Capital Group, i.e. mainly entities representing the sector of heavy industry, among others: metallurgical industry, chemical industry, mining industry, automotive industry
2.	Business clients	Clients with the annual potential energy consumption at a level above 250 MWh (not consumers), or purchasing energy based on the provisions of the <i>Act of 29 January 2004 on Public procurement law</i> , i.e. entities representing other sectors of industry, producers of equipment, consumers from food industry, public sector, construction sector and public utilities sector
3.	Mass clients – small and medium-sized enterprises	Clients dealing with sales, services, banking, catering and small entrepreneurs
4.	Mass clients – households	Households

The table below presents information on the volume of electric energy sold by companies of TAURON Capital Group, operating in the area of electric energy sales to clients as well as on numbers of clients, divided into individual client segments in 2014.

Table no. 19. Quantity of electric energy sold By the Sales Area and the number of clients in 2014

No.	Kind of clients	Volume of sold of Electric Energy (in TWh)	Number of clients (in thousand)
1.	Strategic clients	10.0	0.03
2.	Business clients	12.5	130
3.	Mass clients, including:	12.1	5,128
	<i>households</i>	9.4	4,787
4.	Sales to TAURON Dystrybucja to cover balancing differences	3.6	0.001
Total Sales Area		38.3	5,258

The process of the progressing liberalisation and the associated clients' rising awareness in the scope of mechanisms of energy market functioning is reflected in the level of loyalty in individual segments of purchasers. This situation results in activities in the scope of protection of own client base against the actions of the competition, through the introduction of loyal customer agreements. The highest level of progress of this process is noted among clients of the business segment of TAURON Capital Group where over 95% of the volume of the agreements concluded results from individually negotiated commercial terms.

The migration process of clients from the mass segment (individual clients and small and medium enterprises) from the tariff area to the product area is currently under development. At the end of 2014 TAURON Capital Group sold energy to about 23% of clients of this segment based on agreements with a guarantee of commercial terms and conditions in the specific period (loyalty agreements), and 77% of clients bought energy at tariff prices.

The key element of the commercial offer for mass clients in 2014 was the combined product called *Elektryk (Electrician)*, based assistance functionality, used by over 160 thousand clients. Within the framework of the campaign *TAURON means more than electricity*, in 2014 TAURON Sprzedaż started the pilot sales of gas to mass market clients and introduced the offer for clients buying coal. Changes introduced in the consumer law had a significant impact on the organisation of sales and service processes in 2014. The aforementioned elements shall also affect sales functioning and sales offer in 2015 and in the subsequent years. All sales activities in 2014 were conducted with the intention to

maintain the expected level of sales margins and to build the potential for sales of other services and additional products in the subsequent years.

Gas fuel trading is a new commercial area in the activities of TAURON Capital Group. Within the framework of this process, gas sales in the group of business clients was commenced by concluding the first contracts with price guarantee for the client. In 2015 introduction of a regular offer for gas fuel supply to current and potential clients from the business market is planned.

2.6.2. Supply sources – fuels

Coal

In 2014 the purchase of coal by TAURON was continued for the needs of TAURON Wytwarzanie and TAURON Ciepło based on the multi-annual and annual agreements. In 2014, about 42% of the current demand of TAURON Capital Group for fuel required for generation of electric energy and heat was satisfied by hard coal coming from own coal mines. The remaining part of the demand was covered from external sources, where Kompania Węglowa constituted the highest share (about 43.5% of the demand).

Biomass

In order to provide the supply of fuels for the needs of electric energy and heat generation by units using biomass as a fuel in the technological process, the Company acquired biomass under the multi-annual and annual agreements for the purchase of biomass from national producers and suppliers. The said agreements covered the purchase of biomass for the co-burning process and for the needs of dedicated units 100% supplied with biomass.

In 2014, for the co-burning process the total of 204 thousand Mg were purchased, entirely comprising the agro biomass. For boilers burning biomass in 100%, the Company purchased the total of 818 thousand Mg, including 180 thousand Mg of agro biomass, the remaining part constituting wood biomass. The Company conducted resale of biomass purchased pursuant to the aforementioned agreements to TAURON Wytwarzanie and TAURON Ciepło under separate agreements on biomass sales for the co-burning process and to the dedicated RES units.

Gas

In 2014 TAURON continued the supplies of high-methane gas to Stalowa Wola Power Plant (TAURON Wytwarzanie) and to ZEC Bielsko-Biała EC 1 (TAURON Ciepło). The gas supplied by the Company was purchased under the comprehensive agreement on gas fuel supply and the agreement with PGNiG.

On the other hand, the coke-oven gas was supplied by TAURON to Blachownia Power Plant (TAURON Wytwarzanie). The said gas was purchased by TAURON from ArcelorMittal Poland, Zdzeszowice Branch, under the multiannual agreement for the supply of coke-oven gas. The transmission of the coke-oven gas was conducted under the agreement for the provision of transmission services of the coke-oven gas concluded with Polska Spółka Gazownictwa sp. z o.o. Oddział w Zabrze, Zakład w Opolu Zabrze Branch, Plant in Opole.

Sales of the coke-oven gas and the high-methane gas was performed on the basis of the 2nd Tariff for gas fuels and the comprehensive agreements for the supply of the coke-oven gas and the high-methane gas concluded with TAURON Wytwarzanie.

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

Table no. 20. Fuel supplies delivered to entities of TAURON Capital Group

No.	Fuel type	unit	TAURON Wytwarzanie	TAURON Ciepło	TAURON Sprzedaż	TAMEH POLSKA
1.	Coal	Mg	6,895,756	943,777		14,020
2.	Biomass	Mg	676,233	346,524		
3.	Coke-oven gas	[1,000 m ³]	366,539			
4.	Natural gas	[1,000 m ³]	1,356	682	1,003	

Value of sales in the domestic and foreign markets

The activities of TAURON Capital Group are mostly conducted in the Polish market where the value of sales in the years 2014 and 2013, excluding the intra-group sales, amounted to PLN 17,953,310 thousand and PLN 18,588,972 thousand, respectively.

The value of sales to foreign clients in the years 2014 and 2013, excluding the intra-group sales, amounted to PLN 487,453 thousand and PLN 542,200 thousand, respectively.

2.7. Important events and achievements of TAURON Capital Group with significant impact on its operations

The most important events with significant impact on operations of TAURON Capital Group, which occurred during the financial year 2014, as well as until the day of this report are listed below:

Important corporate events in 2014

Extraordinary General Meeting of the Company

On 7 January 2014 the Extraordinary General Meeting of the Company was held, which adopted the amendments to the Articles of Association of the Company, defined the number of members of the Supervisory Board (9 persons) and appointed Mr Aleksander Grad as a member of the Supervisory Board. On 10 February 2014 the Supervisory Board of the Company adopted the consolidated text of the *Articles of Association of TAURON Polska Energia S.A.* (Company Articles of Association) comprising the aforementioned amendment.

Detailed information concerning the adopted amendments to the Company Articles of Association is included in item 6.8.1 hereof.

The Company informed of the aforementioned events in the current reports no. 1/2014, no. 2/2014, no. 3/2014 of 7 January 2014, no. 5/2014 of 16 January 2014 and no. 11/2014 of 10 February 2014.

Dismissal and appointment of Supervisory Board member of the Company

On 22 January 2014 the Minister of Treasury, acting pursuant to § 23 item 1 p. 3 of the Company Articles of Association, dismissed Mr. Rafał Wardziński from the Supervisory Board of TAURON and appointed Agnieszka Woś.

The Company informed of the aforementioned events in the current reports no. 8/2014 and no. 9/2014 of 22 January 2014.

Delegating the Member of the Supervisory Board to the temporary performance of activities of the Company Management Board Member and submission of resignation from the function fulfilled

On 10 February 2014 the Supervisory Board of TAURON adopted the resolution on delegating the Member of the Supervisory Board, Aleksander Grad to the temporary performance of the duties of Vice President of TAURON Management Board in the period from 11 February 2014 until 11 May 2014.

On 17 March 2014, the Member of the Supervisory Board, Mr Aleksander Grad, resigned from his function of the Member of the Supervisory Board, delegated to the temporary performance of the Vice President of the Management Board, effective as of 17 March 2014. In connection with the expiry of the mandate of the above mentioned Supervisory Board Member, the time for which he was delegated to temporarily perform the duties of the Vice President of the Management Board was reduced and ended on the day the above resignation was submitted.

The Company informed of the aforementioned events in the current reports no. 12/2014 of 10 February 2014 and no. 14/2014 of 17 March 2014.

Dismissal and appointment of Members of the Company Management Board

On 17 March 2014 the Supervisory Board, upon adopting of the relevant resolutions, dismissed all Management Board Members and appointed the Company Management Board for the 4th common term.

Detailed information concerning the dismissal and appointment of the Management Board is included in item 6.11.1 hereof.

The Company informed of the aforementioned event in the current reports no. 15/2014 and no. 16/2014 of 17 March 2014.

Recommendation of the Management Board concerning the dividend payout

On 15 April 2014 the Management Board of the Company made the decision concerning the recommendation to the Company Ordinary GM concerning the level of dividend to be paid to the Company shareholders in the amount of PLN 262,882,409.10, from the net profit gained in 2013, which means the amount of PLN 0.15 per single share. At the same time, the Management Board indicated that the recommendation shall be subject to the assessment by the Company Supervisory Board. Simultaneously, the Management Board decided to submit the recommendation to the Company Ordinary GM defining:

- 1) 14 August 2014 as the dividend record day,
- 2) 4 September 2014 as the dividend payment day.

The recommendation of the Management Board regarding the amount of dividend to be paid to Company shareholders was prepared after taking into account the current TAURON Capital Group development plan comprising

the implementation of the adopted investment programme requiring significant financial resources exceeding the current cash flows from TAURON Group operating activities. The funds to remain in the Company will be used in total for the execution of the investments, at the same time, reducing the demand for further financing and limiting the increase of debt ratio. On 18 April 2014 the decision of the Management Board concerning the dividend payment was positively assessed by the Company Supervisory Board.

On 15 May 2014 the Ordinary General Meeting of the Company adopted the resolution on profit distribution for the financial year 2013 and defining of the amount allocated for payment of the dividend to shareholders, the dividend record day and the dividend payment day.

In accordance with the aforementioned resolution, the Ordinary GM allocated the amount PLN 350,509,878.80 for payment of the dividend for shareholders from the net profit for the financial year 2013, which means that the amount of the dividend per share was PLN 0.19. Simultaneously, the General Meeting defined the dividend record day for 14 August 2014 (the day of dividend) and the date of the dividend payment for 04 September 2014 (the day of dividend payment).

The Company informed of the aforementioned events in the current reports no. 18/2014 of 15 April 2014, no. 21/2014 of 18 April 2014, no. 24/2014 and no. 25/2014 of 15 May 2014.

Ordinary General Meeting of TAURON

On 15 May 2014 the Ordinary GM of the Company was held, which, among others, adopted the resolutions on approval of the Consolidated financial statement of TAURON Capital Group and the Report of the Management Board on Activities of TAURON Capital Group for the financial year 2013, the financial statement of TAURON and the Report of the Management Board on the operations of the Company for the financial year 2013, on acknowledgement of the fulfilment of duties by members of the Management Board and the Supervisory Board of the Company, on profit distribution for the financial year 2013 and determining of the amount allocated for the payment of dividend for shareholders as well as defining the dividend record day and the dividend payment day.

The Company informed of the aforementioned event in the current reports no. 24/2014 and no. 25/2014 of 15 May 2014.

Appointment of Supervisory Board members of TAURON Company

On 15 May 2014 the Minister of Treasury, acting pursuant to § 23 section 1 item 1) and 3) of the Company Articles of Association appointed the following persons as members of the Supervisory Board for the 4th common term of office: Andrzej Gorgol, Michał Michalewski, Marek Ściążko, Antoni Tajduś, Agnieszka Woś.

Moreover, the Ordinary GM of the Company, acting pursuant to § 22 section 1 of the Company Articles of Association adopted the resolution on appointment of Jacek Szyke as the member of the Supervisory Board for the 4th common term of office as of 15 May 2014.

The Company informed of the aforementioned event in the current report no. 26/2014 of 15 May 2014.

Request to convene Extraordinary General Meeting of the Company appointment of the Supervisory Board Members

On 29 July 2014 the Company, in electronic form, a request from KGHM – the shareholder representing 10.39% of the share capital of the Company, to convene an urgent Extraordinary General Meeting of the Company, pursuant to the Company Articles of Association and the By-Laws of the Company General Meeting, and to include an item concerning supplementary election of new members of the Company Supervisory Board on the agenda of the Meeting. In the rationale KGHM stressed that extending the current composition of the Supervisory Board would enable wider representation of shareholders in the Supervisory Board and have a positive impact on implementation of statutory responsibilities of this governing body.

On 1 September 2014, in connection with the aforementioned request, the Extraordinary GM of the Company was held which adopted the resolution concerning defining of the number of Supervisory Board members and the resolution concerning the appointment of the following persons as members of the Company Supervisory Board of the 4th common term, as of 1 September 2014: Maciej Koński, Leszek Koziorowski and Maciej Tybura.

The Company informed of the aforementioned events in the current reports no. 32/2014 of 30 July 2014, no. 33/2014 of 5 August 2014, no. 35/2014 and 36/2014 of 1 September 2014.

Important business events in 2014

Fulfilment of the last condition precedent regarding the transfer of ownership of TAURON Wydobyćie shares to TAURON

On 15 January 2014 the GM of Kompania Węglowa approved the sales of 16,730,525 registered shares of TAURON Wydobyćie in favour of TAURON. Consequently, the last condition required to transfer the ownership of the aforementioned shares to TAURON was fulfilled. Following the payment of the remaining amount, i.e. PLN 77,500 thousand to the benefit of Kompania Węglowa on 22 January 2014, the ownership of the said shares held by Kompania Węglowa was transferred to TAURON.

Detailed information on the aforementioned event is included in item 1.3.2 hereof.

The Company informed of the fulfilment of the aforementioned condition in the current report no. 6/2014 of 16 January 2014.

On 28 August 2014, TAURON purchased the remaining shares of TAURON Wydobywanie from TAURON Wytwarzanie, in the amount of 18,473,553 shares, constituting 52.48% of the share in the initial capital of this company. As a result, TAURON directly holds 100% shares in the initial capital of TAURON Wydobywanie.

Information on the provision recognised in the financial statement of TAURON Capital Group for 2013, concerning free CO₂ emission allowances which were not received in 2013

On 28 January 2014 the Company informed of anticipated impact of a non-cash one-off event in the form of the provision recognised in annual consolidated financial statements of TAURON Capital Group and related to free greenhouse gas emission allowances in the Generation and Heat Segments, which were not received in 2013. In accordance with the adopted accounting policy, the provision for emission allowances of gases that are included in emission allowance scheme is charged against (taxes and charges) in the case when the actual emission level exceeds the volume of free emission allowances held by the TAURON Group on the balance sheet date. The provision to cover the cost of deficit is charged to the value of emissions purchased or contracted for this purpose, at arm's length prices as at the balance sheet date, in relation to unhedged deficit of allowances (if such situation occurs).

In accordance with *Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC*, TAURON Capital Group is entitled to receive free emission allowances pursuant to Article 10c of the aforementioned Directive ("derogation allowances"). TAURON Capital Group applied for derogation allowances, however, as they had not been allocated until 31 December 2013, which, in accordance with the adopted accounting policy prevents the possibility to recognise derogation allowances when calculating the amount of the provision for carbon dioxide emissions, the provision due to emission in the consolidated financial statements of the TAURON Capital Group for 2013 was higher than initially estimated by approximately PLN 270,000 thousand (about PLN 260,000 thousand in the Generation Segment and by about PLN 10,000 thousand in the Heat Segment), which accordingly decreased EBITDA result by this amount. Recognition of the provision reduced the net financial result of TAURON Capital Group for 2013 by the amount of approximately PLN 219,000 thousand.

At the same time, the Company has informed that due to the applied policy of risk management and securing the market position in the scope of emission allowances, TAURON Capital Group companies hold in their registers of CO₂ emission allowances the amount of allowances sufficient to cover the 2013 emissions. The allowances were initially purchased to be used in the consecutive years and the related expenses have not been recognised in costs for 2013.

The Company informed of this event in the current report No. 10/2014 of 28 January 2014.

RAFAKO - MOSTOSTAL consortium extended validity of the offer for the construction of the power unit at Jaworzno III power plant

On 27 February 2014 the Company was informed that the validity of the offer submitted by the consortium of RAFAKO - MOSTOSTAL under the tender procedure on selection of the general contractor of the 800–910 MW power unit at Jaworzno III power plant was prolonged until 30 April 2014. The above consortium also submitted an annex to the bank bid bond extending validity of this guarantee until 30 April 2014, inclusive.

The Company informed of this event in the current report no. 13/2014 of 27 February 2014.

Update of Corporate Strategy

On 2 June 2014 the Company Management Board adopted and the Supervisory Board issued a positive opinion on the document entitled *Corporate Strategy of TAURON Group for 2014–2017 with an outlook until 2023*. The adopted document is an update of the *Corporate Strategy of TAURON Group for 2011–2015 with an outlook until 2020*.

Detailed information on the aforementioned event is included in item 1.4.1 hereof.

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

Exceeding of the 10% equity threshold of the Company within the trading turnover between TAURON Capital Group companies and PSE Group companies

On 7 July 2014, the Company received from PSE documents concerning the mutual provision of services to companies of TAURON Capital Group, enabling the settlement with PSE Group companies, with reference to the current reports: no. 1/2012 of 5 January 2012, no. 37/2012 of 7 November 2012 and no. 42/2013 of 15 October 2013, regarding trade turnover between companies of TAURON Capital Group and PSE. In accordance with the aforementioned documents, as at 15 October 2013, i.e. as at the day of submission of the current report no. 42/2013, the net trade turnover generated between companies of TAURON Capital Group and companies of PSE Group amounted to about PLN 2,035 million (including approximately PLN 1,389 million of cost items for TAURON Capital Group companies, and about PLN 646 million of revenue items), accordingly, the value of turnover exceeded 10% of the Company equity.

The turnover of the highest value, i.e. about PLN 707 million net, was generated under the agreement of 16 December 2013, concluded between TAURON Dystrybucja and PSE. The subject of the aforementioned Agreement, concluded for indefinite period of time, is the provision of transmission services by PSE, understood as the transport of electric energy via the transmission grid. Its estimated value over a period of 5 years following its conclusion, is about PLN 6,661 million. The settlements for the services are conducted in accordance with the rules and rates approved by the President of the ERO, defined in the tariff, and taking into account the provisions of the IRIESP. The above mentioned Agreement does not stipulate any liquidated damages and it does not contain any conditions precedent or terminating conditions.

The Company informed of the aforementioned event in the current report no. 30/2014 of 8 July 2014.

Confirming of the Fitch agency rating for TAURON

On 18 July 2014, the Fitch rating agency informed of their decision to sustain the rating for the Company in foreign and local currency at the "BBB" level, with stable perspective. According to the Fitch agency, the ratings reflect the leading position of TAURON Capital Group in electric energy distribution and generation segments in Poland. Significant share of stable and predictable distribution segment in the EBITDA result (60% in 2013) has a positive impact on the rating. The ratings are limited by poorer financial results of the generation segment, limited diversification of fuels (dominating position of hard coal) and the increasing leverage resulting from major capital expenditures spent on replacement and development of generation capacity.

On 24 October 2014, the Fitch rating agency informed of their decision to sustain the international long-term rating for the Company in foreign and local currency at the "BBB" level, with stable perspective. The Fitch rating agency also assigned TAURON the international short-term foreign and local currency Issuer Default Rating of "F3", a National long-term rating of "A(pol)" with Stable Outlook and assigned the expected national senior unsecured rating of "A(pol)(EXP)" to the planned bond issue.

According to the Fitch agency, the ratings reflect the leading position of TAURON Capital Group in electric energy generation segment in Poland. Significant share of stable and predictable distribution segment in the EBITDA result has a positive impact on the rating. At the same time, the ratings are constrained by worse financial performance of the generation segment, concentrated generation fuel mix (mostly coal-fired plants) and Fitch's forecasts of a weakening of credit metrics, mostly due to large replacement and expansionary CAPEX in the generation segment.

The Company informed of the aforementioned events in the current reports no. 31/2014 of 18 July 2014 and no. 40/2014 of 24 October 2014.

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

On 3 September 2014, the Shareholders' Agreement was concluded between PGE, TAURON, KGHM and ENEA, pursuant to which TAURON, KGHM and ENEA, as Business Partners, will purchase from PGE, under a separate agreement, 30% shares in total (each of the Business Partners will purchase 10% shares) in a special purpose vehicle – PGE EJ 1 which is responsible for preparation and execution of the investment comprising construction and operation of the first Polish nuclear power plant of approximately 3 thousand MW_e capacity.

Detailed information on the aforementioned event is included in item 1.4.3.2 hereof.

The Company informed of the aforementioned events in the current reports no. 38/2014 of 3 September 2014 and no. 39/2014 of 9 October 2014.

Approval of the tariff for electric energy sales for TAURON Dystrybucja and TAURON Sprzedaż by the ERO President

On 17 December 2014 the Company was were informed that the tariff for electricity for TAURON Distribution had been approved by the President of ERO. The approved tariff rates for 2015 are higher than the rates applicable in 2014 by 4.74% on average.

On the same day, the Company was informed of the approval of the tariff for electric energy by the ERO President for the company TAURON Sprzedaż, for the period until 31 December 2015, related to consumers in G tariff groups (connected to the TAURON Dystrybucja grid excluding the Gliwice district), to which TAURON Sprzedaż provides a comprehensive service.

In accordance with the applicable regulations, the new tariffs may come into force 14 days after they have been published in the bulletin of the ERO President, at the earliest. Decisions concerning the approval of new tariffs are announced in the bulletin of the ERO President, posted on the ERO website www.ure.gov.pl.

The Company informed of the aforementioned events in the current reports no. 43/2014 and no. 44/2014 of 17 December 2014.

Other events in 2014

Signing the agreement with PSE for the “cold reserve”

On 26 March 2014, TAURON Wytwarzanie signed an agreement with PSE for the provision of the “cold intervention reserve” service, comprising units no. 3 and 6 in Siersza Power Plant and unit no. 8 in Stalowa Wola Power Plant, belonging to TAURON Wytwarzanie. The total installed capacity of the units covered by the reserve is 376 MW. The service will be provided in the years 2016–2017, with a possibility to extend it until 2019.

The provision of the “cold intervention reserve” is based on dispatching and using the generation units by the TSO for intervention balancing of active power balance to maintain the operational security of the National Power System (KSE) after 2015. The providers of the new service may include centrally dispatched generation units which were to be permanently decommissioned after 2016 due to technical, economic and environmental reasons. The extension of the lifetime of the old power blocks is expected to provide for safe level of power reserves until the new generation sources appear in the electric power system.

Merger of TAURON Ciepło S.A. and Enpower service

On 30 April 2014 the merger of companies: Enpower Service (the Acquiring Company) and TAURON Ciepło S.A. (the Acquired Company) was registered. At the same time, the change of the Acquiring Company name to “TAURON Ciepło sp. z o.o.” occurred.

The detailed description of the aforementioned event is included in item 1.3.2. hereof.

Activities in the scope of gas trading

In connection with the liberalisation of gas trading in Poland, TAURON Capital Group successively builds competence in the scope of gas trading. As of January 2014, TAURON conducts active operations in the area of wholesale gas trading. The Company is an active participant of the following exchanges: TGE in the scope of Day-Ahead Market (RDNg) and Forward Market (RTTg), European Energy Exchange (EEX) in EEX Spot Market and EEX Derivatives Market segments. The Company has been registered on the PRISMA European Capacity Platform GmbH enabling active participation in the mechanism of transmission capacity allocation. It provides the opportunity to secure the needs of import or export from/to the national gas system of the German market on competitive basis. The Company also cooperates with the GASPOOL Balancing Service GmbH gas hub, ONTRAS Gastransport GmbH and GASCADE Gastransport operators and with the customers in the scope of purchase / sales of gas in the Polish and German OTC markets.

On 3 May 2014 a new Tariff for Gas Fuel of TAURON Polska Energia entered into force, effective for a period of 12 months following its entry into force. TAURON Capital Group, as the first of the Polish energy groups, gained the opportunity of parallel offering of electric energy and natural gas products to its business clients. In the framework of the operations commenced in the gas markets, TAURON concluded three first gas contracts with clients outside TAURON Capital Group, for the total volume of approximately 171 GWh. In order to hedge these contracts, daily, monthly, quarterly and annual gas products were purchased on the wholesale market.

On 17 July 2014, the ERO President approved the Tariff for high-methane natural gas for TAURON Sprzedaż for a period of 12 months following its adopting for application. At the same time, in Q3 2014, the TAURON Sprzedaż company reached the legal and organisational capacity for the commencement of gas fuel sales in the business market area. The commencement of gas fuel sales in 2014 resulted in the introduction of the TAURON Gas product dedicated to the segment of business clients into the offer. The commencement of gas sales offering in the mass market is scheduled for 2015.

Development of the Centre of Common Services (CUW)

In May 2014 the Programme on *Integration of IT Functions* was completed, under which the Centre of Common IT Services was established (CUW IT), providing IT services to all companies of TAURON Capital Group. Within the framework of the Programme, IT assets, key agreements with external suppliers were transferred to CUW IT and assumptions of new corporate governance in the IT area were implemented, in particular, new organisational and corporate structures. The new organisation, through standardisation of processes and services as well as centralisation of key IT tools, shall allow for cost optimisation of IT functioning in TAURON Capital Group as well as efficient responding to the changing requirements of individual business areas.

In 2014 works commenced in 2012 under the Programme on *Integration of the Accounting Function* were continued, associated with the organisation of the Centre of Common R Services (CUW R) in the TAURON Obsługa Klienta, providing services in the accounting area. CUW R provides the financial and accounting services to the following companies: TAURON, TAURON Wytwarzanie, TAURON Sprzedaż, TAURON Sprzedaż GZE, TAURON Ciepło,

TAURON Obsługa Klienta, TAURON Dystrybucja Serwis, TAURON Dystrybucja and TAURON EKOENERGIA. Under the aforementioned Programme, an integrated SAP system was implemented.

Agreement of Polish energy groups related to innovation

On 26 June 2014, four biggest Polish energy enterprises: ENEA, ENERGA, PGE and TAURON signed a letter of intent concerning close cooperation in the scope of research, development and innovation as well as joint implementation of projects related to research and development. The main goal is the intensive search for technological solutions corresponding to the key challenges faced by the Polish energy sector.

The selected research projects will focus, among others, on the reduction of emission in the process of electric energy generation as well as increasing the effectiveness of energy distribution and use. The development of smart distribution and transmission grids is also essential, to assist the implementation of such projects as “smart house” or storage of electric energy. The coordinated process of research works will not only provide the added value in the form of scale effect and technological synergy, but it will also contribute to the more comprehensive exploitation of the Polish scientific and research potential, which will provide a significant development stimulus for the regional academic centres, business partners and for the whole economy.

Joining efforts of the partners to the agreement on the platform of research and development projects will also enable more effective use of EU funds allocated for innovation, available in the years 2014–2020, as well as facilitate and allow for more flexible acquisition of additional external capital. At the next stage of cooperation the signatories of the letter of intent plan to develop optimum mechanisms for implementation of research and development projects, adequate to the regulatory, formal and legal and business requirements.

The above activity is included in the implementation of the goals defined in the updated Corporate Strategy which focuses on the model of management of the research and development area in TAURON Capital Group. The goal of effective management of research and development activities in subsidiaries of TAURON Capital Group is aimed at intensifying the innovation development processes and maximising the benefits arising from the access to knowledge and experience gained by implementing such undertakings. It is also required to improve the effectiveness of applying for external funds for innovation in view of the opportunities and challenges facing the power engineering sector.

Winding up and liquidation of the PEPKH subsidiary

On 2 July 2014 the Extraordinary GM of the company acting under the enterprise name PEPKH, adopted the resolutions on winding-up and liquidation of the PEPKH company, in which TAURON holds 100% interest in the share capital and 100% share in the general number of votes at the GM.

On 27 October 2014 the motion for bankruptcy liquidation of the aforementioned company was filed to the District Court in Tarnów, 5th Commercial Department.

On 11 December 2014, the District Court in Tarnów, 5th Commercial Department, issued the decision on dismissal of the motion filed by the PEPKH company in liquidation, with its seat in Tarnów, concerning the declaration of its bankruptcy comprising the liquidation of its assets.

Detailed information concerning the winding up and liquidation of the PEPKH company is included in item 1.3.2 hereof.

The Company informed of the aforementioned events in the current reports no. 29/2014 of 2 July 2014, no. 41/2014 of 27 October 2014 and no. 42/2014 of 16 December 2014.

Signing the agreement of the consortium establishing the Motorway of Technology and Innovation Institute

On 15 July 2014, 23 institutions, including: 18 universities, 2 institutes and 3 enterprises (including TAURON) signed the consortium agreement establishing the Motorway of Technology and Innovation Institute. The leaders of the project are two Polish technical universities: Wrocław University of Technology and AGH University of Science and Technology. The partners of the consortium will closely collaborate on implementation of large research and development projects, and they also intend to concentrate their activities within the substantive areas compliant with the research fields defined by the project on *Technological Foresight of Industry – InSight 2030* as well as with the national and regional smart specialisations.

Signing the Partnership Agreement with ArcelorMittal

On 11 August 2014, TAURON, together with companies of TAURON Capital Group (i.e. TAURON Wytwarzanie and TAURON Ciepło) and ArcelorMittal, together with companies of ArcelorMittal Group, concluded the Shareholders' Agreement concerning establishing of an entity implementing the investment and operating tasks in the area of industrial power engineering.

The goal of the parties to the Shareholders' Agreement is to achieve the return on engaged assets at the expected level and, among others, the implementation of an investment programme adjusting the assets to the environmental

requirements, as well as possibly full exploitation of metallurgical gas for the production of power media. The Agreement was concluded for a period of 15 years, with a possibility of its extension.

Detailed information concerning establishing of the joint entity for the implementation of the aforementioned tasks is included in item 1.3.2 hereof.

The project associated with the planned separation of wind assets

Since August 2014 the project concerning the separation of wind assets from TAURON EKOENERGIA and their transfer to the Marselwind special purpose vehicle. The said project is aimed at ensuring the off-balance sheet financing for the purchase of wind assets.

Detailed information concerning the implementation of the aforementioned project is included in item 1.3.2 hereof.

Tax Capital Group

Due to the expiry of the three year period of Tax Capital Group (PGK) scheduled on 31 December 2014, on 22 September 2014 selected companies of TAURON Capital Group concluded the PGK agreement in the form of the notarial deed. On 20 November 2014, the Head of the First Silesian Tax Office in Sosnowiec issued the decision concerning the registration of PGK for a period of three consecutive fiscal years, i.e. from 1 January 2015 to 31 December 2017. The following companies have been included in the new PGK: TAURON, TAURON Wytwarzanie, TAURON Dystrybucja, TAURON EKOENERGIA, TAURON Obsługa Klienta, TAURON Sprzedaż, TAURON Ciepło, ENPOWER sp. z o.o. (Enpower), TAURON Ubezpieczenia, Energopower sp. z o.o., TAURON Wydobywanie, TAURON Sprzedaż GZE and KW Czatkowice. The objective of PGK is to optimise the fulfilment of the obligations associated with the settlement of corporate income tax by key companies of TAURON Capital Group, and to enable, among others:

- 1) acceleration of settlement of tax losses, i.e. compensation of tax losses of one of the companies through tax profit of other company throughout the same fiscal year,
- 2) common application at the level of PGK for individual interpretation of tax law within the scope of corporate income tax which, in case of favourable interpretation, will result in relevant protection for all entities included in PGK.

Implementation of the Internet Portal for TAURON Capital Group – the solution awarded in the international competition

In 2014 the project related to the launch of TAURONET was completed, i.e. an internal portal constituting a central platform for the exchange of information and group work, both in the organisational-process area and in technological-system terms in the entire TAURON Capital Group. Access to the system has been guaranteed to 15 thousand employees, whereas it is used by over 7 thousand users on an on-going basis, who may apply it within several thematic areas. Nielsen Norman Group (Fremont, California, USA) selected TAURONET as one of top ten intranet systems worldwide in 2015.

Important events after 31 December 2014

Initial interest in buying all or part of KWK Brzeszcze mining assets contributed by Kompania Węglowa S.A. to Spółka Restrukturyzacji Kopalń S.A. (Mine Restructuring Company)

In response to the inquiry from Kompania Węglowa S.A. and Spółka Restrukturyzacji Kopalń S.A. of 16 January 2015 regarding possible purchase of all or a part of mining assets belonging now to Kompania Węglowa, TAURON expressed its initial interest in buying all or a part of KWK Brzeszcze assets. The final decision regarding the purchase of all or a part of KWK Brzeszcze mining assets will be taken following a detailed analysis, including economic and technical analyses, that would confirm the possibility of economically viable coal mining. TAURON Group owns two mining facilities and thus has competence and experience in the scope of management and restructuring of mining facilities. The possible acquisition of all or a part of KWK Brzeszcze assets should enable TAURON to increase the level of coverage of coal demand by internal resources in generation plants of TAURON Capital Group, which is in line with the assumptions of the Corporate Strategy.

The Company informed of this event in the current report no. 2/2015 of 16 January 2015.

In relation to the aforementioned event, on 2 February 2015 the Company established the team to carry out the comprehensive analysis of KWK Brzeszcze, comprising, in particular, specific legal, financial, technical and geological aspects. Moreover, as a result of the team's work, the analysis of variants will be prepared, concerning the purchase of all or a part of the coal mine from the company Spółka Restrukturyzacji Kopalń S.A. or from Kompania Węglowa, including indication of effects for both variants. Opportunities of potential cooperation with the financial or infrastructural partner will be also analysed (terms of such cooperation supported by the market research). Moreover, the analysis will also comprise the structure of the transaction based on the special purpose vehicle (SPV), assuming

the lack of consolidation of assets purchased and, at the same time, the elimination of risk associated with the potential deterioration of financial indicators of TAURON Capital Group, in particular, the net debt to EBIDTA ratio.

The advisory team referred to above, based on the first stage of the analyses performed, recommended the purchasing path of the aforementioned assets, in accordance with the variant assuming their acquisition from the company Spółka Restrukturyzacji Kopalń S.A. The Management Board has accepted the above recommendation as a direction.

Increasing the provision for employee benefits

In Q4 2014 the Company increased the provisions for employee benefits (a non-monetary one-off event), deciding to reduce the discount rate, due to the decline of market interest rates. Actuarial gains and losses related to jubilee bonuses in the amount of approximately PLN 114 million have reduced the financial result of TAURON Group for Q4 2014, and the amount of approximately PLN 322 million has been charged to "other comprehensive income" and has no impact on the financial result of TAURON Capital Group.

The Company informed about impact of non-monetary one-off events on consolidated financial results of TAURON Capital Group for Q4 2014 in the current report no. 3/2015 of 18 February 2015.

Listing of TAURON Polska Energia S.A. bonds on Catalyst market

On 18 February 2015 the Management Board of BondSpot S.A. adopted the resolution concerning the decision on listing 17,500 series TPEA1119 TAURON bearer bonds with the total nominal value of PLN 1,750,000 thousand and the unit nominal value of PLN 100 thousand, on the alternative trading system on Catalyst market. The resolution came into force as of the day of its adoption.

The Company informed of this event in the current report no. 4/2015 of 18 February 2015.

Other important events

In addition, events resulting from the contracts and agreements concluded, significant for the operations, described in item 2.8.1 of this report should be also considered as important events of material impact on operations of TAURON Capital Group in the financial year 2014.

2.8. Information on agreements concluded by companies of TAURON Capital Group

2.8.1. Agreements significant for operations of TAURON Capital Group

In the financial year 2014 the companies of TAURON Capital Group concluded the following agreements significant for operations of TAURON Capital Group:

Signing the material agreement with RAFAKO - MOSTOSTAL consortium for the construction of a power unit at Jaworzno III power plant

On 17 April 2014 the subsidiary, TAURON Wytwarzanie, as the Ordering Party, signed the agreement with the RAFAKO - MOSTOSTAL consortium as the Contractor, for the construction of the 910 MW_e ultra-supercritical unit at Jaworzno III power plant (Power Plant II), including: steam boiler, turbine set, main building, electrical part and the process control system, and automatic system of the unit. The Contract has been concluded under the following terms and conditions:

1. The subject of the Contract is the design and construction by the Contractor on a turn-key basis of 910 MW_e gross capacity ultra-supercritical unit including steam boiler, turbine set, main building, electrical part, process control system, and automatic system of the unit.
2. The remuneration of the Contractor for the delivery of the subject of the Contract amounts to PLN 4,399,038,500 net and will be increased by applicable VAT. The remuneration payable to the Contractor is a lump sum remuneration. Pursuant to the agreement, RAFAKO is responsible for execution of 99.99% of works covered by the Contract and is entitled to receive remuneration corresponding to the above mentioned share in works required by the Contract.
3. The deadline for the completion of the subject of the Contract is 59 months starting from the date of signing the Contract.
4. The Contractor is entitled to receive an advance payment for execution of the Contract in the amount of 10% of gross remuneration. To receive the advance payment, the Contractor is obliged to submit to the Ordering Party an advance payment guarantee for the amount of the advance payment.
5. The Contractor has submitted to the Ordering Party a performance guarantee in the form of bank guarantees and insurance guarantee and in money, to the amount required for the subject Contract to be effective. Pursuant to the Contract, the amount of the Performance Bond is 10% of the Contractor's gross remuneration. Once the unit is commissioned, the Performance Bond will be reduced to 3% of the Contractor's gross remuneration and should

also secure the Ordering Party's claims under implied warranty for defects in the subject of the Contract over a warranty period of 24 months following the date of commissioning of the unit and final acceptance of the unit by the Ordering Party, however, some elements of the unit are covered by an extended warranty of 60 months.

6. The Ordering Party is entitled to calculate liquidated damages in the case of undue performance of the Contract by the Contractor up to the total amount of 25% of net remuneration payable to the Contractor. The Ordering Party is entitled to claim compensation exceeding liquidated damages defined in the Contract.
7. The Contractor shall be liable for due performance of the Contract by subcontractors hired to perform the Contract.

The Project is in line with the Corporate Strategy which stipulates building of the sustainable generation portfolio consisting of units based on coal, gas technologies and renewable energy sources. The investment in the construction of the generation unit at Elektrownia Jaworzno III shall contribute to securing TAURON Capital Group position as the second largest electricity generator on the domestic market. The Contract has been recognised as material due to the fact that its value exceeds 10% of equity of the Company.

The Company informed of this event in the current report no. 19/2014 of 17 April 2014.

Signing the agreement concerning the contract for construction of the power unit at Elektrownia Jaworzno III

On 17 April 2014, with reference to the agreement concluded with the RAFAKO - MOSTOSTAL consortium, for the construction of ultra-supercritical 910 MW_e unit at Jaworzno III power plant (Power Plant II), TAURON Wytwarzanie, as the Ordering Party, concluded the agreement with the RAFAKO - MOSTOSTAL consortium and with the companies: Siemens sp. z o.o. and Siemens Aktiengesellschaft (hereinafter jointly referred to as: Siemens), Rafako's subsidiary - E003B7 Sp. z o.o. (SPV-Rafako), as well as Bank Gospodarstwa Krajowego S.A. (BGK), PKO BP S.A. (PKO BP) and PZU S.A. (hereinafter jointly referred to as Financial Institutions), defining the terms and conditions of cooperation between the parties regarding Contract execution (the Agreement). Pursuant to the Agreement, the Ordering Party approved the text of the subcontractor agreement between Rafako and SPV-Rafako (SPV-Rafako Subcontractor Agreement) and agreed to conclude it, and parties to the Agreement decided that SPV-Rafako should perform their obligations under the SPV-Rafako Subcontractor Agreement to the benefit of the Ordering Party. In addition, the Ordering Party approved the text of the subcontractor agreement between SPV-Rafako and Siemens referred to in the current report published by RAFAKO, no. 16/2014 of 15 April 2014 (Siemens Subcontractor Agreement) and agreed to conclude it.

Pursuant to the Agreement:

- 1) the parties agreed that for the works performed by SPV-Rafako under the SPV-Rafako Subcontractor Agreement, in order to fulfil the Ordering Party's obligation to pay remuneration to RAFAKO under the Contract and RAFAKO's obligation to pay remuneration to SPV-Rafako under SPV-Rafako Subcontractor Agreement, the Ordering Party has undertaken to pay remuneration for Contract execution directly to SPV-Rafako in the form of transfer within the meaning of Article 921(1) of the Civil Code,
- 2) the parties agreed that for the works performed by Siemens under the Siemens Subcontractor Agreement, in order to fulfil the Ordering Party's obligation to pay remuneration to RAFAKO under the Contract, RAFAKO's obligation to pay remuneration to SPV-Rafako under SPV-Rafako Subcontractor Agreement and SPV-Rafako's obligation to pay remuneration to Siemens under Siemens Subcontractor Agreement, the Ordering Party has undertaken to pay remuneration for Contract execution directly to Siemens in the form of transfers within the meaning of Article 921(1) of the Civil Code,
- 3) the parties agreed that performance guarantee (referred to in current report No. 19/2014 item 5) will be submitted partly in the form of bank and insurance performance bond issued by Financial Institutions upon SPV-Rafako's request for the benefit of the Ordering Party, and partly in cash out of which the amount of PLN 40 million was submitted by RAFAKO prior to Contract signing and PLN 30 million will be paid within 6 months following signing of the Agreement,
- 4) the parties agreed on the manner of advance payment by the Ordering Party under the Contract (referred to in current report No. 19/2014 items 4 and 5) as well as the manner of submitting the advance payment guarantee to the Ordering Party;
- 5) RAFAKO undertakes to provide SPV-Rafako with the necessary support in execution of the Agreement and SPV-Rafako Subcontractor's Agreement by making the relevant resources available, in particular, the technical, financial and human resources, to SPV-Rafako.

The Company informed of the aforementioned event in the current report no. 20/2014 of 17 April 2014.

With reference to the provisions of § 91 item 6 point 3 of the Regulation of the Minister of Finance of 19 February 2009 on *current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state*, the Company hereby informs that it is not

aware of any other agreements concluded, significant for the operations of the Company, other than the agreements mentioned above, including the agreements concluded between shareholders (partners), insurance agreements, cooperation or collaboration agreements.

2.8.2. Significant transactions with affiliated entities concluded under conditions other than on arm's length basis

All transactions with affiliated entities are concluded on arm's length basis.

Detailed information on significant transactions with affiliated entities has been provided in note 48 of the consolidated financial statements for the year ended on 31 December 2014.

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

Working capital facilities

In accordance with the financial model adopted in TAURON Capital Group, only TAURON may act as the party to working capital credits and loans raised with external institutions.

In 2014 TAURON continued to use the overdraft facility in the amount of PLN 300,000 thousand on the basis of the Agreement with Bank Pekao S.A., (Pekao Bank) concluded in December 2011, with the repayment term falling on 31 December 2014. The credit agreement was associated with the cash pooling system operating in TAURON Capital Group until 31 December 2014, serviced by Pekao Bank. The aforementioned credit agreement expired on 31 December 2014.

In connection with the term character of the Agreement described above, as a result of the public procurement procedure ended on 18 December 2014, the Company concluded the agreement on overdraft facility with PKO BP S.A. bank (PKO BP bank) for the amount of PLN 300,000 thousand, which has become effective as of 30 December 2014, with the repayment term falling on 29 December 2017.

At the same time, under the same public procurement procedure, PKO BP bank granted the Company the intraday limit in the amount of PLN 500,000 thousand for the period from 18 December 2014 to 17 December 2017. It should be indicated that the intraday limit is a daily limit that has to be fully repaid by the end of each day on which it was used.

The agreements on working capital financing concluded with PKO BP bank, referred to above, are associated with the new Agreement on real cash pooling services concluded on 18 December 2014 with the aforementioned bank with the effective term until 17 December 2017.

TAURON also used the overdraft facility in the amount of EUR 26,500 thousand in Nordea Bank Finland Plc., with the repayment term falling on 31 January 2014. The facility was used for the needs of clearing the transactions of purchase/exchange of CO₂ emission allowances. The credit was repaid on time.

In accordance with the foregoing, on 30 January 2014, for the needs of clearing the transactions of purchase/exchange of CO₂ emission allowances, the Company concluded the overdraft agreement with Nordea Bank Polska S.A. (currently: PKO BP bank) up to the amount of EUR 25,000 thousand, with the repayment term until 31 December 2015. Pursuant to the annex of 21 March 2014, the subjective scope of the agreement was extended by a possibility to finance electric energy trading.

The table below presents detailed specification of agreements for working capital facilities effective in TAURON Capital Group in 2014.

Table no. 21. Specification of agreements for working capital facilities effective in TAURON Capital Group (commencing and continuing in 2014)

No.	Type of agreement	Type and level of interest rate	Amount of credit/loan (In thousand)	Term of effectiveness	Balance as at 31 December 2014 (In thousand)
1.	Overdraft facility	WIBOR O/N + fixed margin	PLN 300,000	1 January 2012 – 31 December 2014	PLN 0
2.	Overdraft facility	EONIA + fixed margin	EUR 26,500	10 January 2013 – 31 January 2014	EUR 0
3.	Overdraft facility	EURIBOR 1M + fixed margin	EUR 25,000	30 January 2014 – 31 December 2015	EUR 2,796
4.	Overdraft facility	WIBOR O/N + fixed margin	PLN 300,000	30 December 2014 – 29 December 2017	PLN 0
5.	Intraday Limit	None	PLN 500,000	18 December 2014 – 17 December 2017	PLN 0

The cash pooling structure operating in TAURON Capital Group is based on loans between the participants of the structure. Accordingly, the daily turnover of cash under the cash pooling forms transactions of granting / repayment of loans. The total amount of loans granted to TAURON in 2014 by companies of TAURON Capital Group amounted to PLN 15,110,868 thousand, whereas the total amount of loans granted by TAURON to TAURON Capital Group companies amounted to PLN 1,976,861 thousand (it should be indicated that the loans drawn by a given company of TAURON Capital Group simultaneously represent the loans granted by TAURON, and consequently, the loans drawn by TAURON simultaneously represent the loans granted by other companies of TAURON Capital Group).

The table below presents the balance of the loans granted within the cash pooling system, according to the entity structures, which amounted to PLN 37,085 thousand as at 31 December 2014.

Table no. 22. Balance of loans granted to the Company by the subsidiaries under the cash pooling system as at 31 December 2014

No.	Company name	Amount of the loan (in PLN thousand)
1.	TAURON Ciepło	21,033
2.	TAURON Dystrybucja	5,875
3.	TAURON Wydobycie	3,836
4.	TAURON Sprzedaż	3,314
5.	TAURON Obsługa Klienta	2,526
6.	KW Czatkowice	334
7.	TAURON Dystrybucja Serwis	126
8.	TAURON Wytwarzanie	19
9.	TAURON Dystrybucja Pomiary	11
10.	TAURON Sprzedaż GZE	6
11.	TAURON EKOENERGIA	2
12.	TAURON Wytwarzanie GZE	2
13.	TAURON Ubezpieczenia	1
Total		37,085

The loans drawn within the cash pooling, in relation to all participants (excluding TAURON) are of short-term nature, to be used for financing of current operations of the specific TAURON Capital Group company. In accordance with the applicable liquidity policy, TAURON as the cash pooling manager, holding the consolidation account, has a possibility to use the resources within a longer period of time (mainly for the purpose of granting intercompany financing, fund depositing). In 2014, the loans granted within the cash pooling system held interest rate based on WIBID O/N and WIBOR O/N adjusted by fixed margin. The individual loans did not have a specific maturity date. The ultimate deadline for drawing a loan was 31 December 2014, i.e. the last day of cash pooling agreement effectiveness. The loans were repaid on 2 January 2015.

Investment facilities

On 18 July 2014 the Company concluded the facility agreement with the European Investment Bank (EIB) for the total amount of PLN 295,000 thousand. TAURON Capital Group shall use funds acquired from the EIB facility for the development of distribution grids (inter alia, for the construction of about 11 thousand new connection points) and modernisation of the existing infrastructure. These activities will mainly enable connection of new clients (public institutions, individual clients and enterprises) to the existing distribution grid. Under the project, TAURON Capital Group shall also implement a pilot programme on smart metering, aimed at applying technologies facilitating data management as well as ensuring information flow between clients and energy suppliers. The funds acquired from EIB shall be also allocated for the modernisation of several hydroelectric plants of TAURON Capital Group in order to improve production capacity and operational effectiveness.

The loan shall be repaid within a period of up to 12 years as of the day of its disbursement, however, not later than in 2027.

2.8.4. Information on loans and sureties granted as well as sureties and guarantees received

Loans granted

In 2014 the Company continued the intragroup management of financial resources in TAURON Capital Group, through the cash pooling system implemented in 2010, whose structure is based on loans granted between its members.

The detailed description of the loans granted is included in item 2.8.3. hereof.

Irrespective of the cash pooling operating in TAURON Capital Group, pursuant to the agreement concluded on 8 October 2014 between the Company and TAMEH HOLDING, TAURON granted loans in the total maximum amount of PLN 500 thousand, with the repayment term until 31 March 2015. The loan was disbursed on 10 October 2014.

At the same time, pursuant to the agreement concluded on 20 June 2012 between the Company, PGNiG and EC Stalowa Wola, TAURON granted a VAT loan to EC Stalowa Wola, whose funds shall be used for financing of the VAT payable due to implementation costs of the investment involving the construction of the CCGT unit in Stalowa Wola, with the capacity of 449 MW_e and 240 MW_t.

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

Table no. 23. Disbursements and repayments of the VAT loan in 2014

No.	Date of taking out a loan	Date of loan repayment	Amount (in PLN thousand)
1.	14 January 2014	11 April 2014	1,000
2.	7 February 2014	11 April 2014	500
3.	17 March 2014	11 April 2014	4,350
4.	29 August 2014	20 November 2014	5,850
5.	3 December 2014	5 January 2015	5,850

Sureties and guarantees granted and received

The guaranties, sureties and commitments granted in 2014 arise from the adopted financing model of TAURON Capital Group companies and they were provided on account of the conducted trading operations and as the collateral for repayment of loans granted, among others by the Regional Fund of Environmental Protection and Water Management in Katowice (WFOŚiGW Katowice) and the Regional Fund of Environmental Protection and Water Management in Kraków (WFOŚiGW Kraków).

The table below presents detailed specification of guaranties, sureties and commitments effective according to the status as at 31 December 2014.

Table no. 24. The table below specifies the agreements on sureties, guarantees and commitments effective as at 31 December 2014

No.	Beneficiary	Agreement	Party to the agreement	Amount (in PLN thousand)	Date of effectiveness
1.	WFOŚiGW Katowice	Collateral agreement	TAURON Wytwarzanie	40,000	15 December 2022
2.	WFOŚiGW Katowice	Aval agreement	TAURON Ciepło	30,000	15 December 2022
3.	WFOŚiGW Katowice	Aval agreement	TAURON Ciepło	1,180	01 May 2016
4.	WFOŚiGW Kraków	Surety agreement	KW Czatkowice	513	31 July 2018
5.	WFOŚiGW Kraków	Surety agreement	KW Czatkowice	256	31 October 2018
6.	WFOŚiGW Kraków	Surety agreement	KW Czatkowice	128	31 October 2018
7.	WFOŚiGW Kraków	Surety agreement	KW Czatkowice	154	31 October 2018
8.	WFOŚiGW Kraków	Surety agreement	KW Czatkowice	94	15 January 2019
9.	Bondholders	Corporate guarantee	TAURON Sweden Energy	716,066	03 December 2029
10.	Abener Energia S.A.	Surety agreement	EC Stalowa Wola	62,582	12 September 2018
11.	CEZ a.s.	Corporate guarantee	TAURON Czech Energy	14,918	30 June 2015
12.	SPP CZ a.s.	Collateral agreement	TAURON Czech Energy	1,279	31 January 2016
13.	PSE	Collateral agreement	TAURON Wytwarzanie	5,000	4 August 2019

Within TAURON Capital Group the following agreements related to the issuance of bank guarantees are also effective:

- 1) framework agreement of 22 September 2011, including its subsequent annexes, for granting bank guarantees, concluded with PKO BP bank, with the effective term until 31 December 2016 for the amount of PLN 100,000 thousand, to be used by TAURON and its subsidiaries,
- 2) framework agreement of 6 May 2013, with the subsequent annex, concerning the limit for bank guarantees, concluded with Bank Zachodni WBK S.A. (BZ WBK bank), with the effective term until 6 May 2015, with the limit amounting to PLN 150,000 thousand, to be used by TAURON in favour of Izba Rozliczeniowa Giełd Towarowych S.A. (Commodity Exchange Clearing House) (IRGIT) with its seat in Warsaw.

The table below presents the specification of bank guaranties and re-guaranties under the agreements effective according to the status as at 31 December 2014.

Table no. 25. Specification of bank guaranties granted under the agreements effective as at 31 December 2014

No.	Bank	Company	Beneficiary	Type of guarantee	Amount (in thousand)	Date of commencement	Date of effectiveness
1.	PKO BP	TAURON	CAO	payments	EUR 1,000	1 January 2012	5 February 2016
2.	PKO BP	TAURON	PSE	bid bond	PLN 6,500	11 November 2014	31 December 2014
3.	PKO BP	KW Czatkowice	PGNiG Termika S.A.	performance bond	PLN 55	7 October 2013	31 August 2015
4.	PKO BP	KW Czatkowice	PGE Górnictwo i Energetyka Konwencjonalna S.A.	performance bond	PLN 436	18 December 2013	30 January 2016
5.	PKO BP	TAURON Dystrybucja Serwis	EUROVIA POLSKA S.A.	performance bond	PLN 23	21 December 2013	04 January 2016
6.	PKO BP	TAURON Dystrybucja Serwis	Dragados Oddział w Polsce S.A.	performance bond	PLN 193	1 April 2014	31 December 2016
7.	PKO BP	TAURON Sprzedaż	PSE	performance bond	PLN 281	1 January 2014	30 January 2015

At the same time, within TAURON Capital Group, in order to hedge the transactions executed by the Company at Power Exchange (Towarowa Giełda Energii S.A.)

(TGE) in electric energy markets and participation in the system of securing the liquidity of transaction settlement, in 2014, the following agreements were effective, pursuant to which TAURON Wytwarzanie granted the surety to the Company in favour of IRGIT due to the settlement of future transactions:

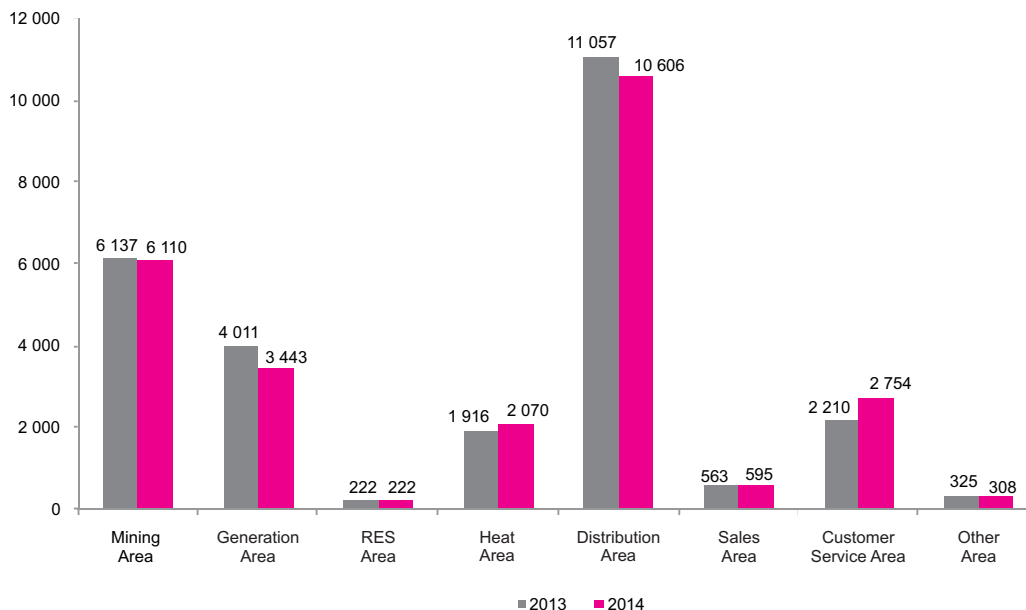
- 1) the agreement concluded on 22 August 2013 for the amount of PLN 45,000 thousand, effective until 31 March 2014,
- 2) the agreement concluded on 6 October 2014 for the amount of PLN 80,000 thousand, effective from 13 October 2014 until 31 March 2015.

2.9. Information concerning employment

In 2014 the average employment in TAURON Capital Group in FTEs reached 26,108 FTEs, which means the reduction against the average employment in 2013, which amounted to 26,441 FTEs.

The average employment in TAURON Capital Group in FTEs (rounded to a full FTE), divided into Segments of operations in the years 2013–2014, is presented in the figure below.

Figure no. 41. Average employment in TAURON Capital Group in 2013 and 2014 (FTEs)*



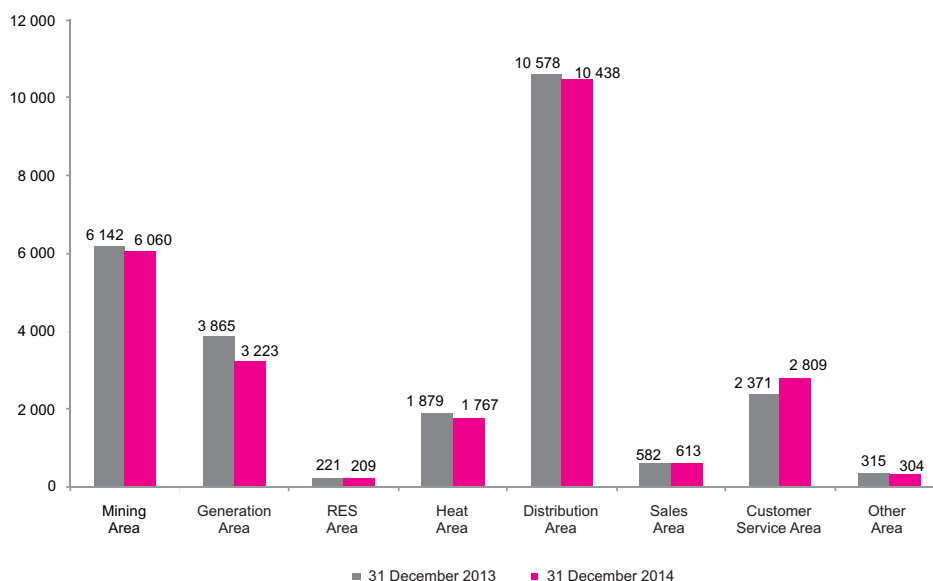
* The average employment comprises the TAURON Dystrybcja Pomiary company which, since 1 January 2014, has been covered by the consolidated reporting, and the AUTOZET and EL-AUTO companies, which were incorporated into TAURON Dystrybcja Serwis as of 30 April 2014.

Changes in the level of the average employment in individual Areas in 2014, as compared to the average employment in 2013, result, among others, from the *Voluntary Redundancy Programmes* implemented, among others, in the following Areas: Distribution, Generation, Heat, Customer Service, RES, as well as mobility of employees between individual Areas (in particular, migration of employees to the Customer Service and Heat Area), taking over of employees from the companies AUTOZET and EL-AUTO by TAURON Dystrybcja Serwis, resignation of employees outside TAURON Capital Group (including resignation of employees from Heat Area and Generation Area and moving to TAMEH POLSKA) as well as covering the company TAURON Dystrybcja Pomiary by the consolidated reporting in 2014.

At the same time, as at 31 December 2014, 25,953 persons were employed in the companies of TAURON Capital Group. It should be stressed that the decrease in employment by 530 persons was recorded, as compared to the employment status as at 31 December 2013, which reached 25,953 people.

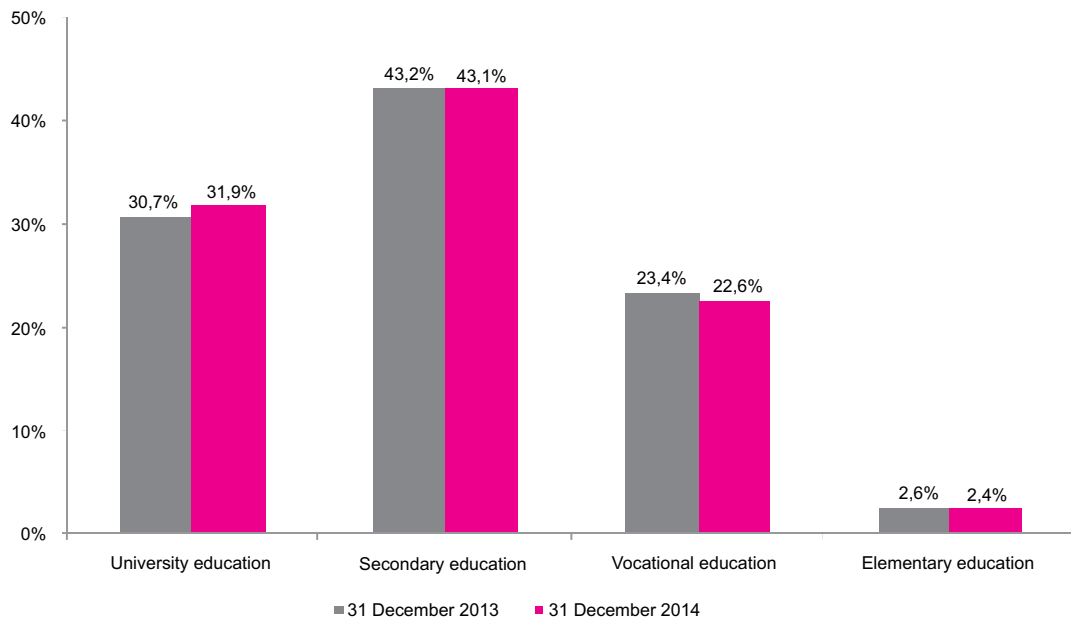
The figure below presents the employment in TAURON Capital Group in persons according to the status as at 31 December 2013 and 31 December 2014

Figure no. 42. Employment in TAURON Capital Group in persons according to the status as at 31 December 2013 and 31 December 2014 (persons)



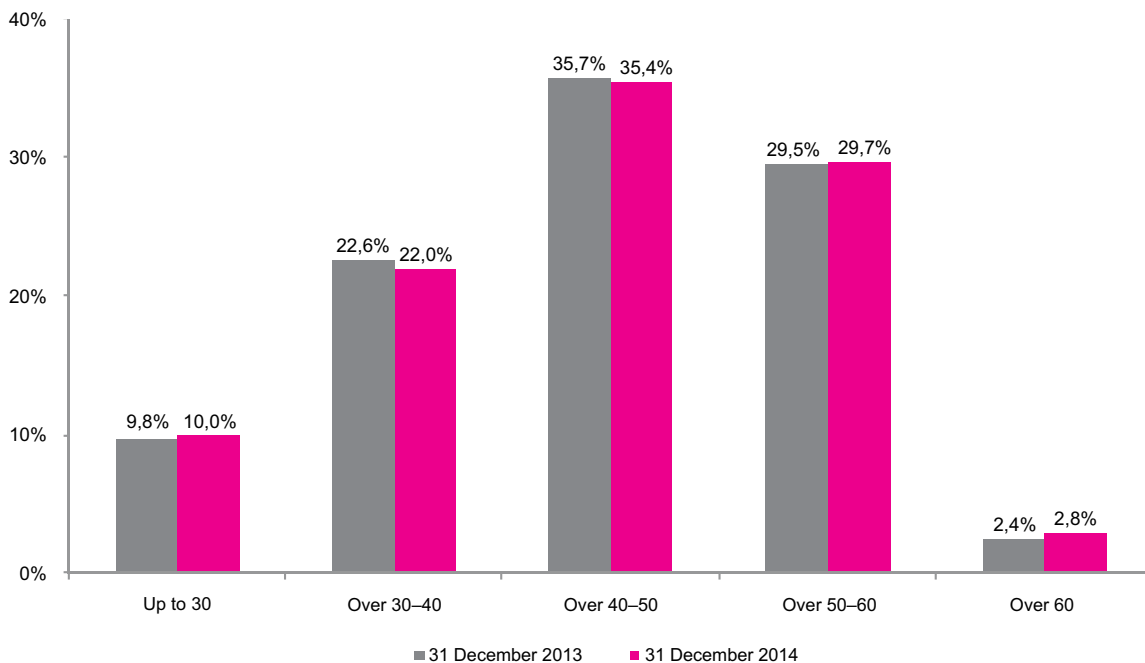
The figure below presents the structure of employment in TAURON Capital Group according to the education as at 31 December 2013 and 31 December 2014.

Figure no. 43. Employment structure in TAURON Capital Group as at 31 December 2013 and 31 December 2014 (education)



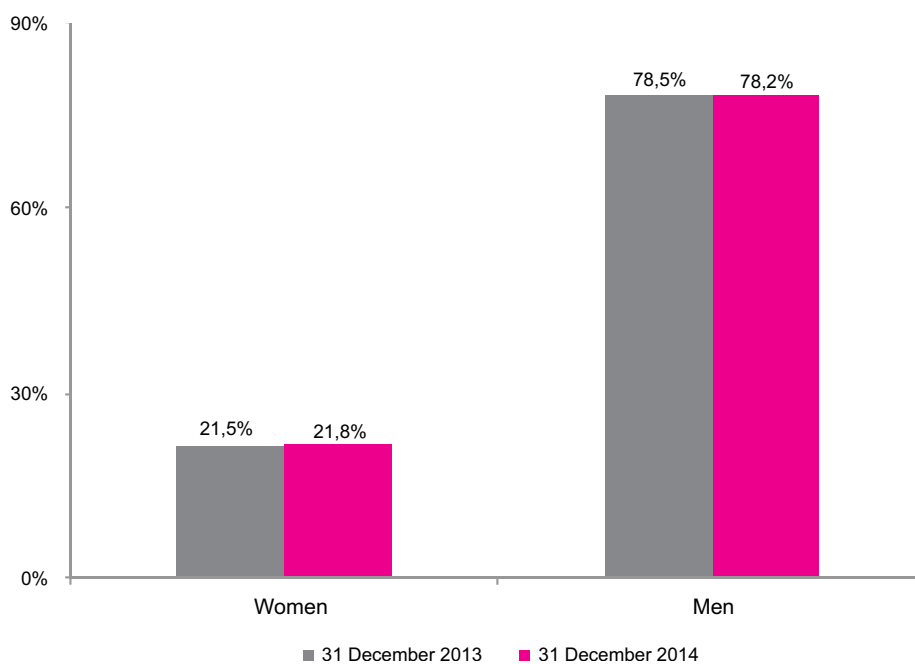
The figure below presents the age structure of employment in TAURON Capital Group according to the age as at 31 December 2013 and 31 December 2014.

Figure no. 44. Structure of employment in TAURON Capital Group as at 31 December 2013 and 31 December 2014 (age)



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

Figure no. 45. Structure of employment in TAURON Capital Group as at 31 December 2013 and 31 December 2014 (gender)



3. RISK MANAGEMENT IN TAURON CAPITAL GROUP

Risk and threat factors

Taking care for implementation of the Corporate Strategy, the Company implements the risk management process in relation to operations of TAURON Capital Group. This process, particularly important for the implementation of the strategic goals, identifies potential deviations against the planned result of TAURON Capital Group and increases the predictability of its accomplishment, enabling risk level control to provide for its possibly neutral impact on the implementation of strategic goals of TAURON Capital Group.

In 2014, the risk management process was updated in regulatory scope as well as in terms of the approach to risk identification and measurement as well as methods of its reporting. The Risk Management System covers all elements of the value chain implemented of TAURON Capital Group and all the employees of TAURON Capital Group take part in the risk management process.

The process of risk assuming in TAURON Capital Group has been centralised. Within the risk management process the Risk Committee fulfils a special role, as the team of experts that permanently and continuously initiates, analyses, monitors, controls, supports and supervises the performance of corporate risk management system in TAURON Capital Group. The Risk Committee comprises persons with relevant knowledge on the Company and its environment. The role of the Risk Committee is to define risk management norms and standards in TAURON Capital Group and to supervise the effectiveness of the risk management process. Within the Risk Committee two separate teams were established for the commercial risk area and for the financial and credit risk area. The Risk Committee directly supervises the implementation of the corporate risk management process.

Risk management should ensure value creation in TAURON Capital Group owing to the effective control of risk assuming, enhancing the transparency of risk assuming, independent risk assessment and increasing business concentration on optimisation of relations between profits and the risk assumed.

In TAURON Capital Group, Risk Department is responsible for the operational implementation of tasks associated with the risk management process.

Risk management in TAURON Capital Group is based on three pillars:

- 1) enterprise risk management,
- 2) commercial risk management,
- 3) financial and credit risk management.

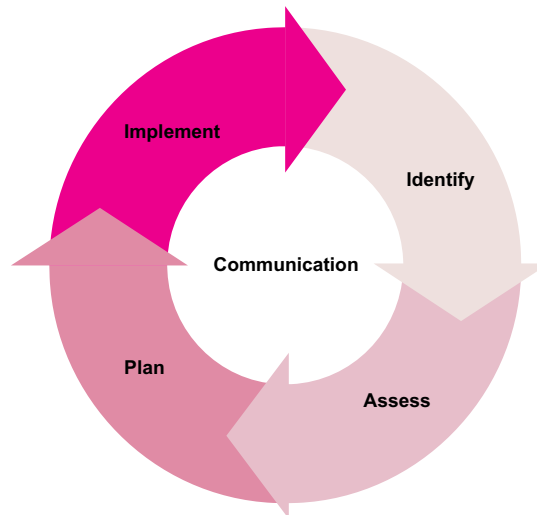
Enterprise risk management

The comprehensive enterprise risk management system (ERM) in TAURON Capital Group supports the implementation of the strategic goals of TAURON Capital Group through:

- 1) ability of the TAURON Capital Group to predict deviations against the planned levels (material and financial plan) and, at the same time, the possibility to prepare effective instruments of response to such a risk,
- 2) assessment and identification of risks globally in TAURON Capital Group and the consistent approach to their measurement, as a result of which TAURON Capital Group manages risks posing the most significant impact on financial results and implementation of the adopted strategic goals in case of risk materialisation,
- 3) development of effective and adequate measures to be undertaken by TAURON Capital Group in view of the specific risk,
- 4) harmonisation of the risk management process in the whole TAURON Capital Group.

The figure below shows stages in the process of enterprise risk management in TAURON Capital Group.

Figure no. 46. Stages in enterprise risk management in TAURON Capital Group



The risk management process comprises continuous measures presented below:

1. **Risk identification** – based on determining potential events that may affect the implementation of goals defined by TAURON Capital Group.
2. **Risk assessment** – based on determining the impact of the event classified as risk in the identification process on the implementation of the specific goals.
3. **Planning** – based on preparation of the dedicated response to the risk identified in order to achieve the desirable goals.
4. **Implementation** – based on practical introduction of the risk response prepared in the planning process.
5. **Communication** – based on the continuous information flow among ERM process participants. The periodical risk reporting is the element of this process.

The table below presents participants in the enterprise risk management process as well as the roles and responsibilities attributed to them.

Table no. 26. Participants of the risk management process

No.	Participant	Roles and responsibilities of the risk management process participants
1.	Supervisory Board of the Company	Authorised to controlling of activities undertaken by the Company in the scope of enterprise risk management, in terms of compliance with the expectations of shareholders, governing and regulatory bodies.
2.	Audit Committee	Authorised to monitoring of the effectiveness of the risk management system existing in TAURON Capital Group.
3.	Management Board of the Company	1) takes formal decisions related to the key elements of corporate management in TAURON Capital Group, 2) performs the assessment of effectiveness and efficiency of the risk management process.
4.	Risk Committee	1) supervises the risk management process in TAURON Capital Group, 2) recommends and provides opinions for the Management Board concerning the form of individual elements of risk management infrastructure, 3) defines maximum risk tolerance on TAURON Capital Group and global limit for risks, applies to the Management Board for their approval and change, 4) approves strategies, methods and plans for securing the position on the market of energy and associated products, comprising individual areas of activities, 5) supervises the preparation of the quarterly information for the Management Board in the scope of all significant issues related to risk in TAURON Capital Group.
5.	Internal Audit Department in TAURON	Conducts audit of the enterprise risk management process in TAURON Capital Group, comprising the assessment whether the enterprise risk management system is compliant with the requirements of the documentation and whether it is effectively implemented and maintained.
6.	Enterprise Risk Office in the Risk Department in TAURON	1) implements the risk management process in compliance with the rules defined in the relevant regulations, 2) acquires information concerning the current status of enterprise risk, the value of parameters measuring risk and the conducted and planned risk response,

No.	Participant	Roles and responsibilities of the risk management process participants
		<ol style="list-style-type: none"> 3) prepares risk reports and submits them to the authorised participants of the enterprise risk management process, 4) cooperates with Risk Owners in the scope of tasks implemented by them, arising from their function.
7.	Risk Owner	<ol style="list-style-type: none"> 1) manages risks occurring in the scope of a business unit reporting to it and bears responsibility for their impact on the current activities as well as on the implementation of the goals assigned to it, 2) coordinates risk management within the scope of its responsibility, 3) co-participates in the reporting process, is responsible for the effectiveness of risk communication in the area it is responsible for, 4) submits information concerning the current risk status.
8.	Risk Manager	<ol style="list-style-type: none"> 1) supports and supervises business units within the implementation of the risk management process, its implementation, compliance and development, 2) verifies information on risk for the business unit he supports and assesses the effectiveness of the performed risk response.
9.	Risk Management Coordinator	<ol style="list-style-type: none"> 1) supports the Risk Owner, as well as individual management levels within the implementation of the risk management process, 2) supports the harmonisation of procedures in the scope of risk identification, measurement and reporting, 3) supervises the presentation of the real risk picture in his unit and the application of the adequate instruments of risk response
10.	Risk Expert	<ol style="list-style-type: none"> 1) performs risk analyses in accordance with the methodology adopted in the Company, 2) reports risk in accordance with the defined reporting rules, 3) recommends performing the specific risk responses and monitors the current status of their implementation.
11.	Other employees of organisational structures of TAURON and its subsidiaries	All employees of TAURON Capital Group should have the basic knowledge concerning the risk management system, be aware of the main risks in their areas of responsibility and should be responsible for decisions that may affect the associated risks and the result of the risk assumed.

During 2014 the reevaluation of risks identified earlier was performed in accordance with the adopted new methodology of risk apportionment and measurement, and new risks were also identified and measured (in particular, strategic risks), which many significantly affect the implementation of the strategic goals adopted by the Company.

Within the framework of the aforementioned update, among others:

- 1) three risk categories were introduced, i.e. strategic, operational and disaster risks, depending on the perspective and level of their impact on the strategic goals of the Company,
- 2) the method for risk measurement description, relevant for the specific category, was agreed,
- 3) priority setting was defined within the adopted risk measurement methodology.

Commercial risk management

The Company manages the commercial risk based on the developed and adopted *Policy of risk management in the commercial activities in TAURON Group*, which specifies the set of rules and principles of commercial risk management at the level of TAURON Capital Group. The above document constitutes the implementation of market practices and solutions used in the scope of commercial risk management in electric energy trading and related products trading (CO₂ emission allowances, property rights, fuels), including their adjustment to the structures of TAURON Capital Group, considering the specific nature of the energy sector.

The commercial risk management in TAURON Capital Group is understood as limiting of unplanned volatility of the operating result of TAURON Capital Group, with simultaneous use of the diversification effect, arising from the portfolio of assets held. The price risk is limited through defining of the maximum permissible level of deviation of the real result of TAURON Capital Group against the planned result, arising from the volatility of market prices of electric energy and the associated products. The system of limits also comprises non-market risk factors which may potentially have an impact on the result of the commercial area. The control covers both the global limit constituting the acceptable commercial risk level comprising the full structure of TAURON Capital Group (risk appetite), as well as operating limits demonstrating the decomposition of the global limit into individual portfolios associated with the areas and types of commercial activities of TAURON Capital Group.

In accordance with the adopted model, risk management in TAURON Capital Group is decentralised, however, commercial risk controlling in TAURON Capital Group is also conducted centrally from the Company level, which ensures the appropriate supervision of one of the main Business Areas within TAURON Capital Group. The basic element of commercial risk management is the division of the commercial activities of TAURON Capital Group into Front, Middle and Back Office. The distribution of tasks is aimed at ensuring the independence of the operating functions

executed by the Front Office in relation to the risk control functions fulfilled by the Risk Department. Such an organisation ensures security of the commercial activity and the transparency of the supervision over risk assuming in TAURON Capital Group companies.

Financial and credit risk management

Credit risk refers to potential losses resulting from the failure of partners to fulfil the contractual obligations. Market risks and credit risks are closely associated with each other. High volatility of prices, in particular, their unforeseen growth, may significantly change a customer's credit risk. While measuring the transaction risk, information flowing from the market should be taken into consideration, which may be the first warning signal of the deterioration in the financial situation of a customer.

In accordance with the adopted model, risk management in TAURON Capital Group is decentralised, however, credit risk controlling in TAURON Capital Group is conducted centrally from the Company level, which ensures the appropriate supervision over risks assumed and the required transparency of exposure to credit risk. Risk exposure is understood as the amount that may be lost if a customer fails to fulfil its obligations within the specific period of time (considering the value of collaterals contributed by the customer). Credit exposure is calculated for the current day and divided into exposure due to payment and exposure of replacement, taking into consideration the exposure arising from the provisions of the Polish Energy Law.

TAURON Capital Group has a decentralised credit risk management system, however, the control, limiting and reporting of credit risk is provided centrally, from the Company level, in accordance with the *Policy of credit risk management in TAURON Grupa*. This policy defines the set of principles and rules for credit risk management at a level of TAURON Capital Group, to lead to the effective mitigation of credit risk impact on the implementation of the strategic goals of TAURON Capital Group.

The commercial activity of TAURON Capital Group is exposed to credit risk occurring on the market, which means that customers are evaluated from the perspective of their creditworthiness and that credit exposure must be confined within the defined and acceptable credit limits. The general rule is that each customer, prior to concluding a contract, should receive a credit limit, providing basis for controlling the process of assuming such a risk. Moreover, in order to ensure its effectiveness, the rules have been defined, with the following goals:

- 1) defining the exposure to credit risk in TAURON Capital Group and
- 2) assigning competences and reporting obligations in the scope of credit risk to individual elements of the organisational structure.

Credit risk management results from controlling of the level of credit risk exposure generated upon concluding of a contract with customers by companies of TAURON Capital Group.

The Company manages financial risk (currency, interest rates, liquidity) based on the developed *Policy of managing risk specific in the financial area in TAURON Group*, adopted for application. This process is described in detail in item 4.9.2. hereof.

Specification of the most significant risks associated with the performance of TAURON Capital Group

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

Table no. 27. Description of risk factors

No.	Types of risks	Risk description
I. Strategic risks		
1.	Risk of growth in prices of CO ₂ emission allowances	The risk associated with the establishment of MSR in the market of emission trading, introducing the instrument for maintaining of the high level of prices by reduction of allowances pool. The growth in costs of CO ₂ emission allowances may have an adverse effect on the operations of TAURON Capital Group, through the increase in costs and margin reduction.
2.	Risk of inflow of energy competitive in terms of prices for the Polish generators to KSE	The risk associated with the inflow of cheap energy do PSE, both from conventional sources and from wind farms. Risk materialisation shall result in the loss of revenues by companies of TAURON Capital Group, in connection with coal mining, generation of electric energy and heat.
3.	Risk of fund raising and financial services	Risk associated with the lack of possibilities to raise funding for operational and investment needs or high costs of acquisition of such financing, arising from tightening of the crediting policy of banks, unfavourable market conditions, unstable macroeconomic situation, which may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities due to the lack of resources for projects included in the Corporate Strategy and in investment plans, and for operations.

No.	Types of risks	Risk description
4.	Concession risk	The risk associated with the withdrawal, failure to extend the validity term, or limiting the scope of any of the concessions held, causing the lack of possibility to conduct the activities in the planned scope, resulting in the loss of revenues and, consequently, the deterioration of the financial result of TAURON Capital Group.
5.	Risk of changes in the operating rules of RB	The risk associated with the possibility of changes in the RB functioning, resulting in the development of negative prices on the RB and finally, on the SPOT market, which may consequently have an adverse impact on the financial result of TAURON Capital Group.
6.	Risk of limited budget for the operational provision	The risk associated with the lack or reduced revenues due to maintenance of power units in production preparedness, which may have unfavourable impact on the financial result of TAURON Capital Group.
7.	Risk of unstable legal system and the European Union regulations connected with the functioning of the energy sector, including the environmental protection	Risk related to unfavourable legal changes, modifications in the Polish and the European Union regulations as well as to the legislative environment uncertainty. The risk factors may have significant adverse impact on operations of TAURON Capital Group and its financial situation through increase of operating costs of the enterprise, necessary to change the strategy of the Company or TAURON Capital Group companies, permanent exclusion of specific technologies arising from the requirement to implement the EU regulations, limiting the generation capacity of the Company and undermining its negotiation position against the institutions.
8.	Risk of tariff approval by the ERO President	Risk connected with the refusal of the President of ERO to approve the requested tariffs concerning the products offered and services provided, limited possibility to introduce amendments to the tariffs approved before and the refusal to recognise investment expenditure in the development plan, or in their part which shall not cover the actual costs of their generation. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through higher cost of operations, loss of income, reduced profitability of the operations and limitation of funds for development.
9.	Risk of loss of the PGK status	Risk associated with a possibility to lose the status by the PGK due to the failure to comply with the statutory requirements (e.g. too low profitability of the Group, ownership changes infringing the required levels in the capital structure of PGK companies), challenging of the settlements between PGK and other affiliated entities, unsettled tax liabilities of the PGK companies. The materialisation of the risk may result in the loss of tax optimisation, increased costs of fiscal year closing, the requirement to prepare additional documentation of transfer prices.
10.	Risk of non-compliance with the requirements of ERO/OCCP/ and the Instruction of Distribution Grid Operation and Maintenance	Risk associated with the possibility of the aforementioned authorities challenging the accuracy of the activity conducted by TAURON Capital Group in the scope of independence and equal treatment of entities on the market, infringement of antimonopoly regulations or abuse of the dominating position. The risk factors may have material adverse effect on TAURON Capital Group operations, its financial situation or results of its activities through withdrawal or change in the scope of the effective concessions, the requirement to change agreements for the supply of electric energy, incurring additional costs and a possibility of imposing financial penalties.
II. Operational risks		
1.	Risk connected with the obligation to redeem the certificates of origin or pay the substitution fee	Risk connected with the failure to fulfil the obligation to redeem the certificates of origin or pay the substitution fee, due to the limited availability of certificates of origin on the market, change of support policy for energy generated in RES and in co-generation, or redemption of incorrect number of certificates of origin / payment of the incorrect value of the substitution fee, resulting in potential increase in costs of fulfilment of the statutory obligation, penalties imposed by ERO President and higher production costs of electric energy sold.
2.	Weather risk in the Heat Area	Risk related to fluctuations of air temperatures which have significant impact on the demand for electricity and heat at a longer term, causing the significant increase or decrease of this demand, respectively, which may result in the failure to achieve the production plan in the assumed period or limitation of the possibility to satisfy the demand due to hydraulic constraints of the connection network, fixtures and the increased failure rate of sales.
3.	Market risk	The risk is associated with the volatility of prices of electric energy, property rights, CO ₂ emission allowances and the significant and/or unexpected changes in prices of coal and other fuels, as well as volatility of sales and generation volumes. The volatility referred to above, including the adverse change in a medium-term perspective, may significantly affect the financial result of TAURON Capital Group through the growth of costs, reduction of the margin and limitation of the revenues gained, as well as the fulfilment of the legal requirements related to maintaining of the relevant fuel reserves or imposing a fine in case of failure to fulfil those requirements. The Company manages the commercial risk based on the developed and adopted <i>Policy of risk management in the commercial activities in TAURON Group</i> , which specifies the set of rules and principles of commercial risk management at the level of TAURON Capital Group. The above document constitutes the implementation of market practices and solutions used in the scope of commercial risk management in electric energy trading and related products trading (CO ₂ emission allowances, property rights, fuels), including their adjustment to the structures of TAURON Capital Group, considering the specific nature of the energy sector.

No.	Types of risks	Risk description
4.	Risk connected with the obligation to redeem CO ₂ emission allowances	Risk connected with emitting CO ₂ to the atmosphere as well as the need to redeem the relevant quantity of CO ₂ emission allowances. The risk factors may have adverse impact on operations of TAURON Capital Group, its financial standing or results of its activities, through the fines imposed for each unit of unredeemed allowance, or decreasing the planned electricity sales profitability and the increase in costs associated with the failure to issue free allowances and their incorrect redemption.
5.	Risk of variable generation cost	Risk associated with potential errors in selection of units and distribution of loads of unit scheduling. The selection of units is performed on the basis of TSO data and decision, maintenance information from power plants, plans of units, variable costs and data published by TSO. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, through the necessity to select a more expensive generation unit or change in the optimum production schedule, which results in the increased variable cost of electric energy production.
6.	Assets failure risk	Risk connected with occurrence of serious and/or permanent failures and damages of equipment used by the TAURON Capital Group companies. Risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through loss of income arising from the interruptions and shutdowns, the necessity to incur additional costs of repairs of the grid infrastructure and non-grid infrastructure, the requirement to pay fines.
7.	Risk of fixed assets management	Risk associated with the lack of possibility to use fixed assets due to their ineffective management causing their poor technical condition, inadequate costs of fixed assets insurance resulting from their underestimation or overestimation, as well as the costs of holding redundant assets. Risk factors may have material adverse effect on TAURON Capital Group operations, its financial situation or results of its activities due to the lack of optimum use of the assets, its faster wear arising from inadequate exploitation, the need of incurring costs of remedying failures arising from wrong asset management.
8.	Environmental risk, including the risk associated with the atmospheric conditions	The risk consisting in a possibility to incur losses resulting from non-compliance with the legal regulations (including those arising from the way of implementation of the European law in the national law, administrative decisions), and including the possibility of occurrence of environmental damage or serious industrial accident or failure. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through the necessity to incur significant costs of compliance, pay indemnities, or a potential of threat to implementation of production tasks.
9.	Risk of unregulated legal status of the real property utilised	Risk connected with a possibility of occurrence of massive financial claims of land owners due to unregulated legal status of the foundation of a building or structure on the foreign land, undermining the legal status and claims of third parties in relation to certain components of assets. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through higher cost of operations or interruption of operating activities.
10.	Risk of occurrence of natural hazards or unfavourable geological and mining conditions	Risk connected with threats to implementation of production tasks, hazards to safety of maintenance of the mining plant or safety of the staff due to natural risk factors within the development of the mining works, difficulties connected with the roof and floor conditions hampering the mining process, as well as natural hazards occurring in the mining plants (water and fire conditions, rock bumps).
III. Disaster Risks		
1.	Risk of destruction of key machinery and equipment	The risk associated with a possibility of permanent destruction of machinery or equipment resulting in long-term decommissioning of a power unit, which may cause a significant loss of financial revenues and additional costs associated with the purchase of new elements or entire machines.
2.	Risk of cyber attack	The risk refers to the attack on the IT network controlling the performance of power units or the transmission grid, causing shutdown of power units and, in extreme cases, destruction of key elements of electric power infrastructure, which may result in the lack of possibility of their performance over a longer period of time, leading to the deterioration of financial results through the decline in revenues and the necessity to incur additional costs to recover their efficiency.

The Company actively manages all risks aiming at maximum reduction or elimination of their potential adverse effects, in particular on the financial result of TAURON Capital Group.

4. ANALYSIS OF FINANCIAL AND ECONOMIC SITUATION OF TAURON CAPITAL GROUP

4.1. Principles of preparation of the annual consolidated financial statements

The financial statement has been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU.

IFRS comprise standards and interpretations approved by the International Accounting Standards Board as well as the International Financial Reporting Interpretation Committee.

Companies of TAURON Capital Group and the parent entity keep their books and prepare their financial statements in accordance with the IFRS, excluding TAURON Czech Energy and TAURON Sweden Energy, keeping their books and preparing their financial statement in accordance with the accounting principles applicable, respectively, in the Czech Republic and in Sweden.

The consolidated financial statement contains adjustments which are not included in the ledgers of TAURON Capital Group entities, introduced in order to bring the consolidated statement into compliance with IFRS.

The consolidated financial statement has been prepared with the assumption of continuation of business operations by the TAURON Capital Group companies in the foreseeable future. As at the date of approval of the consolidated financial statement for publication, no circumstances have been recognised, indicating any risk for business continuity by the TAURON Capital Group companies.

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

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

Consolidated statement of financial standing

The table below presents the annual consolidated statement of financial situation – assets.

Table no. 28. Annual consolidated statement of financial standing – assets*

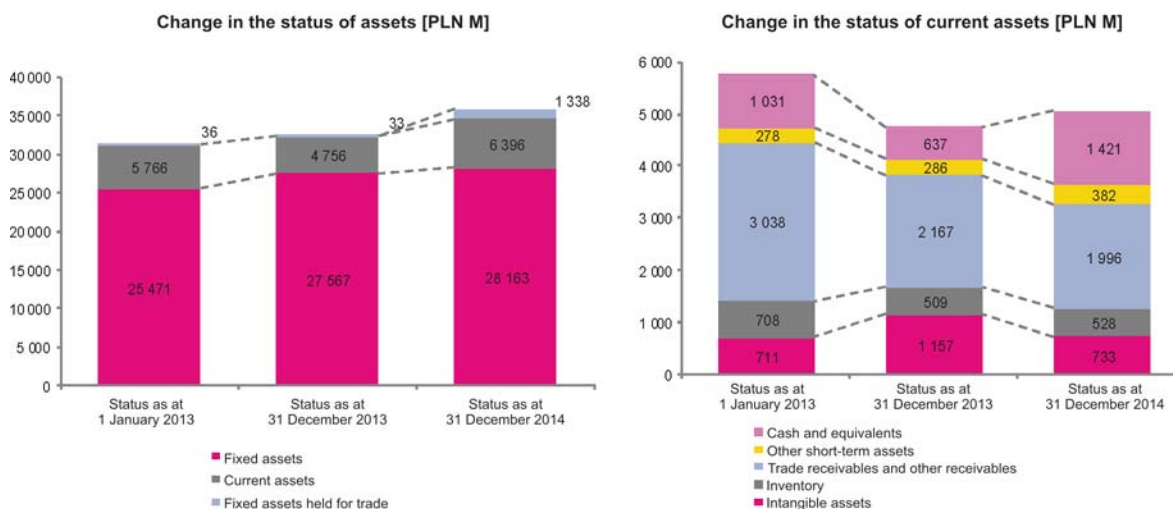
Statement of financial standing (PLN thous.)	Status as at 31 December 2014	Status as at 31 December 2013 (data converted)	Status as at 01 January 2013 (data not converted)	Dynamics (2014/2013)
ASSETS				
Fixed Assets	28,162,749	27,567,008	25,471,230	102.2%
Tangible fixed assets	24,850,942	25,127,639	23,300,643	98.9%
Intangible assets and goodwill	1,799,789	1,407,062	1,429,313	127.9%
Shares and stocks in joint ventures	414,584	44,398	51,986	933.8%
Other long-term financial assets	377,383	587,166	305,444	64.3%
Other long-term non-financial assets	657,943	354,704	359,709	185.5%
Assets due to deferred tax	62,108	46,039	24,135	134.9%
Current assets	6,396,444	4,788,562	5,802,447	133.6%
Intangible assets	733,048	1,156,550	711,099	63.4%
Inventory	527,596	509,224	708,282	103.6%
Receivables due to income tax	26,489	31,890	1,434	83.1%
Trade receivables and other receivables	1,969,169	2,134,641	3,036,695	92.2%
Other short-term financial assets	27,539	15,878	5,422	173.4%
Other short-term non-financial assets	353,989	270,429	272,371	130.9%
Cash and equivalents	1,420,909	636,909	1,030,929	223.1%
Fixed assets and assets of TAURON Capital Group for disposal, classified as held for trade	1,337,705	33,041	36,215	4,048.6%
TOTAL ASSETS	34,559,193	32,355,570	31,273,677	106.8%

* Due to the limited comparability of earlier periods, data are presented in a three-year horizon. Data comprising earlier periods are presented in Table no. 34 of this report.

As of 31 December 2014 the statement on financial situation of TAURON Capital Group indicates balance sheet total assets higher by o 6.8%.

The figure below shows the change in the status of assets and current assets.

Figure no. 47. Change in the status of assets and current assets



The following factor had an impact on the growth in the value of fixed assets by 2.2%:

- 1) capital expenditure on tangible fixed assets and intangible assets, mainly on assets of the Distribution, Generation and Heat Segments.
- 2) in-kind contribution in the form of an organised part of enterprises of TAURON Wytwarzanie S.A. (Elektrownia Blachownia) and TAURON Ciepło (ZW Nowa) to the Company TAMEH POLSKA and acquisition of 50% of shares under the implementation of the joint project of TAURON Capital Group and ArcelorMittal Group,
- 3) reclassification of fixed assets of the RES Segment, in connection with the separation of a part of TAURON EKOENERGIA company assets, as an organised part of the enterprise in the form of wind farms, and their assignment to the acquiring company, Marselwind, which is described in item 1.3.2.
- 4) advances contributed for tangible fixed assets under construction – increase by PLN 298 million.

The following factor had an impact on the growth in the value of current assets by 33.6%:

- 1) growth in cash by PLN 784.0 million – the reasons of the change are described in the item related to cash flows,
- 2) reduction of the level of intangible assets by PLN 423.5 million in connection with including of free CO₂ emission allowances related to 2013 and received in 2014 in the calculation of the CO₂ provision. As a consequence, in 2014 TAURON Capital Group had a surplus of free allowances in relation to emission in the reporting year. At the same time, those allowances were not included in the settlement for 2013, which resulted in high costs of provision for the surplus of CO₂ emission allowances in the previous year.
- 3) the increase in the value of fixed assets for disposal, classified as held for trade, is associated with the separation of wind farms from the structures of TAURON EKOENERGIA, and the consequent change of their presentation in the statement of financial standing.

The table below presents the annual consolidated statement on financial situation – liabilities.

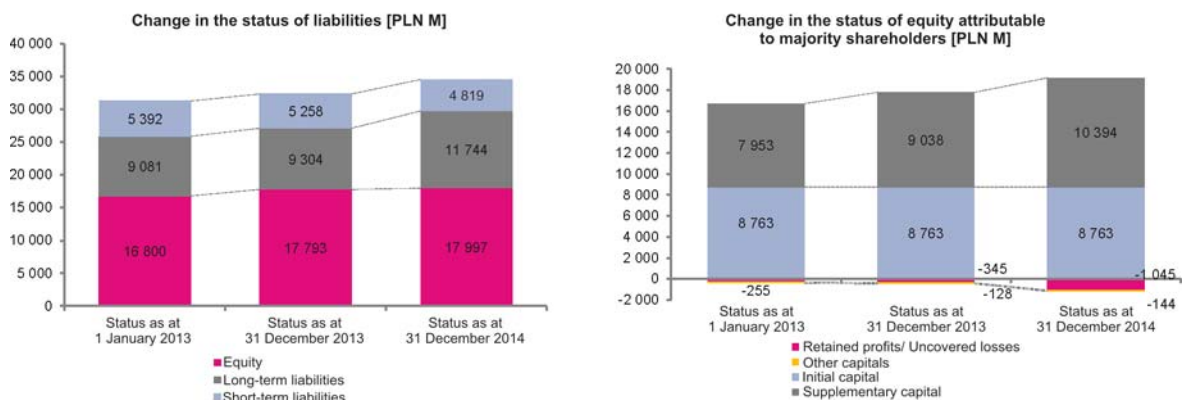
Table no. 29. Annual consolidated statement of financial standing – liabilities*

Statement of financial standing (PLN thous.)	Status as at 31 December 2014	Status as at 31 December 2013 (data converted)	Status as at 1 January 2013 (data not converted)	Dynamics (2014/2013)
LIABILITIES				
Equity	17,996,564	17,793,499	16,800,020	101.1%
Equity attributable to shareholders of the parent entity	17,966,448	17,327,165	16,306,681	103.7%
Share capital	8,762,747	8,762,747	8,762,747	100.0%
Supplementary capital	10,393,686	9,037,699	7,953,021	115.0%
Hedging instruments revaluation reserve	(143,019)	(126,651)	(153,703)	112.9%
Currency Exchange differences due to translation of foreign units	(1,386)	(1,631)	(370)	85.0%
Retained profits/Uncovered losses	(1,045,580)	(344,999)	(255,014)	303.1%
Non-controlling shares	30,116	466,334	493,339	6.5%
Long-term liabilities	11,744,092	9,304,341	9,081,234	126.2%
Loans, credits and debt securities	7,422,332	5,500,532	5,222,882	134.9%
Liabilities due to financial leasing	46,443	61,643	41,793	75.3%
Trade liabilities and other long-term financial liabilities	48,986	7,827	7,890	625.9%
Derivatives	93,501	87,573	150,594	106.8%
Provisions for employee benefits and other provisions	2,113,601	1,639,222	1,650,742	128.9%
Long-term prepayments and governmental subsidies	662,072	668,487	639,643	99.0%
Liabilities due to deferred income tax	1,357,157	1,339,057	1,367,687	101.4%
Short-term liabilities	4,818,537	5,257,730	5,392,423	91.6%
Current portion of interest-bearing credits, loans and debt securities	631,530	284,633	286,990	221.9%
Current part of liabilities due to financial leasing	13,461	17,327	14,482	77.7%
Trade liabilities and other liabilities	1,866,865	2,023,537	2,628,449	92.3%
Derivatives	102,615	73,358	40,624	139.9%
Provisions for employee benefits and other provisions	1,240,369	1,725,387	1,270,740	71.9%
Accruals and governmental subsidies	245,520	239,639	268,870	102.5%
Liabilities due to income tax	13,518	79,035	113,034	17.1%
Other non-financial liabilities	619,689	814,814	769,234	76.1%
Liabilities of TAURON Capital Group for disposal, classified as held for trade	84,970	–	–	–
TOTAL LIABILITIES	34,559,193	32,355,570	31,273,677	106.8%

* Due to the limited comparability of earlier periods, data are presented in a three-year horizon. Data comprising earlier periods are presented in Table no. 34 of this report.

The figure below shows the change in the status of liabilities and equity.

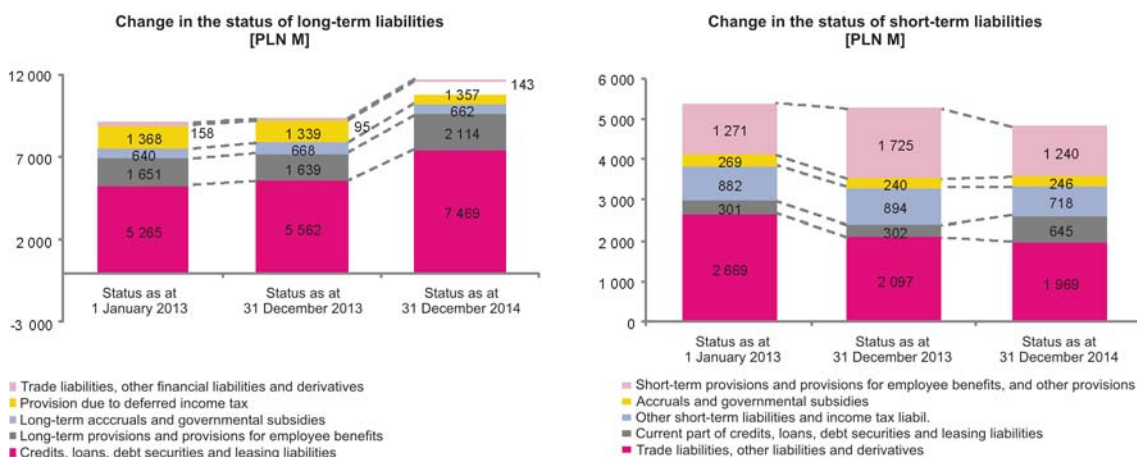
Figure no. 48. Change in liabilities and equity



Similar to the previous years, in 2014 the dominating source of assets financing was equity whose share in the total liabilities amounted to 52.1%.

The figure below shows the change in the status of liabilities.

Figure no. 49. Change in the status of liabilities



The value of long-term liabilities of TAURON Capital Group increased by 26.2%, due to the following factors:

- 1) increase in the value of financial liabilities incurred by PLN 1,906.6 million, for the needs of funding the investments in fixed assets implemented in TAURON Capital Group,
- 2) increase in the value of provisions for future employee benefits by PLN 450.5 million, in connection with the reduction of the discount rate by the Group, as a result of the decline in market interest rates.

The value of short-term liabilities of TAURON Capital Group decreased by 8.4%, due to the following factors:

- 1) lower value of trade liabilities by PLN 156.7 million,
- 2) lower value of the provision created for redemption of CO₂ emission allowances by PLN 453.0 million, which is associated with obtaining of free emission allowances due for 2013 by companies of TAURON Capital Group in 2014,
- 3) higher value of financial liabilities by approximately PLN 343.0 million, in connection with the acquisition of external financing for the needs of funding the investments in fixed assets implemented in TAURON Capital Group,
- 4) lower value of the actuarial provision by PLN 12.5 million,
- 5) presentation of liabilities attributed to assets held for disposal in the balance sheet of the Group, in connection with the operation of separating wind farms from the structures of TAURON EKOENERGIA at a level of PLN 85.0 million.

Consolidated statement of comprehensive income

The table below presents the annual consolidated statement of comprehensive income. Due to the changes in Business Areas and in order to maintain the comparability, the results are presented for three years.

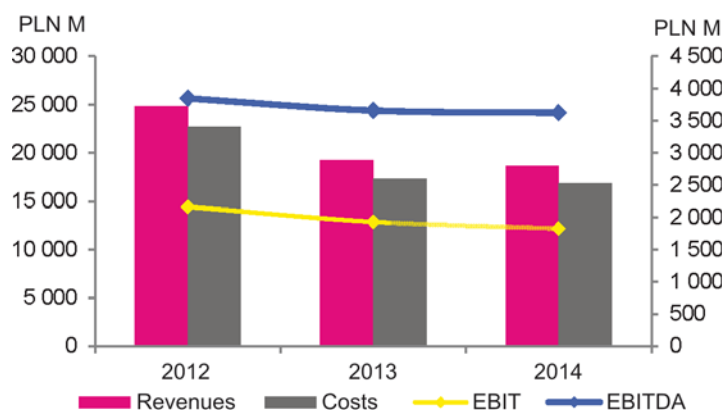
Table no. 30. Annual statement of comprehensive income for the years 2012–2014*

Statement of comprehensive income (PLN thous.)	2014	2013	2012 (data not converted)	Dynamics (2014/2013)
Revenue on sales	18,440,763	19,131,122	24,752,985	96.4%
Own cost of sales	(15,512,063)	(15,990,461)	(21,282,054)	97.0%
Gross profit (loss) on sales	2,928,700	3,140,661	3,470,931	93.3%
Other operating revenues	233,306	127,436	118,901	183.1%
Costs of sales	(549,164)	(553,502)	(552,291)	99.2%
Overheads	(664,187)	(645,406)	(734,754)	102.9%
Other operating expenses	(118,542)	(135,123)	(137,658)	87.7%
Operating profit (loss)	1,830,113	1,934,066	2,165,129	94.6%
<i>Operating profit margin (%)</i>	<i>9.9%</i>	<i>10.1%</i>	<i>8.7%</i>	<i>98.2%</i>
Financial revenues	86,198	99,257	131,306	86.8%
Financial expenses	(417,160)	(346,993)	(347,124)	120.2%
Share in the profit (loss) of joint venture	(936)	(2,709)	(1,734)	34.6%
Gross profit (loss)	1,498,215	1,683,621	1,947,577	89.0%
<i>Gross profit margin (%)</i>	<i>8.1%</i>	<i>8.8%</i>	<i>7.9%</i>	<i>92.3%</i>
Income Tax	(312,655)	(337,136)	(396,778)	92.7%
Net profit (loss) for the financial year	1,185,560	1,346,485	1,550,799	88.0%
<i>Net profit margin (%)</i>	<i>6.4%</i>	<i>7.0%</i>	<i>6.3%</i>	<i>91.3%</i>
Other comprehensive income for the financial year including tax	(290,384)	43,488	(333,594)	–
Total income for the financial year	895,176	1,389,973	1,217,205	64.4%
Profit attributable to:				
Shareholders of the parent company	1,180,893	1,308,318	1,476,392	90.3%
Non-controlling interests	4,667	38,167	74,407	12.2%
Total income attributable to:				
Shareholders of the parent company	890,879	1,349,123	1,157,617	66.0%
Non-controlling interests	4,297	40,850	59,588	10.5%
EBIT and EBITDA				
EBIT	1,830,113	1,934,066	2,165,129	94.6%
EBITDA	3,627,100	3,661,484	3,851,625	99.1%

* The three-year period is presented due to significant changes in organisation of operating Segments as compared to the period before 2012. The approximate picture of results in the 5-year period is presented in Table no. 34 of this report.

The figure below presents the financial results of TAURON Capital Group for 2012–2014.

Figure no. 50. Financial results of TAURON Capital Group for the years 2012–2014



In the reporting period ended on 31 December 2014, TAURON Capital Group gained revenues on sales lower by 3.6% as compared to the values achieved in 2013. It should be mentioned that in Q4 2014 a lower decline of revenues was noted as compared to the entire 2014, reaching 1.6%.

The lower level of revenues was affected by the lower value of the accomplished sales of electric energy, coal and heat, resulting mainly from the situation in the domestic market. In case of other products and services offered by the companies of TAURON Capital Group slight growths were recorded.

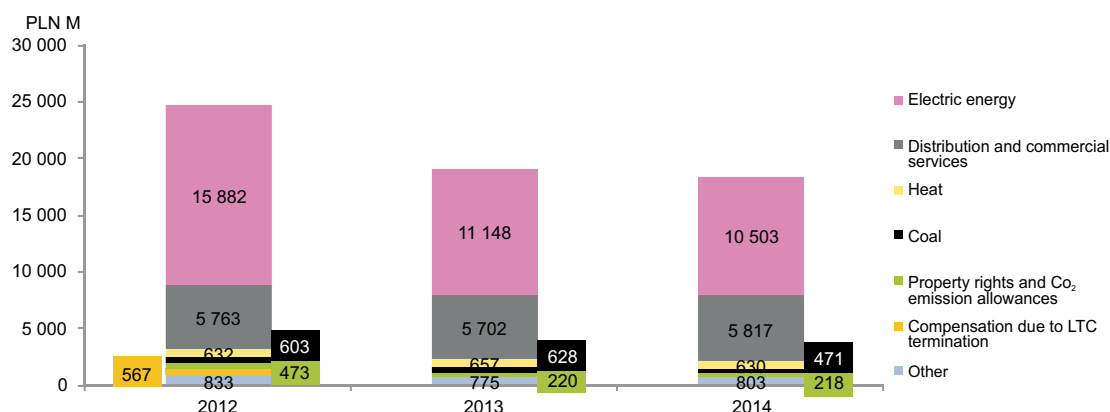
The decline in the revenues from electric energy sales arising from the decline in the average prices (for retail sales by 12.0%) and volume (for retail sales by 6.5%) is the result of lower consumer demand, activity of competitive companies and client acquisitions they perform. Additionally, the decline in prices results from marketing actions conducted by Sales Area, aimed at maintaining the existing clients by means of loyalty measures as well as acquisition of new clients (from competitive companies).

The decline in the revenues on coal sales is the consequence of the lower sales of the delivered supplies (by 25.2%) and lower average prices of commercial coal (by 2.8%), mainly due to the inflow of imported coal, decline in exports, lower production of electric energy from hard coal by domestic producers (decline in total production of professional power plants by 4.9%, including coal-fired power plants – by 5.1%), increased generation and level of using capacity installed in wind farms (increase in production of wind farms reached 23.4% YoY). The decline in the revenues on sales of heat is the result of higher YoY temperatures, which affected the decline in the volume of the heat supplied by approximately 14.2%.

The aforementioned factors were partly compensated by gaining revenues from operational capacity in 2014 (which did not take place in 2013), higher sales of electric energy on the balancing market, accomplished by the Generation Segment, and the higher sales price of the distribution service.

The figure below presents the structure of revenues of TAURON Capital Group in the years 2012–2014.

Figure no. 51. Structure of revenues of TAURON Capital Group in the years 2012–2014*



* The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in Table 34 of this report.

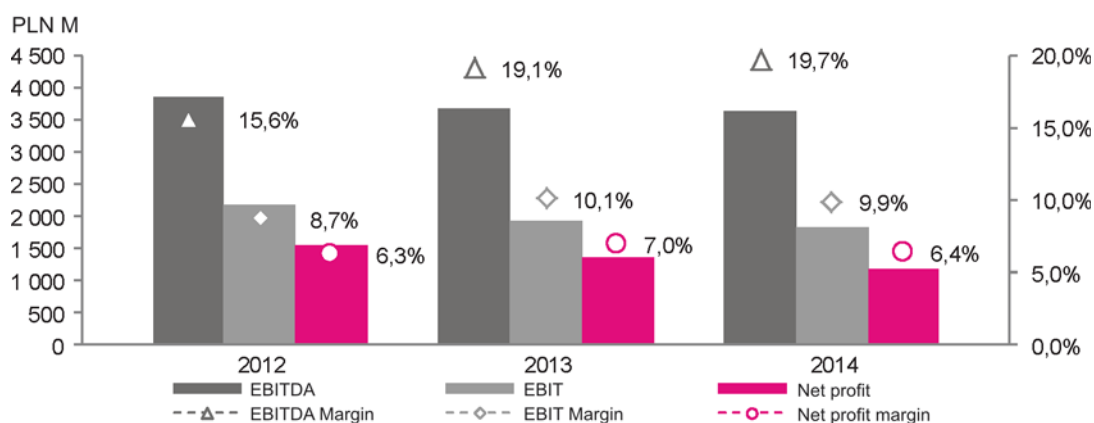
As compared to the corresponding period of 2013 TAURON Capital Group reached higher total revenue on sales in the following Segments: RES (by 37.4% as a result of the full year of functioning of Wicko and Marszewo wind farms – sales of a higher volume of electric energy and property rights) and Customer Service (by 23.8% – higher revenues as a result of takeover of service for companies of TAURON Capital Group in the scope of Back Office functions throughout 2013). The highest decline in the total revenues was recorded in the following Segments: Generation (by 29.6%), Mining (by 14.6%) and Sales (by 15.2%) as a result of the lower sales volume and sales price of electric energy and commercial coal.

In relation to the revenues on sales gained due to sales of products outside the Group, the highest growth dynamics was recorded in the Generation (182.9%), RES (126.0%) and Distribution (117.1%) Segments.

In 2014, costs of TAURON Capital Group operations reached approximately PLN 16,725 million and they were lower by about 2.7% than costs incurred in 2013. It should be noted that this decline in costs is correlated with the decline in the achieved revenues on sales and results from lower operating costs of the Sales, Generation and Mining Segments. Declines recorded in the aforementioned Segments result, on the one hand, from the lower volume of sales and production of electric energy and, and the associated hard coal production and sales and, on the other hand, from activities carried out by TAURON Capital Group companies in the scope of fixed costs optimisation, which partly enabled to neutralise the impact of decreased revenues on the financial results of TAURON Capital Group.

The figure below shows the financial results of TAURON Capital Group and the level of accomplished margins.

Figure no. 52. Financial results of TAURON Capital Group and the level of accomplished margins*



* The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate picture of results in the five-year period is presented in Table 34 of this report.

In 2014, TAURON Capital Group recorded slightly lower results of EBITDA and EBIT than in 2013. The EBITDA margin reached a slightly higher level (by 2.8%), whereas the EBIT margin was slightly lower (by 1.8%) than in 2013.

In 2014 the net profit attributable to shareholders of the parent company was lower by 9.7% than in 2013, which resulted from the financial costs of servicing a higher debt, incurred by TAURON Capital Group, in relation to 2013.

Statement of Cash Flows

The table below presents the statement of cash flows

Table no. 31. Statement of Cash Flows*

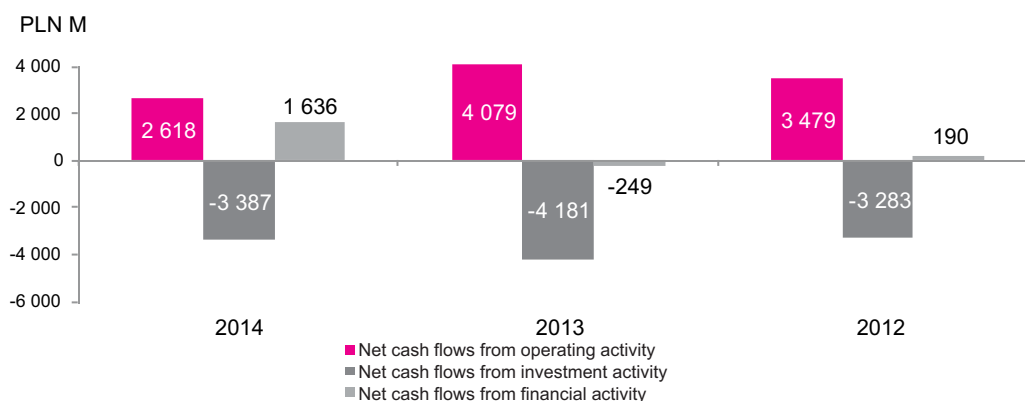
Statement of Cash Flows (data in PLN thousand)	Year ended 31 December 2014	Year ended 31 December 2013 (data converted)	Year ended 31 December 2012 (data not converted)	Dynamics (2014/2013)
Cash flows from operating activities				
Gross profit/(loss)	1,498,215	1,683,621	1,947,577	89.0%
Adjustments	1,119,692	2,395,461	1,531,474	46.7%
Net cash from operating activities	2,617,907	4,079,082	3,479,051	64.2%

Statement of Cash Flows (data in PLN thousand)	Year ended 31 December 2014	Year ended 31 December 2013 <i>(data converted)</i>	Year ended 31 December 2012 <i>(data not converted)</i>	Dynamics (2014/2013)
Cash flows from investment activities				
Sales of tangible fixed assets and intangible assets	47,800	29,785	50,192	160.5%
Purchase of tangible fixed assets and intangible assets	(3,464,578)	(3,933,673)	(3,302,471)	88.1%
Sales of bonds and other debt securities	–	–	102,506	–
Sales of other financial assets	38,264	4,237	22,011	903.1%
Purchase of other financial assets	(6,684)	(4,920)	(10,463)	135.9%
Acquisition of shares and stocks in joint projects	–	–	(32,576)	–
Advance payment for purchase of shares in the subsidiary	–	(232,500)	–	–
Acquisition of subsidiary following deduction of cash taken over	–	–	(5,613)	–
Dividend received	3,931	18,323	8,349	21.5%
Interest received	1,068	40	136	2,670.0%
Repayment of loans granted	11,700	46,800	24,500	25.0%
Loans granted	(18,050)	(108,800)	(139,500)	16.6%
Other	(184)	220	–	–
Net cash from investment activities	(3,386,733)	(4,180,488)	(3,282,929)	81.0%
Cash flows from financial activities				
Repayment of liabilities due to financial leasing	(20,622)	(14,911)	(14,834)	138.3%
Cash inflows due to loans/credits	–	452,325	1,005,000	–
Repayment of loans/credits	(169,971)	(141,226)	(257,210)	120.4%
Issue of debt securities	3,653,234	–	150,000	–
Redemption of debt securities	(1,148,200)	–	–	–
Dividends paid to shareholders of the parent company	(332,984)	(350,510)	(543,290)	95.0%
Dividends paid to non-controlling shareholders	(1,233)	(8,047)	(16,434)	15.3%
Interest paid	(273,392)	(229,431)	(222,089)	119.2%
Purchase of non-controlling shares	(125,402)	(37,021)	(6,535)	338.7%
Subsidies received	63,139	89,024	106,083	70.9%
Other	(8,820)	(9,303)	(10,975)	94.8%
Net cash from financial activities	1,635,749	(249,100)	189,716	–
Increase/(decrease) in net cash and equivalents	866,923	(350,506)	385,838	–
Net exchange differences	(177)	(1,858)	(1,375)	9.5%
Cash opening balance	541,148	891,654	505,816	60.7%
Cash closing balance	1,408,071	541,148	891,654	260.2%

* The three-year period is presented due to significant changes in organisation of operating Segments as compared to the period before 2012. The approximate picture of results in the 5-year period is presented in Table no. 34 of this report.

The figure below presents the cash flows in the years 2012–2014.

Figure no. 53. Cash flows in the years 2012–2014



The accomplished positive value of cash flows on operating activities in 2014 was lower than the stream of cash accomplished in the previous year. The following factors had the most noticeable impact on the change in this position of cash flows account:

- 1) EBITDA result lower by PLN 34 million,
- 2) creating impairment losses on ineffective generation assets in TAURON Wytwarzanie in 2013 and 2014 – net effect of PLN 238.1 million,
- 3) negative change in the status of receivables (decline by approximately PLN 813 million), mainly as a result of repayment of claims generated during the activities conducted in 2012 by customers of TAURON Capital Group, and the termination of the programme on covering stranded costs and its final settlement in 2013,
- 4) negative change in the status of inventory (decline by approximately PLN 231 million) as a result of the situation in the coal and energy market, resulting in the lower sales of commercial coal from own sources and lower own consumption,
- 5) contribution of the substitution fee due to white certificates in 2014, in the amount of approximately PLN 70 million,
- 6) acquisition of property rights to cover the obligation for 2014 – increase in the stream of operating expenses by PLN 195 million.

The accomplished negative value of cash flows from investment activities in 2014 was lower by 19% than the cash flow stream reached in 2013. The change in this cash flow position was mainly affected by the following factors:

- 1) incurring capital expenditures lower by 12% for the purchase of tangible fixed assets and intangible assets,
- 2) contributing the advance payment in 2013 on account of acquisition of the remaining part of shares of the company TAURON Wydobywanie from Kompania Węglowa.

In 2014 TAURON Capital Group recorded a positive value of cash flows from financial activities, mainly as a result of acquisition of external financing for the implementation of future investments in TAURON Capital Group assets. In 2014, within the conducted bond issue actions, TAURON Capital Group acquired additional funds in the amount of PLN 2,505.0 million and repaid loans taken out in the previous years for the amount of PLN 170.0 million. The total value of interest paid in 2014 was higher than in 2013, amounting to PLN 273.4 million. In addition, in the reporting year, TAURON paid the dividend to its shareholders at a level slightly lower than in 2013, i.e. in the total amount of PLN 334.2 million.

The nature of individual cash streams recognised in each item of cash flow statement indicates strengthening of the company position on the market through its further development. The structure of cash flows explicitly shows that the investment expenditure incurred is financed from operating funds and the external funding sources raised.

TAURON Capital Group effectively manages cash flows, using the centrally implemented model of financing and the central policy of financial risk management. In order to minimise the potential disturbances in cash flows and the risk of loss of liquidity, the cash pooling mechanism was used. TAURON Capital Group uses various sources of funding, such as, for example, overdraft, bank facilities, loans from environmental funds, issue of bonds, financial leasing contracts and lease contracts with purchase option.

4.3. Characteristics of assets and liabilities of the consolidated balance sheet

Structure of the annual consolidated statement of financial standing

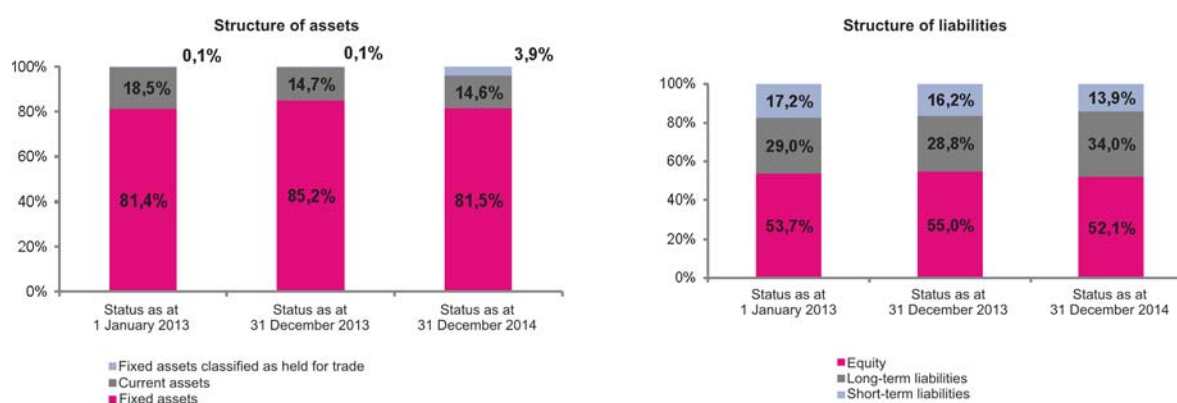
The table below shows the structure of the annual consolidated statement of financial standing.

Table no. 32. Structure of the annual consolidated statement of financial standing

Consolidated statement of financial standing	Status as at 31 December 2014	Status as at 31 December 2013 (data converted)	Status as at 01 January 2013 (data converted)
ASSETS			
Fixed Assets	81.5%	85.2%	81.4%
Current assets	14.6%	14.7%	18.5%
Fixed assets classified as held for trade	3.9%	0.1%	0.1%
TOTAL ASSETS	100.0%	100.0%	100.0%
LIABILITIES			
Equity attributable to shareholders of the parent company	52.0%	53.6%	52.1%
Non-controlling shares	0.1%	1.4%	1.6%
Total equity	52.1%	55.0%	53.7%
Long-term liabilities	34.0%	28.8%	29.0%
Short-term liabilities	13.9%	16.2%	17.2%
Total liabilities	47.9%	45.0%	46.3%
TOTAL LIABILITIES	100.0%	100.0%	100.0%
Financial liabilities	8,113,766	5,864,135	5,566,150
Net financial liabilities	6,692,857	5,227,226	4,535,221

The figure below presents the structure of assets and liabilities.

Figure no. 54. Structure of assets and liabilities



According to the status as at 31 December 2014, similar to 2013, the value of fixed assets has the highest share in the structure of assets. In the structure of fixed assets, tangible fixed assets of the Distribution (51.9%), Generation (24.2%), Heat (8.0%) and Mining (4.6%) Segments have the highest share.

As at 31 December 2014, equity and financial liabilities represent the highest share in the structure of liabilities.

The level of indebtedness of TAURON Capital Group is maintained at a safe level, which is indicated by the value of the debt ratio as compared to the European benchmarks for the sector, and the positive stream of cash flows from operating activities shall continue to foster the implementation of the investment programme.

4.4. Significant off-balance sheet items

As at 31 December 2014, significant contingent liabilities of TAURON Capital Group were related to:

- 1) the lack of created provision for unreported potential claims by owners of land of unregulated status due to the lack of detailed record of unregulated land and the resulting inability to reliably estimate the amount of potential claims,
- 2) the administrative proceedings instituted by the ERO President concerning imposing of the financial penalty against Vattenfall Sales Poland sp. z o.o. (currently: TAURON Sprzedaż GZE), pursuant to Article 56 item 1 point 5 of the *Energy Law* due to application of prices and tariffs by the aforementioned company in the years 2008–2011, infringing the obligation to submit them for approval,
- 3) the proceedings instituted on 12 December 2012 by the President of OCCP against TAURON Sprzedaż, accusing it of using the practices violating the collective interests of consumers, by unjustified accrual of interest on overdue payments concerning the forecast of electricity consumption, which are indicated through the system of automated payment service procedures, as a result of allocation of the amounts paid by consumers to the receivables to be due in the future, while leaving the most outdated liabilities of consumers as unsettled,
- 4) the proceedings instituted on 17 September 2013 by the President of OCCP against TAURON Sprzedaż in connection with the suspected use of practices violating the collective interests of consumers, by providing electric energy prices in price lists and information materials without including the value added tax, which constitutes the infringement of the *Act of 23 August 2007 on prevention of unfair market practices (Journal of Laws no. 171, item 1206)*,
- 5) the explanatory proceedings conducted by the President of OCCP against TAURON Sprzedaż and TAURON Sprzedaż GZE,
- 6) the court dispute between TAURON as a legal successor of Górnośląski Zakład Elektroenergetyczny S.A (GZE) and Huta Łaziska S.A. as a result of the failure of the Steelworks to fulfil the obligation to pay receivables due to energy supplies, which consequently caused the suspension of electric energy supplies to the Steelworks by GZE in 2001,
- 7) the excess payment of excise tax for the years 2006–2008 and for the months of January and February 2009, made by companies of TAURON Capital Group that submitted the adjusted tax returns, including the motions for acknowledgement of the excess payment,
- 8) the level of real estate tax imposed on energy installations used for generation and transmission of electric energy.

Detailed information on off-balance items is included in notes 43 and 44 of the Consolidated financial statement for the year ended on 31 December 2014.

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

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

4.6. Basic financial and non-financial ratios

Financial ratios

The table below presents the basic financial ratios of TAURON Capital Group.

Table no. 33. The basic financial ratios of TAURON Capital Group*

Ratio	Definition	2014	2013	2012
PROFITABILITY				
EBIT Margin	Operating result / Revenue on sales	9.92%	10.11%	8.75%
EBITDA Margin	EBITDA / Revenue on sales	19.67%	19.14%	15.56%
Net Profitability	Net result / Revenue on sales	6.43%	7.04%	6.27%
Return on Equity (ROE)	Net result / Closing balance of equity	6.59%	7.57%	9.23%
LIQUIDITY				
Current liquidity ratio	Current assets (excluding assets held for trade) / Short-term liabilities	1.05	0.90	1.07

Ratio	Definition	2014	2013	2012
DEBT				
General debt ratio	Total obligations / Total liabilities	0.48	0.45	0.46
Net debt/ EBITDA	(Financial liabilities - Cash) / EBITDA	1.85	1.43	1.18
OTHER RATIOS				
Earnings per share (EPS)	Net result attributable to shareholders of the parent entity / Number of ordinary shares	0.67	0.75	0.84

* The three-year period is presented due to significant changes in the organisation of operational Segments, as compared to the period before 2012. The approximate results in the five-year period are presented in item 34. of this report.

In 2014 the net profitability ratio of TAURON Capital Group reached a lower level than achieved in 2013, as a result of the decline in revenues on sales.

The current liquidity ratio reached the value higher than in 2013. Its growth is mainly the result of the high status of cash maintained by TAURON Capital Group, partly compensated by the lower level of trade receivables and intangible assets, and the decline in the level of short-term liabilities, mainly in the scope of trade liabilities and provisions.

The total debt ratio as well as Net debt/EBITDA ratio reflect the share of liabilities in TAURON Capital Group financing. The current level of this ratio enables TAURON Capital Group to acquire external financing required to implement the investments planned. The change in the level of ratios in 2014 results from the growth of financial liabilities with simultaneous decline of results of TAURON Capital Group. The growth of financial liabilities results from acquisition of external financing by TAURON Capital Group in order to implement investments in the assets of TAURON Capital Group companies. It should be mentioned that due to the favourable macroeconomic situation, the relatively low interest rates facilitate the acquisition of less expensive external financing, and this opportunity was used by TAURON Capital Group in 2014.

The EPS ratio (calculated against the net profit attributable to parent company shareholders) reached in 2014, at the level of 0.67, decreased in relation to 2013. The level of this ratio is significantly affected by the level of net profit attributable to shareholders of the parent entity, which was lower by PLN 127.4 million in 2014.

Non-financial ratios

The non-financial ratios in TAURON Capital Group are closely associated with the specific nature of its activities, the resources held and the adopted Corporate Strategy, including:

- 1) methods of human resources management,
- 2) marketing actions and service provided to key clients,
- 3) assessment of investment opportunities,
- 4) centralisation of governance functions in TAURON Capital Group, restricting the non-core activities,
- 5) development of organisational structures and management procedures.

4.7. Most significant financial and operating data concerning TAURON Capital Group for the years 2010–2014

The table below presents the most significant financial data and operational data of TAURON Capital Group for the years 2010–2014.

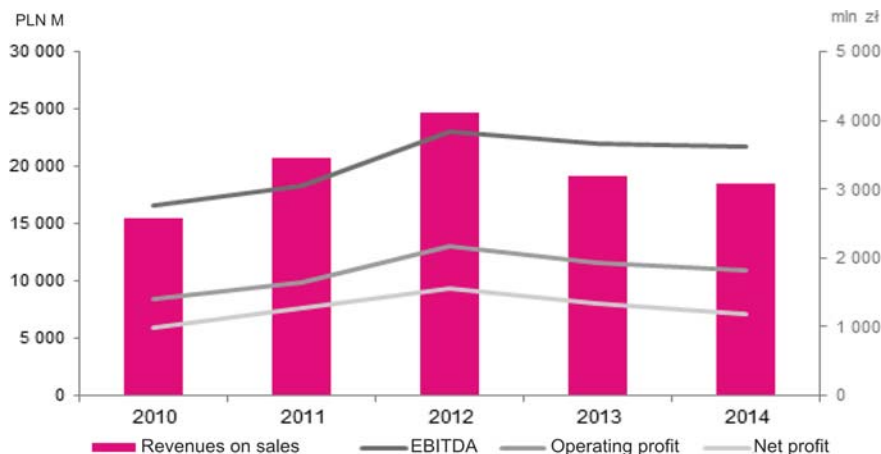
Table no. 34. Financial data and operational data for the period 2010–2014*

Basic information	unit	2014	2013	2012	2011	2010	Change % (2014/2013)
Statement of comprehensive income							
Revenues on sales	PLN million	18,441	19,131	24,753	20,755	15,429	96%
Operating profit	PLN million	1,830	1,934	2,165	1,646	1,399	95%
Financial revenues	PLN million	86	99	131	116	92	87%
Financial expenses	PLN million	(417)	(347)	(347)	(160)	(234)	120%
Gross profit	PLN million	1,498	1,684	1,948	1,600	1,257	89%
Income Tax	PLN million	(313)	(337)	(397)	(333)	(266)	93%
Net profit	PLN million	1,186	1,346	1,551	1,267	991	88%
attributable to shareholders of the parent entity	PLN million	1,181	1,308	1,476	1,245	859	90%
attributable to non-controlling shares	PLN million	5	38	74	22	133	12%
EBITDA	PLN million	3,627	3,661	3,852	3,057	2,758	99%
Statement of financial standing							
Fixed assets	PLN million	28,163	27,567	25,471	23,417	18,394	102%
Current assets	PLN million	6,396	4,789	5,766	5,101	5,028	134%
Equity	PLN million	17,997	17,793	16,800	16,087	15,102	101%
Total liabilities	PLN million	16,563	14,562	14,474	12,440	8,325	114%
Long-term liabilities	PLN million	11,744	9,304	9,081	7,597	4,176	126%
Short-term liabilities	PLN million	4,819	5,258	5,392	4,843	4,148	92%
Net financial debt	PLN million	6,693	5,227	4,535	4,031	18	128%
Investment expenditure	PLN million	3,090	3,780	3,472	2,504	1,603	82%
Cash flow account							
Net cash from operating activities	PLN million	2,618	4,079	3,479	2,209	2,520	64%
Net cash from investment activities	PLN million	(3,387)	(4,180)	(3,283)	(5,690)	(1,508)	81%
Net cash from financial activities	PLN million	1,636	(249)	190	2,515	(513)	–
Cash closing balance	PLN million	1,408	541	892	506	1,472	260%
Ratios							
EBIT Margin	%	9.9%	10.1%	8.7%	7.9%	9.1%	98%
EBITDA Margin	%	19.7%	19.1%	15.6%	14.7%	17.9%	103%
Net financial debt/ EBITDA	Number	1.85	1.43	1.18	1.32	0.01	129%
Net earnings per share	PLN/share	0.67	0.75	0.84	0.71	0.54	90%
Dividend per share	PLN/share	0.19	0.20	0.31	0.15	–	95%
Operating expenses							
Commercial coal production	M Mg	5.40	5.45	5.57	4.58	4.50	99%
Net production of electric energy	TWh	15.37	19.39	19.11	21.38	21.32	79%
Net production of electric energy from RES	TWh	1.79	1.38	1.21	0.99	1.10	130%
Heat production	PJ	13.41	15.62	16.36	15.96	18.29	86%
Retail sales of electric energy	TWh	38.60	41.30	44.74	35.52	34.34	93%
Distribution of electric energy	TWh	47.90	47.90	47.85	38.24	37.52	100%
Number of clients (Distribution)	million	5.38	5.33	5.30	4.14	4.12	101%

* The values presented do not reflect the values compliant with the IFRS and are not directly comparable due to the changes in organisation of Business Segments after 2010.

The figure below presents the financial results of TAURON Capital Group for the years 2010–2014.

Figure no. 55. Financial data of TAURON Capital Group for the years 2010–2014



The table below presents EBITDA results of TAURON Capital Group, divided into Business Areas.

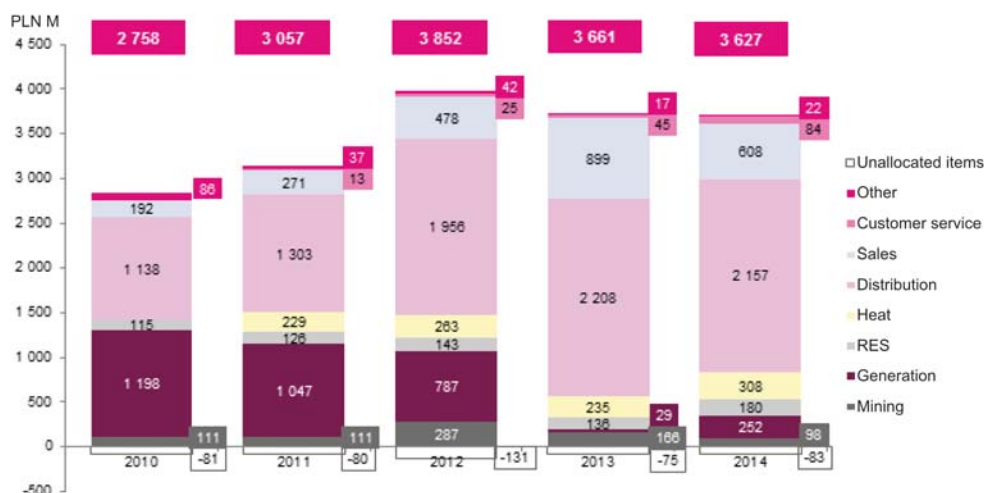
Table no. 35. EBITDA results of TAURON Capital Group, divided into Business Areas*

No.	EBITDA (PLN thous.)	2014	2013	2012	2011	2010*	Dynamics (2014/2013)	Change (2014–2013)
1.	Mining	98,412	165,783	287,431	111,040	110,614	59%	(67,371)
2.	Generation	251,838	28,852	787,322	1,047,145	1,197,947	873%	222,986
3.	RES	180,166	135,563	143,450	126,036	114,945	133%	44,603
4.	Heat	308,407	235,453	263,052	229,030	–	131%	72,954
5.	Distribution	2,157,136	2,208,381	1,955,896	1,302,691	1,137,804	98%	(51,245)
6.	Sales	608,213	899,208	478,342	270,927	192,029	68%	(290,995)
7.	Customer Service	84,165	45,283	25,131	12,704	–	186%	38,882
8.	Other	22,158	17,485	42,347	37,165	86,032	127%	4,673
9.	Unallocated items	(83,395)	(74,524)	(131,346)	(79,687)	(80,885)	112%	(8,871)
	Total EBITDA	3,627,100	3,661,484	3,851,625	3,057,051	2,758,486	99%	(34,384)

* Lack of comparable data in 2010. In that year, companies included in the Heat Area operated in the Other Area (i.e. Przedsiębiorstwo Energetyki Ciepłej Katowice S.A. and Przedsiębiorstwo Energetyki Ciepłej w Dąbrowie Górniczej S.A.) and in the Generation Area (Elektrociepłownia Nowa sp. z o.o. and Elektrociepłownia Tychy S.A.). The Customer Service Area was separated as a segment of activities in 2011.

The figure below presents the financial data of TAURON Capital Group for the years 2010–2014.

Figure no. 56. EBITDA Structure of TAURON Capital Group in the years 2010–2014



Basic information for the years 2010–2014 according to Business Areas

The figures below present the financial data for the years 2010–2014 according to Business Areas:

Figure no. 57. Data of the Mining Area for the years 2010–2014

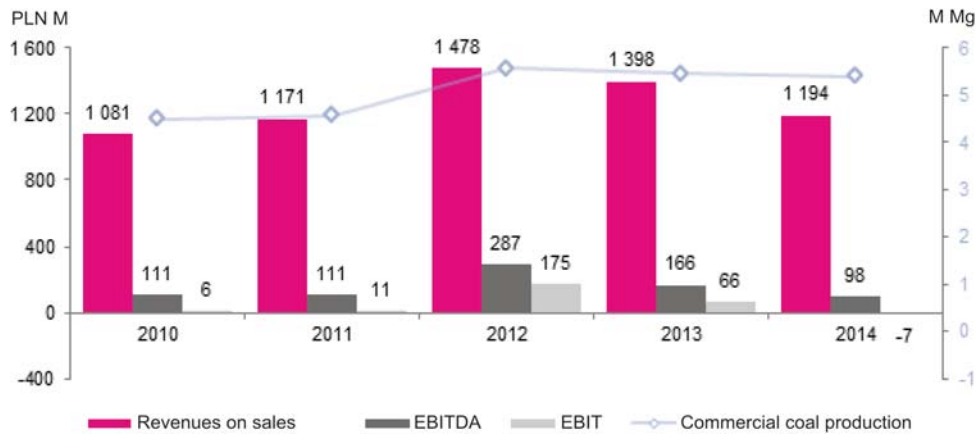


Figure no. 58. Data of the Generation Area for the years 2010–2014

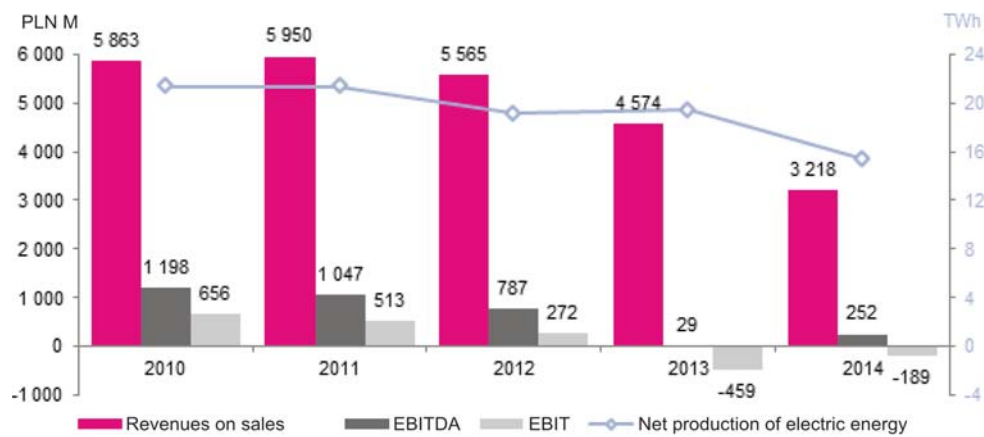


Figure no. 59. Data of the RES Area for the years 2010–2014

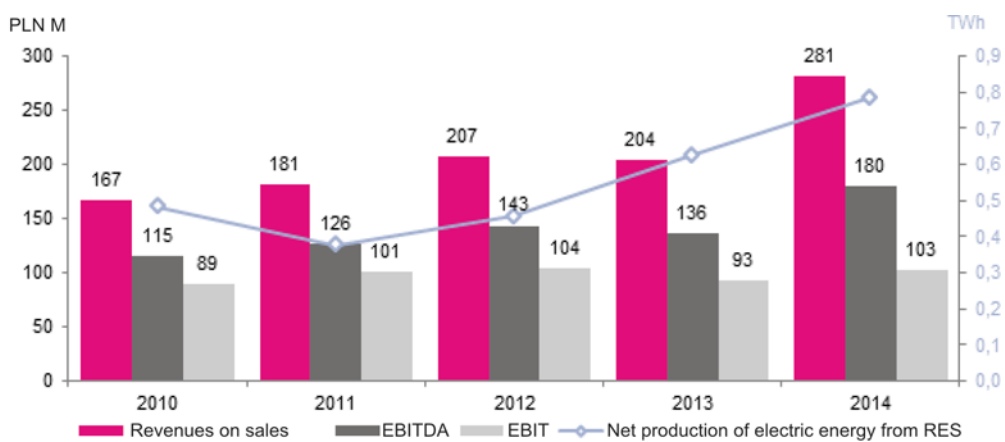
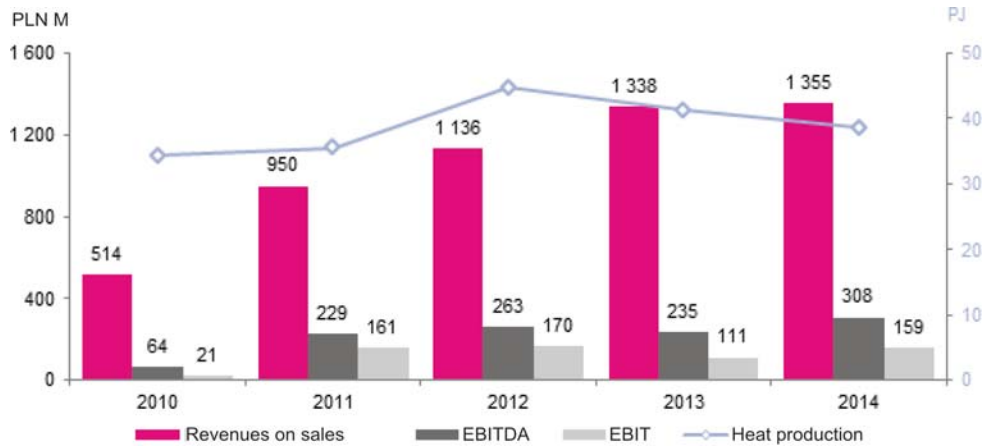


Figure no. 60. Data of the Heat Area for the years 2010–2014*



* In 2010 no comparable data are available, the data presented refer to companies recognised in the Other Area (Przedsiębiorstwo Energetyki Ciepłej Katowice S.A. and Przedsiębiorstwo Energetyki Ciepłej w Dąbrowie Górniczej S.A.). Results of other companies recognised in the Heat Area since 2011 (Elektrociepłownia Nowa sp. z o.o. and Elektrociepłownia Tychy S.A.), are recognised in the results of the Generation Area in 2010.

Figure no. 61. Data of the Distribution Area for the years 2010–2014

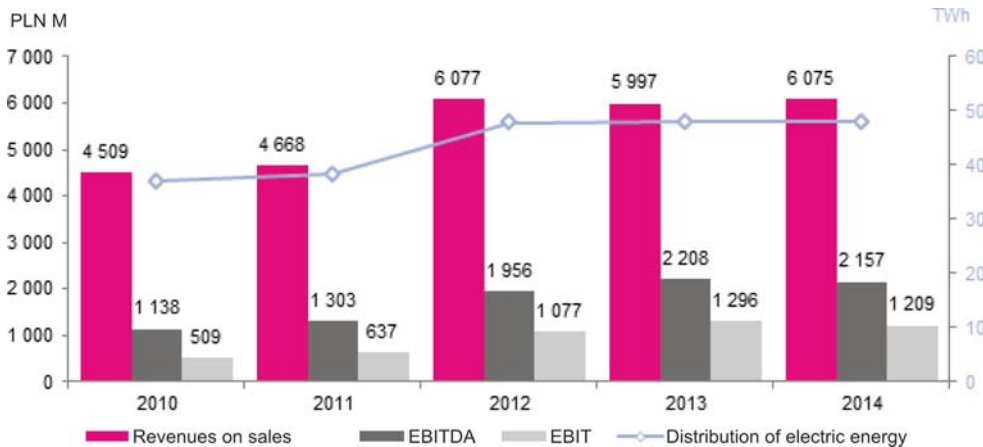


Figure no. 62. Data of the Sales Area for the years 2010–2014

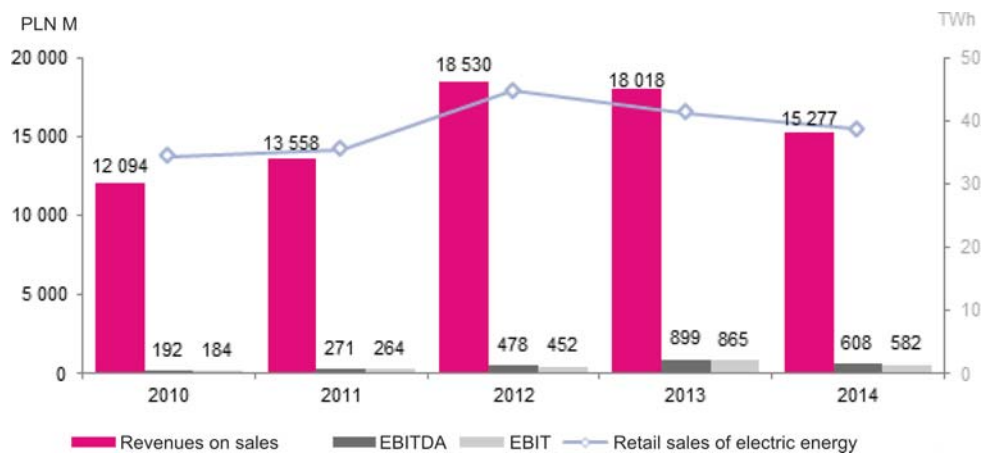
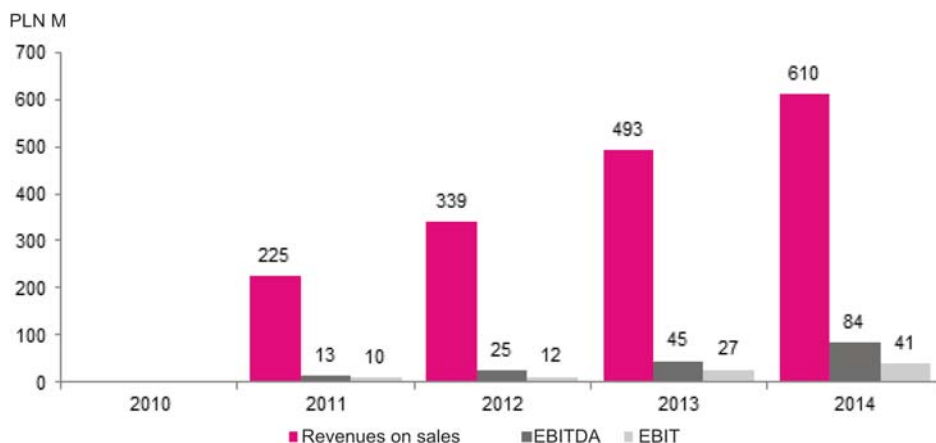
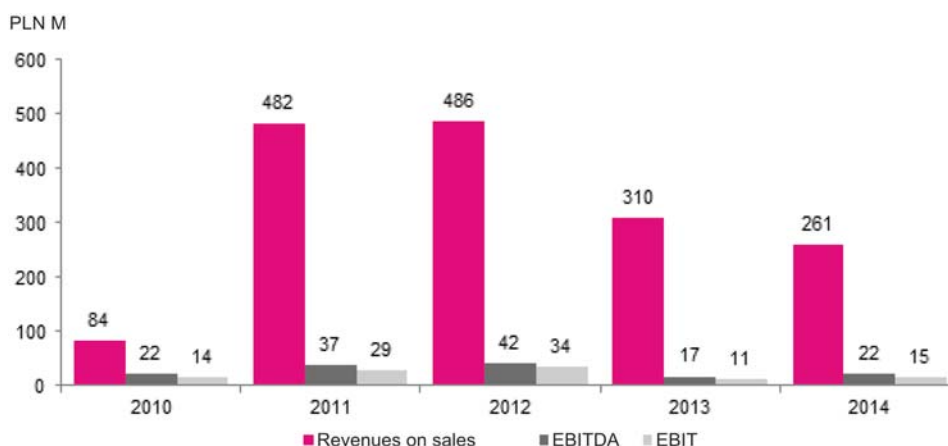


Figure no. 63. Data of the Customer Service Area for the years 2010–2014*



* The Customer Service Area was separated as a segment of activities in 2011.

Figure no. 64. Data of the Other Area for the years 2010–2014*



* In 2010 no comparable data are available, the data presented refer only to the company KW Czatkowice (results of the remaining companies included in the Other Area in 2010, were presented in the Heat Area (Przedsiębiorstwo Energetyki Ciepłej Katowice S.A. and Przedsiębiorstwo Energetyki Ciepłej w Dąbrowie Górniczej S.A.) and in the Sales Area (PEPKH)).

4.8. Income from the securities issue programme

On 3 December 2014, TAURON Capital Group issued fifteen-year, unsecured registered bonds on the German market, with the value of EUR 168,000 thousand. The issue of registered bonds, the so-called NSV (Namensschuldverschreibung), was conducted by TAURON Sweden Energy, the 100% subsidiary of TAURON and was hedged by the TAURON guarantee. The NSV issue was mainly acquired by German investors, including insurance funds, pension funds and German banks.

The funds generated by the issue, with the value of EUR 166,572 thousand EUR were allocated by TAURON Sweden Energy for granting a loan to TAURON, in accordance with the agreement concluded on 1 December 2014. TAURON Capital Group may use the funds acquired from the issue for general economic goals. The redemption of bonds shall be performed as a one-off operation in December 2029.

In accordance with the adopted financing model, in 2014 TAURON conducted the following external issues of bonds:

- 1) within the programme of bond issue concluded on 16 December 2010 between the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Pekao Bank, PKO BP Bank, mBank S.A. (formerly: (BRE Bank S.A.), Nordea Bank Polska S.A. (currently: PKO BP bank), Nordea Bank AB, BNP Paribas Bank Polska S.A., Bank Zachodni WBK S.A., it issued two series of bonds with the following denomination:
 - a) PLN 200,000 thousand – date of issue: 24 January 2014, date of redemption: 24 February 2014, Tranche E,
 - b) PLN 100,000 thousand – date of issue: 28 March 2014, date of redemption: 28 April 2014, Tranche E.

The funds acquired from the aforementioned issues have been allocated for financing of the current needs of TAURON Capital Group.

- 2) within the programme of bond issue concluded on 31 July 2013 between the Company and ING Bank, Pekao Bank and BRE Bank S.A. (currently: mBank S.A.), in November it conducted the issue of five year unsecured bonds on the domestic market for the nominal amount of PLN 1,750,000 thousand.

The funds acquired under the aforementioned programme have been acquired for financing of the current and future expenses associated with the implemented investment programme of TAURON Capital Group.

- 3) within the bond issue programme concluded on 31 July 2013 between the Company and BGK, it issued bonds for the total amount of PLN 900,000 thousand.

The funds acquired under the aforementioned programme have been acquired for financing of the current and future expenses associated with the implemented investment programme of TAURON Capital Group.

Within TAURON Capital Group the internal programme on issue of bonds operates, under which in 2014 the companies acquire funds from TAURON for the implementation for investment projects.

Acting on the basis of the implemented model of central financing as well as in accordance with the terms and conditions of the effective programme on issue of internal bonds, in 2014 the Company was purchasing bonds issued by companies of TAURON Capital Group, with the maturity term of one to six years. The major objective of bond issue was the acquisition of funds by companies of TAURON Capital Group for the implementation of the investment programme and refinancing of the existing debt.

The table below shows the value of issues taken over and not redeemed, divided into individual companies of TAURON Capital Group (issuers) according to the status as at 31 December 2014.

Table no. 36. The value of issues taken over and not redeemed, divided into individual companies of TAURON Capital Group (issuers) as at 31 December 2014

No.	Company name	Value of issues taken over (in PLN thousand)
1.	TAURON Dystrybucja	2,050,000
2.	TAURON Wytwarzanie	1,940,000
3.	TAURON EKOENERGIA	1,180,000
4.	TAURON Ciepło	1,055,520
5.	TAURON Wydobycie	370,000
6.	TAURON Obsługa Klienta	85,000
Total		6,680,520

Besides acquisition of bonds of TAURON Capital Group companies, the Company did not purchase any other debt securities.

In December 2014 the Company performed earlier redemption of bonds issued under Tranche A for the nominal amount of PLN 848,200 thousand from the Bond Issue Programme, with the base maturity term in December 2015.

4.9. Financial instruments

4.9.1. Implementing financial instruments in the elimination of credit risk, significant disruptions of cash flows and losing financial liquidity

Within the financial risk management, in 2014 TAURON Capital Group hedged the risk of volatility in cash flows resulting from the indebtedness held, based on WIBOR reference rate by its partial mitigation through concluding of transactions of replacing the floating interest rate by the fixed interest rate (IRS). Moreover, in 2014, TAURON Capital Group, within the policy of financial risk management, secured the currency exposure occurring within the commercial activities (mainly due to the CO₂ emission allowances trading), by concluding the forward contracts. The aim of these transactions was to secure TAURON Capital Group against the risk of cash flow volatility resulting from currency rates fluctuations. In addition, in December 2014, TAURON Capital Group concluded the currency interest rate swap transaction (CIRS). The said transaction effectively eliminates the currency risk of EUR/PLN exchange rate changes in relation to interest coupons against the bonds issued in EUR throughout its entire effective period.

The table below presents active derivative forward transactions which occurred as at 31 December 2014 (due to the adopted centralised model of financial risk management – the data refer only to TAURON).

Table no. 37. Information on forward and derivative transactions as at 31 December 2014 (data in thousand)

No.	Type of transaction concluded	Total denomination of the specific type of transaction	Currency			Maturity date of the specific type of transaction		Valuation of transaction of the specific type as at 31 December 2014
			PLN	EUR	other	up to one year	above one year	
1.	IRS	440,000	X			X		- 13.380
		3,000,000	X				X	- 180.933
2.	CIRS	704,928	X				X	257

4.9.2. Goals and methods of financial risk management

TAURON Capital Group manages financial risk, understood as currency risk and interest rate risk in accordance with the prepared and adopted regulations *Policy of risk management specific for the financial area in TAURON Group*, which is the collection of principles and standards compliant with the best practices in this area.

Due to correlation between the risk incurred and the level of achievable income, these regulations are used to maintain the risks at the previously established, acceptable level. The main goal of financial risk management is to minimise TAURON Capital Group cash flows sensitivity to financial risk factors and to reduce financial costs and collateral costs through the use of derivative instruments mentioned above as well as considering the correlations between the level of tariff revenue of TAURON Dystrybucja and financing costs of TAURON Capital Group, based on the floating interest rate.

Simultaneously, the policy implements hedge accounting principles which determine the rules and types of hedge accounting policy as well as the booking approach to recognising of hedging instruments and items hedged under the hedge accounting, in compliance with IFRS. Based on the said policy, TAURON Capital Group uses the derivatives for which it mostly applies hedge accounting.

4.10. Current and forecast financial situation

The financial situation of TAURON Capital Group is stable and no negative events occurred which would cause any threat to its business continuity or significant deterioration of its financial standing. The detailed description of the financial standing understood as the provision of financial resources for both the operational and the investment activity is included in items 4.8 and 4.9 of this report.

Considering the current market situation, it is expected that the results of TAURON Capital Group in the forthcoming years will be affected both by internal factors and by external factors.

The results of the **Mining Area** should remain at a stable level in the perspective of the nearest years. In order to improve/optimize the results, the Mining Area will implement the investment tasks and the technical and organisational tasks aimed at raising own production capacity based on the deposits held, in the cost-effective way.

The results of the **Generation Area**, in a long-term perspective, may be affected by the expectations that starting from 2016 difficulties may exist in covering the demand for power by the national generation units, which may result in the increase in electric energy prices in wholesale market. The new generation units commissioned in the segment and the restructuring processes will also positively affect the results. The potential increase in prices of CO₂ emission allowances, caused by administrative procedures of the European Commission (aiming at stimulation of growth in these prices) may have impact on the results of the Area.

Due to the fact that production of electric energy from RES is subject to the statutory regulations, the results of **RES Area** in the following years shall mainly depend on the provisions of the new RES Act, updating, among others, the mechanisms and instruments supporting energy generation in this type of sources. This will mostly affect the profitability of projects in the scope of electric energy production of the RES Area. The activities conducted in the scope of cost effectiveness improvement will have impact on the improvement of the results.

In the **Heat Area** the distribution activity is entirely regulated, which influences the stabilisation of the revenues in this area in a long-term perspective. The resumption of the support to the production of electric energy and heat in co-generation has a beneficial impact on the results of the Area. In the scope of the generation activities, the increase in electric energy wholesale prices starting from 2016 will also affect the revenues of the Heat Area. The conducted modernisation activities and the new generation units commissioned will also positively influence the results.

In the **Distribution Area**, the estimated stable level of compensation from invested capital and the measures implemented in the scope of cost effectiveness improvement will play a key role in the developments of the operating result. Accordingly, it is foreseen that the financial situation in this area will improve.

In **Sales Area** lower operating profit is expected in the following years as compared to 2014, mainly due to the decreased sales margin. The factors of significant impact on the reduction on sales margin include higher variable costs of energy sales to end consumers, associated with the obligation to redeem certificates, under growing competition in the energy market, limiting the possibility to introduce sales margin at a level allowing for setting-off the growing variable costs.

The Customer Service Area shall continue the centralisation of common services in a single entity as well as implement and finalise projects serving mainly for the provision of services to the Distribution and Sales Area in the scope of contacts and settlements with clients at the top level. These activities shall enable to achieve synergy effects across TAURON Capital Group and improve cost effectiveness.

4.11. What can be expected in 2015

In 2015, the continued economic growth is expected, with the GDP exceeding 3%. The main growth factors should include, first of all, the internal demand to be reflected not only as increased consumption (higher private consumption is expected due to the employment growth, increased budgetary expenses due to the election year, higher absorption of EU funds), but also higher investments which increased by approximately 10% as of Q3 2014. Export may also be of some importance, mainly due to the Russian-Ukrainian crisis and the stagnation in the euro area. In 2015 effects are expected in the form of savings in all sectors, due to the significant decline of fuel prices in the last months of 2014. Higher economic growth rate should not translate into the growth of prices, in the context of low inflation, as well as reduced fuel prices. Although the inflation will grow as compared to its very low levels in 2014, it should not exceed the target of the Monetary Policy Council (RPP). In 2015 economists expect interest rate cutting by the RPP by 0.25 percentage points.

4.12. Assessment of financial resources management

Due to the measures implemented in the previous years and continued in 2014, resulting in centralising the financial management area in TAURON Capital Group, the Company effectively managed its financial resources. The main tools enabling effective management of financial resources include the implemented central financing model as well as the *Policy of liquidity management of TAURON Group*, including the cash pooling operating in TAURON Capital Group. Moreover, the financial management system is supported by the central *Policy of managing risks specific in the financial area of TAURON Group* and the central *Insurance policy of TAURON Group*, in which the Company plays the role of manager and decision maker in the scope of directions of the actions undertaken, which allows for determining the relevant limits of risk exposure.

In accordance with the adopted central model of financing, the Company is responsible for acquisition of financial resources for the companies of TAURON Capital Group. Resources acquired both internally (from companies of TAURON Capital Group, generating financial surpluses), as well as externally (from the financial market) are subsequently transferred to companies of TAURON Capital Group, reporting the need for financing (for this purpose the programme of issue of intra group bonds was implemented in TAURON Capital Group).

Such model of acquisition of funding sources allows, among other things, for decreasing of the costs of capital, increasing of the possibility to obtain financing, it reduces the number and form of hedges established on assets of TAURON Capital Group and covenants required by financial institutions, as well as reduces administrative costs. The central model of financing also enables to acquire financial sources unavailable for individual companies, such as, for example, Euro bonds. Implementation of the central financing model effectively influenced the change of approach to investment funding in TAURON Capital Group. The financing is acquired based on the consolidated balance sheet of the whole TAURON Capital Group, while the funding sources are not assigned to any specific investment projects, but they are incurred to cover the financial gap at the level of TAURON Capital Group. The structure of financing of investment projects in the specific period corresponds to the whole activity of TAURON Capital Group. The model adopted enables to implement investment plans in accordance with the adopted Corporate Strategy.

Another key element influencing the effectiveness of financial management is the policy of liquidity management. Through implementation of relevant forecasting standards it becomes possible to establish the precise liquidity position allowing for optimising of selection of the moment of fund raising as well as the maturity term and types of deposit instruments as well as the appropriate level of liquidity provision. The above factors influence both the cost reduction and safety enhancement. The current liquidity management is supported by the implemented cash pooling mechanism. Its overriding goal is to provide for current financial liquidity in TAURON Capital Group, with simultaneous limitation of costs of short-term external financing and maximising of financial revenue due to cash surpluses held. Owing to

the cash pooling structure, companies of TAURON Capital Group facing short-term deficits of funds, may use funds of companies recognising financial surpluses, without the need to acquire external financing.

Moreover, TAURON Capital Group implemented the coherent programme of bank guarantees. Under one agreement concluded between TAURON and PKO BP bank, and then between TAURON and companies of TAURON Capital Group, it is possible to issue guarantees in favour of any company of in TAURON Capital Group, within the centralised limit. The above mentioned activity reduced the cost of bank guarantees acquired, made their acquisition independent of the standing of an individual company and limited the total number of activities required to obtain the guarantee. In addition, TAURON concluded the master agreement with BZ WBK bank for bank guarantees issued for IRGIT, which significantly reduces the cost of collaterals required in connection with the electric energy trading at the stock exchange.

In 2014, TAURON Capital Group demonstrated full capacity to settle its liabilities on the payment date.

4.13. Information concerning the entity authorised to examine financial statements

The authorised entity, auditing the consolidated financial statement of TAURON Capital Group is Deloitte Polska Sp. z o.o. Spółka Komandytowa with its seat in Warsaw, Al. Jana Pawła II 19, 00-854 (Deloitte Polska). The agreement concluded on 7 May 2013 between TAURON and Deloitte Polska refers to the auditing of Company financial statements and consolidated financial statements for the years 2013–2015.

The level of remuneration of the chartered accountant for the services provided to the companies of TAURON Capital Group is shown in the table below.

Table no. 38. The level of remuneration of the chartered accountant for the services provided to the companies of TAURON Capital Group

No.	Year ended on 31 December 2014 (in PLN thousand)	Year ended on 31 December 2013 (in PLN thousand)
1. Obligatory audit, including:	577	606
<i>consolidated financial statements</i>	25	25
<i>standalone financial statement of the parent entity</i>	80	80
<i>standalone financial statement of the subsidiaries</i>	472	501
2. Other certifying services provided to TAURON Capital Group, including reviews of financial statements	613	455
3. Tax-related advisory services	0	0
4. Other services provided (including training) provided to TAURON Capital Group	0	0
Total	1,190	1,061

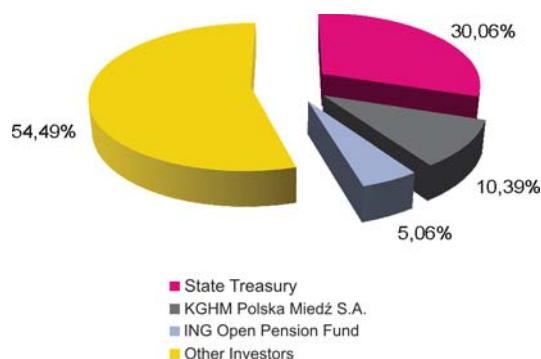
5. SHARES AND SHAREHOLDERS

5.1. Structure of shareholding and the level of the dividend paid

As at 31 December 2014 and as at the day of this report, the share capital of the Company, in accordance with the entry to the National Court Register, amounted to PLN 8,762,746,970.00 and it was divided into 1,752,549,394 shares with the nominal value of PLN 5 each, including 1,589,438,762 ordinary bearer shares of AA series and 163,110,632 ordinary registered shares of BB series.

The table below presents the structure of the shareholding as at 31 December 2014 and as at the day of this report.

Figure no. 65. Structure of the shareholding as at 31 December 2014 and as at the day of this report



The table below presents the level of the dividend paid in the years 2010–2013.

Table no. 39. The level of the dividend paid in the years 2010–2013

Dividend paid for 2010–2013						
No.	Financial year for which the dividend was paid	Amount of the dividend paid (PLN)	% of profit net	Value of dividend per share paid (PLN)	Day of dividend	Date of dividend payment
1.	2010	262,882,409.10	31%	0.15	30 June 2011	20 July 2011
2.	2011	543,290,312.14	44%	0.31	2 July 2012	20 July 2012
3.	2012	350,509,878.80	24%	0.20	3 June 2013	18 June 2013
4.	2013	332,984,384.86	25%	0.19	14 August 2014	4 September 2014

5.2. Number and nominal value of the Company shares as well as shares and stocks in affiliated entities of the Company held by the members of the management and supervisory bodies

The table below presents the status of the Company shares, held by management staff as at 31 December 2014 and as at the day of this report.

Table no. 40. Proprietary status of the Company shares – managing persons

No.	Name and surname	TAURON shares	
		Number	Nominal value (in PLN)
1.	Dariusz Lubera	6,576	32,880
2.	Aleksander Grad	0	0
3.	Katarzyna Rozenfeld	0	0
4.	Stanisław Tokarski	30,000	150,000
5.	Krzysztof Zawadzki	27,337	136,685

Members of the Management Board did not hold stocks or shares in affiliated entities of the Company.

As at 31 December 2014 and as at the day of this report, Members of the Supervisory Board did not hold stocks or shares of the Company and stocks or shares in affiliated entities of the Company.

5.3. Agreements concerning potential changes in the shareholding structure

The Management Board does not have any information on existence of any agreements (including agreements concluded after the balance sheet day), as a result of which changes in the ratio of the shares held by shareholders and bondholders may occur in the future.

5.4. Purchase of treasury shares

In 2014 and as at the day of this report, the Company did not hold treasury shares.

5.5. Programmes of employees shares

In 2014, employee shares programmes operated in the Company.

5.6. Listing of shares on the Warsaw Stock Exchange (GPW)

Shares of TAURON have been listed at the Primary Market of GPW since 30 June 2010. In 2014 the price of TAURON shares ranged from PLN 4.04 to PLN 5.69 (according to closing prices). The price of shares during the last session in 2013 reached the level of PLN 4.37. A year later, the price was PLN 5.05. The return rate* on investments in the Company shares in 2014 amounted to 20.07%, whereas the WIG20 index in this period decreased by 3.54%, and the WIG30 index – by 1.97%. One of the main reasons of the poor condition of Polish exchange indices was the reform of the capital part of the pension system and the insecure geopolitical situation associated with the conflict in Ukraine.

Share prices of companies representing the energy sector demonstrated much better trends than the market, consequently, the WIG-Energia index in 2014 increased by 23.6%. As analysts indicate, the main factor influencing the improvement in valuation of energy companies in 2014 was the growth in electric energy market prices resulting, among others, from the introduction of the support mechanism for energy producers in the form of OPR.

As at 31 December 2014, TAURON shares were included in the following exchange indices:

1. **WIG** – covering all companies listed at the Primary Market of GPW which meet the base criteria of participation in the indices, Share of TAURON in WIG index: 1.835%,
2. **WIG-Poland** – the national index which includes only the shares of national companies listed at the Primary Market of GPW, which meet the base criteria of participation in the indices. Share of TAURON in WIG-Poland index: 1,907%.
3. **WIG20** – index calculated based on the value of share portfolio of 20 biggest and most liquid companies of the Primary Market of GPW. Share of TAURON in WIG20 index: 2,770%.
4. **WIG30** – index comprising 30 biggest and most liquid companies listed at the Primary Market of GPW. Share of TAURON in WIG30 index: 2,550%.
5. **WIG-Energia** – the sectoral index comprising companies participating in WIG index and simultaneously classified to the energy sector. Share of TAURON in WIG-Energia index: 16,514%.
6. **Respect Index** – index grouping companies acting in accordance with the highest standards of social responsibility. Share of TAURON in Respect Index: 5,347%.
7. **MSCI Emerging Markets Index** – index comprising key companies listed at exchanges of emerging markets. Share of TAURON in MSCI Emerging Markets Index: 0,0406%.
8. **MSCI Poland Standard Index** – index comprising over 20 key companies listed at GPW. Share of TAURON in MSCI Poland Standard Index: 2.3984%
9. **CECE Index** – index of the Vienna Exchange, comprising the biggest companies of Central and Eastern Europe. Share of TAURON in CECE index: 2,27%.

The table below presents the key data related to the Company shares in the years 2011–2014.

Table no. 41. Key data related to TAURON shares in the years 2011–2014

No.	2011	2012	2013	2014
1. Maximum price (PLN)	6.81	5.61	5.39	5.69
2. Minimum price (PLN)	4.65	4.08	3.85	4.04
3. Last price (PLN)	5.35	4.75	4.37	5.05
4. Capitalisation at the end of the period (PLN million)	9,376	8,325	7,659	8,850

No.		2011	2012	2013	2014
5.	Capitalisation at the end of the period (%)	2.10	1.59	1.29	1.50
6.	Book value (PLN million)	15,922.47	16,839.41	17,675.34	18,106.79
7.	C/Z	8.10	5.50	5.50	7.80
8.	C/WK	0.59	0.49	0.43	0.49
9.	Rate of return at the end of the period (%)*	-16.73	-5.03	-3.64	+20.07
10.	Dividend rate (%)**	2.8	6.5	4.6	3.8
11.	Trade value (PLN million)	5,574.82	3,198.94	3,103.56	3,134.81
12.	Share in trade (%)	2.21	1.70	1.41	1.53
13.	Trade ratio (%)	58.80	41.80	43.90	39.20
14.	Average volume per session	3,721,539	2,667,725	2,793,020	2,489,329
15.	Average number of transactions per session	1,373	960	1,022	1,106

* The return rate calculated, including the income of the investor due to dividends, and assuming that the additional income gained will be reinvested. Methodology compliant with the GPW Statistical Bulletin.

** Includes the dividend paid in n year for the n-1 year.

Source: GPW Statistical Bulletin

The figures below present the historic developments of TAURON share price and the value of trade, including, in comparison with WIG20 and WIG-Energia indices.

Figure no. 66. Graph of TAURON share price and value of trade in 2014

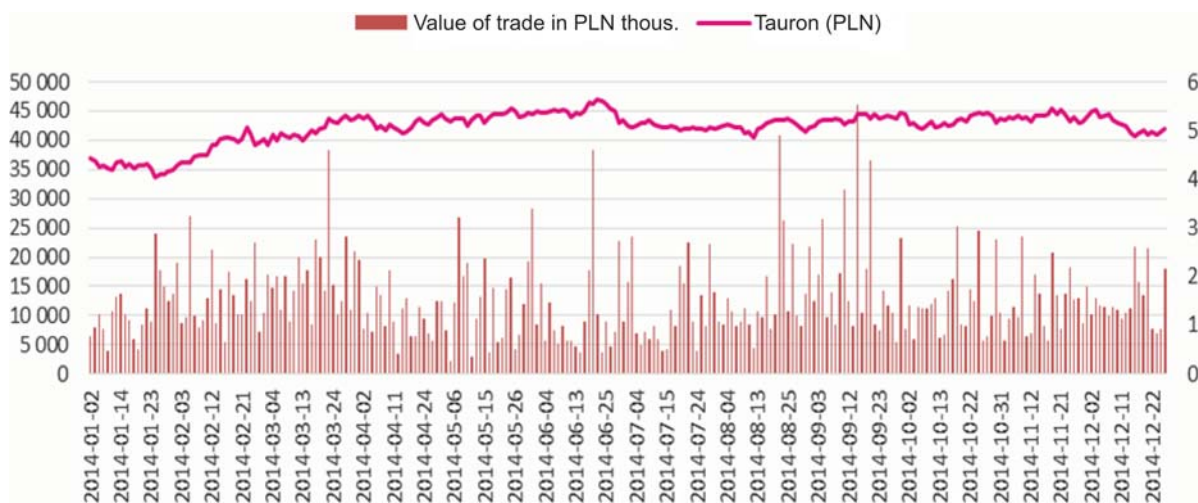
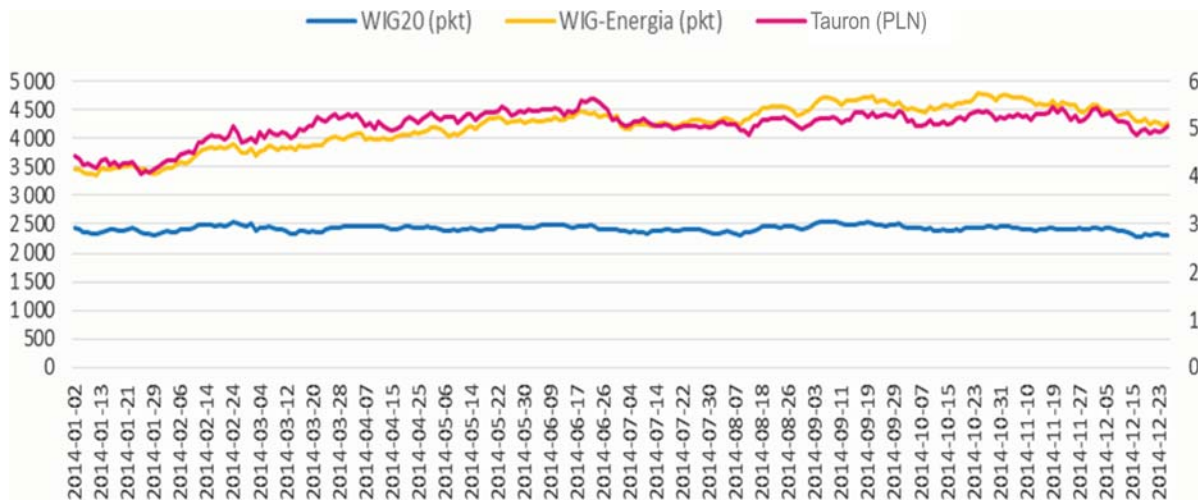
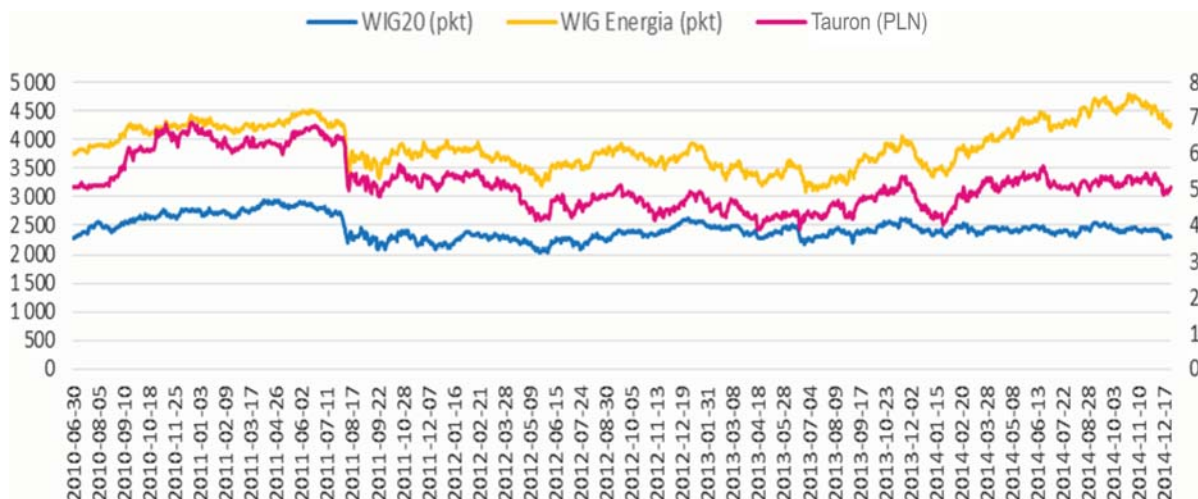


Figure no. 67. Graph of TAURON share price and value of trade from the exchange debut until 31 December 2014



Figure no. 68. Graph of TAURON share price compared to WIG20 and WIG-Energia indices in 2014

Figure no. 69. Price of TAURON shares as compared to WIG20 and WIG-Energia indices from the exchange debut until 31 December 2014


Recommendations for TAURON Polska Energia S.A. shares

In 2014, analysts of brokerage houses and investment banks issued 33 recommendations in total (excluding the updates of target prices) for TAURON shares, including:

- 1) twelve “buy” recommendations,
- 2) fourteen “keep” recommendations,
- 3) seven “sell” recommendations.

Recommendations issued in 2014

The table below presents the list of recommendations issued in 2014

Table no. 42. Recommendations issued in 2014

No.	Date of recommendation	Recommendation/target price	Recommending institution
1.	30 January 2014	Buy / PLN 5.65	Goldman Sachs
2.	30 January 2014	Keep / PLN 4.70	DM BZ WBK
3.	07 February 2014	Keep / PLN 4.60	Citi
4.	07 February 2014	Buy / PLN 5.00	Societe Generale

No.	Date of recommendation	Recommendation/target price	Recommending institution
5.	07 February 2014	Keep / PLN 4.20	ING Securities
6.	13 February 2014	Buy / PLN 5.80	J.P. Morgan
7.	28 February 2014	Keep / PLN 4.90	DM PKO BP
8.	05 March 2014	Keep / PLN 5.00	DM IDM
9.	13 March 2014	Keep / PLN 5.30	Raiffeisen
10.	20 March 2014	Buy / PLN 5.90	Goldman Sachs
11.	28 March 2014	Keep / PLN 4.60	Credit Suisse
12.	11 April 2014	Buy / PLN 5.94	mBank
13.	22 May 2014	Buy / PLN 6.60	Goldman Sachs
14.	13 June 2014	Buy / PLN 6.60	Goldman Sachs
15.	16 June 2014	Sell / PLN 6.00	Wood & Company
16.	23 June 2014	Keep / PLN 5.40	J.P. Morgan
17.	26 June 2014	Sell / PLN 4.50	Trigon
18.	16 July 2014	Sell / PLN 4.80	Citi
19.	16 July 2014	Buy / PLN 6.20	Deutsche Bank
20.	21 July 2014	Keep / PLN 5.00	DM BOŚ
21.	12 August 2014	Buy / PLN 6.20	J.P. Morgan
22.	08 September 2014	Keep / PLN 5.30	Bank of America Merrill Lynch
23.	10 September 2014	Sell / PLN 4.62	UniCredit
24.	18 September 2014	Buy / PLN 6.45	DM BZ WBK
25.	12 October 2014	Sell / PLN 4.80	DM BOŚ
26.	29 October 2014	Sell / PLN 4.60	ING Securities
27.	30 October 2014	Keep / PLN 5.30	DM PKO BP
28.	05 November 2014	Keep / PLN 5.00	Espirito Santo
29.	05 November 2014	Buy / PLN 6.20	Raiffeisen
30.	17 November 2014	Buy / PLN 6.90	Goldman Sachs
31.	19 November 2014	Keep / PLN 5.60	Deutsche Bank
32.	24 November 2014	Keep / PLN 5.60	Societe Generale
33.	05 December 2014	Sell / PLN 4.89	Erste

6. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

Acting pursuant to § 91 item 5 p. 4) of the *Regulation of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state* (Journal of Laws no.33 item 259 as amended), the Company Management Board submits the Statement on Application of Corporate Governance in 2014.

6.1. Indicating the applied set of corporate governance rules

In 2014 the Company was subject to the corporate governance rules, described in the document *Good Practices of Companies Listed at GPW* (Good Practices), constituting the Appendix to the Resolution of the GPW Council no 12/1170/2007 of 4 July 2007, amended by the following resolutions of GPW Council: No 17/1249/2010 of 19 May 2010, No 15/1282/2011 of 31 August 2011, No 20/1287/2011 of 19 October 2011 and No 19/1307/2012 of 21 November 2012, which entered into force on 1 January 2013. The document also contains the rules of corporate governance which the Company adopted on voluntary basis.

The Good Practices were adopted for application by the Company Management Board. In 2014 the Company did not apply only the rule contained in Chapter IV item 10 of Good Practices. Other rules specified in the aforementioned document in Chapters II, III and IV were applied by the Company. The text of the aforementioned set of Good Practices the Company is subject to, and the application of which could have been decided by the Company on voluntary basis is published at the GPW website at (<http://www.corp-gov.gpw.pl>).

6.2. Indicating the abandoned rules of corporate governance

In 2014 the Company did not apply only the rule contained in Chapter IV item 10 of Good Practices (in its wording applicable as of 1 January 2013), concerning the provision of a possibility for shareholders to participate in the General Meeting by means of electronic communication means, consisting in:

- 1) transmission of the General Meeting session in real time,
- 2) bilateral communication in real time, where Shareholders may speak during the General Meeting while being at a different location than the venue of the General Meeting.

On 2 January 2013 the Company submitted current report no. 1/2013, by means of EIB system (Electronic Information Base), containing information on abandoning the application of the aforementioned corporate governance rule, due to the fact that the provisions of the Company Articles of Association did not include the provisions enabling the participation in the GM by means of electronic communication means, pursuant to the provisions of the Code of Commercial Companies (Ksh).

In order to enable the application of the aforementioned rule, the Management Board of the Company applied to the Ordinary GM of the Company for adopting of the resolution concerning the amendment to TAURON Articles of Association, suggesting the provisions enabling participation of shareholders in the GM by means of electronic communication means, including, in particular: transmission of the GM session in real time, bilateral communication in real time, where shareholders may speak during the GM while being at a different location than the venue of the GM, exercising the voting right personally or through a proxy, before or during the GM. The Ordinary General Meeting of the Company convened on 16 May 2013 did not adopt the aforementioned resolution.

Accordingly, also in 2014, the Company did not apply the rule contained in Chapter IV item 10 of Good Practices and the recommendation contained in Chapter I item 12 of Good Practices. Other rules specified in Chapters II, III and IV of Good Practices were applied by the Company. In the period since the day of commencement of public listing of the Company shares until 31 December 2014, there have been no occurrences of infringement of the corporate governance regulations adopted. The Company shall also endeavour to implement the recommendations contained in Part I of Good Practices. The issues described below are particularly important.

Recommendation concerning the remuneration policy

With the aim of implementing recommendation I.5 of Good Practices, the Company has adopted the *Remuneration Policy for Members of supervisory and management bodies, including the description of the rules of defining the policy in TAURON Polska Energia S.A.* (Remuneration Policy), considering the EC Recommendation of 14 December 2004 *fostering an appropriate regime for the remuneration of directors of companies listed at the stock exchange* (2004/913/EC), supplemented by the EC recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC). The above policy determines the objectives and rules of remuneration policy for members of Supervisory Board and the Management Board of the Company, with the application of general regulations as well as

the relevant resolutions of the General Meeting and the Supervisory Board of the Company. The Remuneration Policy has, among others, the following objectives:

- 1) providing the motivating and consistent system of remuneration policy for members of Supervisory Board and the Management Board,
- 2) associating the remuneration rules with monitoring of implementation of the adopted strategic plans and implementation of the financial plans,
- 3) adjusting the level of remuneration of members of corporate bodies of the Company in connection with implementation of the tasks delegated.

Simultaneously, in fulfilment of the information obligations specified in the provisions of the Regulation of the Minister of Finance of 19 February 2009 on *current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state*, the Company publishes information regarding the remuneration of members of Supervisory Board and the Management Board in its annual reports.

Recommendation concerning the balanced participation of women in performing the functions of management and supervision

In accordance with recommendation I.9 of Good Practices, GPW recommends that the public companies and their shareholders should provide for the balanced participation of women and men in performing the management and supervisory functions in enterprises. In the Company, members of Supervisory Board are appointed in accordance with the provisions of the Articles of Association, by the GM and the State Treasury, under its personal powers, whereas the members of the Management Board are appointed by the Supervisory Board. The rules applicable in the Company in this scope do not restrict a possibility of participation in the Company governance bodies due to gender. Simultaneously, in fulfilment of the requirements specified in Section II p. 1 subsection 2a) of Good Practices, in the 4th quarter of 2014 the Company published information on participation of men and women in the Supervisory Board and the Management Board of TAURON in the period of the last two years, on its website.

6.3. Description of main characteristics of internal control and risk management systems in relation to the process of generating the financial statements and consolidated financial statements

The internal control and risk management system in relation to the process of generating financial statements and consolidated financial statements is implemented through:

Supervision over application of coherent accounting principles by companies of TAURON Capital Group while compiling the consolidated financial statements of TAURON Capital Group

In order to ensure coherent accounting principles based on IFRS, approved by the EU, in TAURON Capital Group the *Accounting Policy of TAURON Polska Energia S.A.* was developed and implemented (Accounting Policy). The document is subject to relevant amendments and updates in case of amendments to the regulations. The rules contained in the Accounting Policy are applicable to separate financial statements of TAURON and consolidated financial statement of TAURON Capital Group. Companies of TAURON Capital Group are obliged to apply the Accounting Policy while preparing the reporting packages which provide basis for compiling of the consolidated financial statement of TAURON Capital Group. The reporting packages are verified by the Office for Consolidation and Reporting in the parent company as well as by the independent auditor during examination or review of consolidated financial statements of TAURON Capital Group.

Procedures of authorisation and reviewing of financial statements of the Company and consolidated financial statements of TAURON Capital Group

In the Company, procedures of authorisation of financial statements have been implemented. Quarterly, semi-annual and annual financial statements of the Company as well as consolidated financial statements of TAURON Capital Group are approved by the Company Management Board before publication. The annual financial statements of the Company as well as consolidated financial statements of TAURON Capital Group are additionally presented for review by the Company Supervisory Board before publication. The Vice President of the Board, Chief Financial Officer supervises the preparation of financial statements, whereas management boards of companies covered by consolidation are responsible for compiling of the reporting packages for the TAURON Capital Group consolidated financial statement.

In the structures of the Company Supervisory Board, the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. operates, whose composition, competence and description of activities is included in item 6.11.3 of this report.

IT systems and financial and accounting processes

Companies of TAURON Capital Group keep ledgers providing basis for the preparation of financial statements in the computer financial and accounting systems of ERP class. The consolidated financial statements are prepared using the IT tool designed for consolidation of financial statements.

In the companies of TAURON Capital Group IT and organizational solutions operate which control the access to financial-accounting systems and provide adequate protection and archiving of the ledgers. Access to IT systems is restricted by relevant authorisations for the entitled employees.

In connection with the on-going integration of the accounting function and the transfer of the financial and accounting service of individual companies of TAURON Capital Group to CUW-R, gradual harmonisation of financial and accounting processes in TAURON Capital Group takes place. Companies adjust own procedures to the financial and accounting processes, taking into account the specific character of individual segments.

Internal audit

In the Company Internal Audit Department operates whose objective is to plan and implement the auditing tasks, among others, of advisory nature, as well as to perform the commissioned temporary inspections. The procedures and rules of implementation of the audit are specified in *Regulations of Internal audit in TAURON Group* as well as in rules of cooperation binding in individual companies of TAURON Capital Group. While implementing the function of internal audit, the Company acts in compliance with the Code of Ethics and International Standards of Internal Audit Professional Practice.

Submission of financial statements of the Company and consolidated financial statements of TAURON Capital Group to examination or review by an independent chartered accountant

Annual financial statements of the Company and consolidated statements of TAURON Capital Group are subject to examination by an independent auditor. Semi-annual financial statements of the Company and semi-annual consolidated statements of TAURON Capital Group are subject to review by a chartered accountant. In 2013 the Company selected one entity authorised to examine and review financial statements for significant companies of TAURON Capital Group as well as the consolidated financial statement. The agreement with the entity authorised to examine financial statements was concluded for the examination of financial statements for years 2013–2015.

Rule concerning the change of the entity authorised to examine financial statements of the Company and TAURON Capital Group

Pursuant to the resolution of the Supervisory Board of the Company No 343/II/2010 of 27 August 2010, the rule was adopted concerning changing of the entity authorised to audit the financial statements of the Company and TAURON Capital Group at least once during 5 financial years. The entity authorised to audit the financial statements of the Company and TAURON Capital Group may perform these activities again after two financial years.

6.4. Shareholders holding large blocks of shares

The table below presents shareholders holding, as at 31 December 2014 and as at the day of the present report, directly or indirectly large blocks of shares of the Company

Table no. 43. Shareholders holding large blocks of shares, directly or indirectly

No.	Shareholders	Number of shares held	Percentage share in share capital	Number of votes held	Percentage share in general number of votes
1.	State Treasury*	526,848,384	30.06%	526,848,384	30.06%
2.	KGHM Polska Miedz S.A.**	182,110,566	10.39%	182,110,566	10.39%
3.	ING Otwarty Fundusz Emerytalny***	88,742,929	5.06%	88,742,929	5.06%

* In accordance with the shareholder's notification of 28.02.2013.

** In accordance with the shareholder's notification of 23.03.2011.

*** In accordance with the shareholder's notification of 28.12.2011.

Since the day of submission of the previous periodical report, i.e. 13 November 2014, until the date of publication of this report, the Company has not received any notifications from shareholders concerning changes in proprietary structure of significant blocks of shares of TAURON.

6.5. Owners of securities providing special control rights

In the financial year 2014, the Company did not issue securities which would provide special control rights towards to the Company.

6.6. Limitations on performing of the voting right

Limitations on performing the voting right have been included in § 10 of the Company Articles of Association which is available at the Company website <http://www.tauron-pe.pl/>.

The aforementioned limitations on performing of the voting right have been formulated in the following way:

1. The voting right of shareholders holding over 10% of total votes in the Company shall be limited in the way that none of them can exercise more than 10% of the total votes in the Company at the GM.
2. Voting right limitation included in point 1 above does not apply to the State Treasury and entities subsidiary to the State Treasury in the period of time in which the State Treasury together with subsidiary entities subsidiary of the State Treasury has a number of the Company's shares entitling to performing at least 25% of total votes in the Company.
3. Shareholders' votes, between which there is a controlling or dependence relationship within the meaning of § 10 of the Articles of Association (Association of Shareholders) are cumulated; in case when the cumulated number of votes exceeds 10% of total votes in the Company, it is subject to reduction. Rules of votes accumulation and reduction have been defined in 6 and 7 below.
4. A shareholder, within the meaning of § 10 of the Articles of Association is every person, including its parent company and subsidiary company, which is entitled directly or indirectly to a voting right at the GM on the basis of any legal title; it also applies to a person who does not hold the Company's shares, and in particular to a user, pledgee, person entitled on the basis of a depositary receipt under regulations of the *Act of 29 July 2005 on financial instruments trading*, as well as a person entitled to take part in the GM despite the disposal of shares after the date of establishing the right to take part in the GM.
5. A parent company and subsidiary company, for the purposes of § 10 of the Articles of Association, is, respectively, understood as a person:
 - 1) holding a status of a dominating entrepreneur, subsidiary or has both the status of a dominating entrepreneur and a subsidiary, within the meaning of the provisions of the *Act of 16 February 2007 on competition and consumers' protection* or,
 - 2) holding the status of a parent company, higher level parent company, subsidiary company, lower level subsidiary company or which has both the status of a parent company (including a parent company of higher status and subsidiary (including a subsidiary company of lower level status or co-subsidiary) within the meaning of *Accounting Act of 29 September 1994*, or
 - 3) which has (parent company) or one which is under (subsidiary company) decisive influence within the meaning of the *Act of 22 September 2006 on the transparency of financial relationships between public bodies and public entrepreneurs and on financial transparency of some entrepreneurs*, or
 - 4) whose votes resulting from the Company's shares owned directly or indirectly are subject to accumulation with votes of another person or other persons on conditions defined in the *Act of 29 July 2005 on public offering and conditions of introducing financial instruments to an organized trading system and on public companies* in connection with holding, disposing of or acquiring large blocks of the Company shares.
6. Accumulation of votes is based on aggregating of the number of votes held by particular shareholders of Shareholders' Group.
7. Reduction of votes is based on decreasing the total number of votes in the Company that shareholders, who are a part of Association of Shareholders, are entitled to at the General Meeting to the level of 10% of total votes in the Company. Reduction of votes takes place in accordance with the following rules:
 - 1) number of votes of a shareholder who holds the highest amount of votes in the Company among all shareholders who are members of Association of Shareholders is subject to being decreased by a number of votes equal to surplus of over 10% total votes in the Company that all shareholders in total are entitled to and who are members of the Association of Shareholders,
 - 2) if, despite the aforementioned reduction, the total number of votes that shareholders who are members of the Association of Shareholders are entitled to exceeds 10% of the total votes in the Company, a further reduction of votes belonging to other shareholders who are members of the Association of Shareholders takes place. Further reduction of particular shareholders' votes takes place in order established on the basis of the amount of votes that particular shareholders who are members of the Association of Shareholders hold (from the highest to the lowest one). Further reduction takes place until the moment when the total number of votes held by shareholders who are members of the Association of Shareholders does not exceed 10% of the total votes in the Company,

- 3) in each case the shareholder whose voting right has been limited shall have to right to perform at least one vote,
- 4) limitation on performing the voting right applies also to a shareholder absent at the General Meeting.
8. Each shareholder who is going to take part in the General Meeting, in person or through a proxy is obliged to, without a separate notice stipulated in item 9 below, notify the Management Board or the Chairperson of the General Meeting that she/he holds, directly or indirectly, more than 10% of the total votes in the Company.
9. Notwithstanding the provisions of item 8 above, in order to establish the basis for accumulation and reduction of votes, the Company's shareholder, the Management Board, the Supervisory Board or particular members of these bodies have the right to demand that the Company shareholder provides information whether she/he is a person holding the status of an entity dominating or subordinate towards other shareholder within the meaning of § 10 of the Articles of Association. The aforementioned entitlement includes also the right to demand revealing the number of votes that the Company's shareholder has independently or jointly with other shareholders of the Company.
10. A person who has failed to fulfil or fulfilled the information obligation stipulated in items 8 and 9 above improperly, until the moment of improvement of the information obligation performed improperly shall have the voting right from one share only; performing voting rights from other shares by such a person shall be null and void.

6.7. Limitations on transfer of securities property rights

As at 31 December 2014 and as at the day of this report, there are no limitations in the Company on the transfer of proprietary rights of Company securities.

6.8. Rules on appointing and dismissing managing and supervising persons and their powers

6.8.1. Management Board

Rules on appointing and dismissing members of the Management Board

The Management Board of the Company consists of one to six persons, including the President and Vice-Presidents. Members of the Management Board are appointed for the period of a joint term of office which lasts three years, except for the first term of office which lasts two years.

Members of the Management Board or the whole Management Board are appointed and dismissed by the Supervisory Board. Each of the members of the Management Board can be dismissed or suspended in office by the Supervisory Board or the General Meeting.

Competence of the Management Board

The Management Board handles the Company's affairs and represents the Company in all court and out-of-court activities. All issues connected with managing of the Company not restricted by the regulations of law and provisions of the Company Articles of Associations for the General Meeting or Supervisory Board lie within the competences of the Company's Management Board.

The Extraordinary GM of TAURON held on 7 January 2014 adopted the resolution on amendments to the Articles of Association, aimed at updating the scope of activities and distribution of competence between the statutory corporate bodies of the Company, i.e. the Supervisory Board and the Management Board as well as the streamlining of the text of the Articles of Association and its adjustment to the current needs of the Company.

Pursuant to its decision of 15 January 2014, the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register entered the aforementioned amendments to the Company Articles of Association to the register of entrepreneurs of the National Court Register.

In accordance with the Company Articles of Association, all issues which exceed the regular scope of Company activities require the resolution of the Management Board, in particular the following issues listed in the table below:

Table no. 44. Competence of the Management Board

Issues requiring the Resolution of the Management Board as at 31 December 2014 and as at the day of this report
1. Management Board bylaws,
2. organizational regulations of the Company enterprise,
3. establishment and liquidation of branches,
4. appointment of a proxy,
5. raising credits and loans,
6. adopting the annual material and financial plans of the Company and the Capital Group, and the Corporate Strategy of the Capital Group,

Issues requiring the Resolution of the Management Board

as at 31 December 2014 and as at the day of this report

7. incurring contingent liabilities within the meaning of the *Accounting Act of 29 September 1994*, including granting guarantees and sureties by the Company as well as issuing bills of exchange, subject to § 20 item 2 p. 4 and 5 of the Company Articles of Association,
8. making donations, redemption of interest or discharge from debt, subject to § 43 item 3 p.1 and 2 of the Company Articles of Association,
9. purchase of real property, perpetual usufruct or shares in property or in perpetual usufruct, subject to § 20 item 2 p. 1 of the Company Articles of Association,
10. purchase of the components of fixed assets excluding real property, perpetual usufruct or share in real property or perpetual usufruct, with the value equal to or exceeding the equivalent of EUR 10 thousand in PLN, subject to the provisions of § 20 item 2 p. 2 of the Company Articles of Association,
11. disposal of the components of fixed assets including real property, perpetual usufruct or share in real property or perpetual usufruct, with the value equal to or exceeding the equivalent of EUR 10 thousand in PLN, subject to the provisions of § 20 item 2 p. 3 of the Company Articles of Association,
12. defining the right to exercise a vote at the GM or at Shareholders' Meetings of companies in which the Company holds stocks or shares, on issues covered by the competence of the General Meetings or Shareholders' Meetings of such companies, subject to § 20 item 3 p. 9 of the Company Articles of Association,
13. rules of conducting sponsoring activity,
14. adoption of the annual plan of sponsoring activity,
15. issues, whose examination the Management Board refers to the Supervisory Board or the General Meeting.

6.8.2. Supervisory Board

Rules on appointing and dismissing members of the Supervisory Board

The Supervisory Board consists of five to nine persons, appointed for the joint term of office which lasts three years, except for the first term of office which lasts one year. In accordance with the Company Articles of Association, members of the Supervisory Board are appointed and dismissed by the GM, subject to the following provisions:

- 1) in the period, in which the State Treasury, together with entities dependent on the State Treasury 4 within the meaning of § 10 item 5 of the Articles of Association, has a number of shares of the Company entitling to perform at least 25% of the total votes in the Company, the State Treasury is represented by the minister competent for the issues of the State Treasury, is entitled to appoint and dismiss the members of the Supervisory Board in the amount equal to half of the maximum number of the composition of the Supervisory Board defined in the Articles of Association (in case when the number is not integral it is rounded down to an integral number, for example 4.5 is rounded down to 4 increased by 1, provided that the State Treasury:
 - a) is obliged to vote at the General Meeting on establishing the number of members in the Supervisory Board representing the maximum number of members of the Supervisory Board defined in the Articles of Association or in case of submitting such a motion to the Management Board by a shareholder or shareholders who have a number of votes entitling to perform at least 5% of the total votes in the Company,
 - b) is excluded from the voting right at the General Meeting on appointing and dismissing of other members of the Supervisory Board, including independent members of the Supervisory Board; it does not, however, apply to the case when the Supervisory Board cannot act due to a composition minor than required by the Articles of Association, and the shareholders present at the General Meeting other than the State Treasury do not supplement the composition of the Supervisory Board in accordance with the distribution of places in the Supervisory Board defined in this item;
- 2) in the period of time in which the State Treasury, together with entities dependent on the State Treasury within the meaning of § 10 item 5 of the Articles of Association, has a number of the Company's shares entitling to perform under 25% of total voting rights in the Company, the State Treasury, represented by a minister competent for the issues of the State Treasury shall be entitled to appoint and dismiss one member of the Supervisory Board.
- 3) appointing and dismissing of members of the Supervisory Board by the State Treasury pursuant to the aforementioned item 1) or item 2) takes place by means of a statement submitted to the Company.

At least two members of the Supervisory Board shall meet the criteria of independence in relation to the Company and subsidiaries significantly related to the Company (independent members of the Supervisory Board). The definition of an "independent member of the Supervisory Board" shall mean an independent member of the Supervisory Board within the meaning the EC Recommendation of 15 February 2005, on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC) taking into consideration Good Practices.

Independent members of the Supervisory Board provide the Company, before being appointed to the composition of the Supervisory Board, with a written statement of having fulfilled the prerequisites of independence. In case of a situation causing failure to fulfil the of independence, a member of the Supervisory Board is required to immediately

notify the Company of this fact. The Company shall inform shareholders of the present number of independent members of the Supervisory Board.

Competence of the Supervisory Board

The Supervisory Board carries out continuous supervision over the Company's activities in all areas of its operations.

In accordance with the Company Articles of Association, the tasks and competences of the Supervisory Board include, in particular the following issues listed in the table below:

Table no. 45. Competence of the Supervisory Board

Issues requiring the Resolution of the Supervisory Board	
as at 31 December 2014 and as at the day of this report:	
Opinion-making competence	
1.	assessment of the Management Board report on the Company operations as well of the financial statement for the previous financial year in the scope of their compliance with the books, documents as well as with the actual status. It also applies to the consolidated financial statement of the Capital Group, provided that it is generated,
2.	assessment of the Management Board conclusions on profit distribution or loss coverage,
3.	submitting of a written report to the General Meeting on the results of operations covered by items 1 and 2,
4.	preparing, together with the report on results of the annual financial statement of the Company, an opinion of the Supervisory Board on the issue of economic legitimacy of involving the Company capital committed in a given financial year in other entities of commercial law,
5.	giving opinions on the Corporate Strategy of the Capital Group,
6.	giving opinions and approval of the rules of conducting sponsoring activity,
7.	giving opinions on the annual plan of conducting of the sponsoring activity as well as annual reports on its implementation,
Decision-making competence	
1.	selecting of the chartered accountant to carry out the examination of the Company financial statement and consolidated financial statement of the Capital Group,
2.	determining the scope and deadlines of submitting of annual material and financial plans as well as long-term strategic plans of the Company and the Capital Group, by the Management Board,
3.	adopting of consolidated text of the Company Articles of Association, prepared by the Company Management Board,
4.	approving of the bylaws of the Company Management Board,
5.	approving of the organisational regulations of the Company enterprise.
6.	purchase of real property, perpetual usufruct or shares in property or in perpetual usufruct with the value exceeding the equivalent of EUR 5,000 thousand in PLN, excluding the real property or perpetual usufruct, or share in real property or in perpetual usufruct purchased from Companies of the Capital Group,
7.	purchase of the components of fixed assets excluding real property, perpetual usufruct or share
8.	in real property or perpetual usufruct, bonds issued by the companies of the Capital Group and other components of fixed assets purchased from companies of the Capital Group, of the value equal to or exceeding the equivalent of EUR 5,000 thousand in PLN,
9.	disposal of the components of fixed assets, including real property, perpetual usufruct or share in real property or perpetual usufruct, of the value equal to or exceeding the equivalent of 5,000 EUR in PLN, excluding the real property or perpetual usufruct, or share in real property or in perpetual usufruct, as well as other components of fixed assets which, as a result of the disposal, shall be sold or encumbered to the benefit of Companies of the Capital Group,
10.	incur contingent liabilities, including granting guaranties and sureties by the Company with the value exceeding the equivalent of EUR 5,000 in PLN,
11.	issuing bills of exchange with the value exceeding the equivalent of 5,000 EUR in PLN,
12.	advance payment on account of the expected dividend,
13.	taking over or purchase of shares or stocks in companies other than Companies of the Capital Group, with the value exceeding the equivalent of 5,000 EUR in PLN, excluding the situations when the takeover of stocks or shares of such companies occurs in exchange for Company liabilities under the composition or bankruptcy proceedings,
14.	disposal of stocks or shares with the value exceeding the equivalent of 5,000 EUR in PLN, including the defining of the conditions and procedure for their disposal, excluding: <ol style="list-style-type: none"> disposal of shares which are traded on the regulated market, disposal of stocks or shares that the Company holds in the amount not exceeding 10% share in the initial capital of particular companies. disposal of shares or stocks to the benefit of Companies of the Capital Group,
15.	granting permission to establish Company branches abroad,
16.	defining the way of performing the right of vote at the General Meeting or at the Shareholders' Meeting of companies in which the Company holds over 50% of stocks or shares, in matters concerning: <ol style="list-style-type: none"> disposal and leasing of the company's enterprise or its organized part as well as establishing a limited proprietary right if their value exceeds the equivalent of the amount of 5,000 EUR in PLN, winding up and liquidation of a company.

Issues requiring the Resolution of the Supervisory Board

as at 31 December 2014 and as at the day of this report:

Competence of the Company Supervisory Board related to the Management Board

1. appointing and dismissing members of the Management Board,
2. establishing the rules of remuneration and the amount of remuneration for the Members of the Management Board, subject to § 43 item 2 p.1 of the Company Articles of Association,
3. suspending members of the Management Board in performance of their duties, due to material reasons,
4. delegating members of the Supervisory Board to temporarily perform actions of the members of the Management Board who cannot perform their duties and establishing their remuneration subject to the provision that the total remuneration of the person delegated as the Supervisory Board's member as well as on account of being delegated to temporary performing actions of a member of the Management Board shall not exceed the remuneration established for the member of the Management Board, for whom the member of the Supervisory Board was delegated,
5. conducting recruitment proceedings for the position of a member of the Management Board,
6. conducting of a competition in order to select a person with whom an agreement to perform management in the Company shall be concluded,
7. granting permission to the members of the Management Board to take positions in governing bodies of other companies,

Other competences of the Company Supervisory Board

1. preparing of reports of the Supervisory Board on supervision of implementation of investments by the Management Board, including the purchase of fixed assets, and in particular, giving opinions on the correctness and effectiveness of spending of financial resources related to the above expenditures,
2. passing of by-laws describing in details the procedures of performance of the Supervisory Board,

6.9. Description of the procedure of amendment of the Company Articles of Association

Amendments to the Company Articles of Association in accordance with the provisions of the Ksh, in particular: amendments to the Company Articles of Association take place by means of resolution of the GM, at the majority of two thirds of the votes, and then requires issuing a decision by a proper court on entering the change into the register of entrepreneurs. The consolidated text of the Company Articles of Association, including amendments passed by the General Meeting, shall be adopted by the Supervisory Board by means of a resolution.

In accordance with the Company Articles of Association, a material amendment to the subject of activities requires two thirds of votes under the presence of persons representing at least a half of the share capital.

6.10. Way of operating of the General Meeting, its fundamental authorities and description of shareholders' rights and mode of their performance

The way of operating of the Company General Meeting and its authorities are included in the Company Articles of Association and in the *Regulations of the General Meeting of TAURON Polska Energia S.A.* which are available at the Company website <http://www.tauron-pe.pl/>.

Operation of the General Meeting

The General Meeting is convened by announcement on the Company website and in the manner defined for providing current information by public companies. In case the GM is convened by an entity or body other than the Management Board on the basis of provisions of the Ksh, and the convening of the GM requires cooperation with the Management Board, the Management Board is obliged to perform all actions defined by law regulations in order to summon, organize and conduct the GM which shall take place in the Company registered office or in Warsaw.

The General Meeting is opened by the Chairperson of the Supervisory Board, and in case of his/her absence to open the General Meeting shall be authorized the following persons in the following order: Vice-Chairperson of the Supervisory Board, President of the Management Board, a person appointed by the Management Board or a shareholder who registered at the General Meeting shares entitling him/her to perform the biggest number of votes. Then, among the persons entitled to take part in the General Meeting the Chairperson of the Meeting is selected.

The GM shall adopt resolutions irrespective of the number of shares represented at the Meeting, unless the provisions of the Ksh as well as provisions of the Company's Articles of Association shall state otherwise. The General Meeting may order a break in the meeting by the majority of two thirds of votes. In total, the breaks shall not exceed thirteen days.

Competence of the General Meeting

In accordance with the Company Articles of Association, the following issues require Resolutions of the General Meeting:

Table no. 46. Competence of the General Meeting

Issues which require the resolution of the General Meeting	
as at 31 December 2014 and as at the day of this report:	
1.	examination and approval of financial statement for the previous financial year as well as the Management Board's report on the Company operations,
2.	granting the acknowledgement of the fulfilment of duties to the members of the governing bodies of the Company,
3.	profit distribution and coverage of loss,
4.	appointing and dismissing of members of the Supervisory Board,
5.	suspending members of the Management Board in performance of their duties,
6.	establishing the rules of remuneration for the members of the Supervisory Board, subject to § 29 item e of the Company Articles of Association,
7.	disposal and lease of the Company enterprise or its organized part as well as establishing a limited proprietary right on them,
8.	concluding of a credit, loan, surety agreement or any other similar agreement by the Company with a member of the Management Board, Supervisory Board, proxy and liquidator or for any of these persons. Concluding of a loan, surety or any other similar agreement with a member of the Management Board, Supervisory Board, proxy, liquidator or for any by a subsidiary company,
9.	increasing and lowering the share capital of the Company,
10.	issuing convertible bonds or priority bonds as well as registered securities or bearer securities entitling its owner to subscribe or acquire the shares,
11.	purchasing of treasury shares in cases required by the regulations of the Code of Commercial Companies,
12.	compulsory redemption of shares in accordance with the stipulations of art. 418 of the Code of Commercial Companies,
13.	creating, using and liquidation of reserve capitals,
14.	using of supplementary capital,
15.	provisions concerning claims to repair damage caused at establishing of the company or serving in the board or performing supervision,
16.	merger, transformation and division of the Company,
17.	redemption of shares,
18.	amendment to the Articles of Association and change of the scope of the Company operations,
19.	dissolving and liquidation of the Company.

In accordance with the provisions of the Ksh the decision on issue and repurchase of shares is included in the competence of the General Meeting.

Description of shareholders' rights and mode of their execution

The table below presents the description of rights of the Company shareholders associated with the General Meeting, in accordance with the Company Articles of Association, Ksh and the *Regulations of the General Meeting of TAURON Polska Energia S.A.*

Table no. 47. Description of rights of the Company shareholders associated with the General Meeting

No.	Shareholder rights	Description of Shareholder rights
1.	Convening of the General Meeting	A shareholder or shareholders representing at least one twentieth of the share capital, may demand convening of the Extraordinary General Meeting. Such a demand shall include its concise justification. It can be submitted to the Management Board in writing or send in electronic form, to the Company e-mail address, indicated by the Company on at its website in "Investor Relations" tab. A shareholder or Shareholders representing at least a half of the share capital or at least a half of all votes in the Company may convene the Extraordinary General Meeting and appoint the Chairperson of this Meeting.
2.	Including issues on the agenda of the General Meeting	Shareholders representing at least one twentieth of the share capital may demand including certain issues on the agenda of the nearest General Meeting. Such a demand, including a justification or a draft of resolution on the proposed point of agenda shall be submitted to the Management Board not later than 21 days before the given date of the General Meeting in electronic form to the Company e-mail address, or in writing to the Company address.
3.	Becoming acquainted with the list of shareholders	Shareholders may become acquainted with the shareholders' list in the Company's Management Board registered office during three days directly preceding the GM. The shareholder may demand sending him/her the list of Shareholders free of charge by electronic mail providing address to which the list shall be sent.
4.	Participation in the General Meeting	The right to take part in the GM shall be given only to persons who are Shareholders sixteen days before the date of the GM (registration date of participation in the GM). In order to participate in the GM such shareholders should report the investment company holding their securities account a request to issue a certificate with their name on the right to take part in the GM. Such a request shall be submitted not earlier than a day after the announcement on convening of the GM and not later than on the first working day after the day of registering participation in the GM.

No.	Shareholder rights	Description of Shareholder rights
5.	Representing the shareholder by a proxy	The shareholder may take part in the GM as well as perform the voting right personally or through a proxy. Persons co-authorized by means of shares may take part in the General Meeting and perform the voting right only through a joint representative (proxy). The proxy may represent more than one Shareholder and vote differently based on shares of each Shareholder.
6.	Election of the Chairman of the General Meeting	Shareholders select the Chairperson among persons entitled to take part in the GM. Each of the members of the GM shall have the right to submit one candidate to the post of the Chairperson. The election of the Chairperson takes place by secret voting, with an absolute majority of votes. In case there is just one candidate to the Chairperson, the election can take place by acclamation.
7.	Appointment of the Returning Committee	Each Shareholder shall submit no more than three candidates to the member of Returning Committee, selected by the GM and vote for maximum three candidates.
8.	Submission of draft resolution	Until closing the discussion on a certain point of the agenda of the GM shareholders shall be authorised to submit a proposal of changes to the content of a draft of resolution proposed for adoption by the GM within a given item of the agenda or to put forward his/her draft of such a resolution. The proposal of changes or a draft of the resolution may be submitted to the Chairperson or orally or in writing to the minutes of the meeting.
9.	Raising objections	The shareholder who was voting against a resolution, and after its adoption by the GM wants to raise his/her objection shall immediately after the announcement of results of voting raise his/her objection and demand its including in the minutes before proceeding to the next item of the agenda. In case of a later raising of objection, which however shall not take place later than until closing the GM, the Shareholder shall indicate to which resolution passed at this GM she/he is raising his/her objection. The shareholder raising his/her objection to the GM resolution may submit to the minutes of the GM a concise justification of the objection.

6.11. Composition of managing and supervising bodies and their committees, its changes, description of performance

6.11.1. Management Board

The current, 4th term of office of the Management Board began to run on 17 March 2014, i.e. on the day of dismissal of all members of the Management Board of the 3rd term by the Supervisory Board, and the appointment of the Management Board of the Company for the 4th common term of office. In accordance with the Company Articles of Association the common term of office lasts three years.

Personal composition of the Management Board as at 31 December 2014 and as at the day of this report

1. Dariusz Lubera – President of the Management Board, responsible for the Division of the President of the Management Board
2. Aleksander Grad – Vice President of the Board responsible for the Division of the Vice-President of the Board for Corporate Affairs,
3. Katarzyna Rozenfeld – Vice President of the Board responsible for the Division of the Vice-President of the Board, Chief Commercial Officer,
4. Stanisław Tokarski – Vice President of the Board responsible for the Division of the Vice-President of the Board for Strategy and Development,
5. Krzysztof Zawadzki – Vice President of the Board responsible for the Division of the Vice-President of the Board for Economics and Finance.

Changes in the personal composition of the Management Board in 2014

As at 1 January 2014 the Management Board consisted of the following members: Dariusz Lubera (President of the Management Board), Joanna Schmid (Vice President of the Management Board), Dariusz Stolarczyk (Vice President of the Management Board) and Krzysztof Zawadzki (Vice President of the Management Board).

On 10 February 2014 the Supervisory Board of the Company adopted the resolution on delegating the Member of the Supervisory Board, Aleksander Grad to the temporary performance of the duties of Vice President of TAURON Management Board in the period from 11 February 2014 until 11 May 2014.

On 17 March 2014, the Member of the Supervisory Board, delegated to the temporary performance of the duties of Vice President of the Management Board, Aleksander Grad, resigned from his function of the Member of the Supervisory Board, with the effect as of 17 March 2014.

On 17 March 2014, the Supervisory Board of the Company dismissed, upon adoption of the appropriate resolutions, all members of the Management Board of the Company, i.e.: Dariusz Lubera (President of the Management Board),

Joanna Schmid (Vice President of the Management Board), Dariusz Stolarczyk (Vice President of the Management Board), Krzysztof Zawadzki (Vice President of the Management Board).

On 17 March 2014 the Company Supervisory Board, upon adoption of the appropriate resolutions, appointed the Management Board of the Company for the 4th common term, with the following composition: Dariusz Lubera (President of the Management Board), Aleksander Grad (Vice President of the Management Board), Katarzyna Rozenfeld (Vice President of the Management Board), Stanislaw Tokarski (Vice President of the Management Board) and Krzysztof Zawadzki (Vice President of the Management Board).

Until the day of submission of this report, no other changes in the composition of the Management Board have taken place.

Experience and competences of members of the Management Board



Dariusz Lubera – President of the Board

Background: Electrician, MSc Eng Graduate of AGH Academy of Science and Technology in Kraków and University of Economics in Kraków.

Acting as the President of the Management Board of TAURON Polska Energia S.A. since 8 March 2008. Currently supervises performance of the following business units: corporate bodies, legal department, HR, management of information resources, internal audit, market communication and PR, risk management, Health & Safety Issues and Protection of Classified Information.



Aleksander Grad – Vice President of the Management Board

Graduate of Industrial Surveying Faculty at AGH Academy of Science and Technology in Kraków. Acted as the Undersecretary of State at the Ministry of Health and the Minister of Treasury. Member of Parliament of the 4th, 5th, 6th and 7th tenure. Among others, acted in the capacity of the Vice Chairman of the European Union Commission, Vice Chairman and Chairman of the Commission on State Treasury.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 17 March 2014. Currently supervises the performance of the following business units: procurement department, corporate governance and reorganisation.



Katarzyna Rozenfeld – Vice President of the Management Board

Graduate of economics at the Foreign Trade Department of Łódź University and the Catholic University of Nijmegen in the Netherlands. She also completed a training course for investment advisers.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 17 March 2014. Currently supervises the performance of the following business units: trade, market operator and trade service, portfolio management, fuels and analyses.



Stanislaw Tokarski – Vice President of the Management Board

Graduate of the Faculty of Electrical Engineering, Automatics and Electronics of the AGH University of Science and Technology in Kraków. Completed also a number of post-graduate studies, including, among others, in nuclear power engineering in modern power engineering industry at the AGH University of Science and Technology in Kraków, in the European Union legislation at Jagiellonian University and in management in Warsaw School of Economics. In 2014 he obtained the title of doctor of technical sciences.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 17 March 2014. Currently supervises performance of the following business units: development strategies, strategic projects, regulations and external funds as well as investment effectiveness.



Krzysztof Zawadzki – Vice President of the Board

Background: economist. Graduate of University of Economics in Katowice and PhD Studies at the University of Economics in Kraków. Postgraduate studies, i.a. in international financial reporting standards, European standards in accountancy and finance and taxes. He is a certified auditor.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 21 August 2009. Currently supervises performance of the following business units: accounting and taxes, financial management and controlling.

The detailed description of experience and competences of the Board Members is published on the Company website <http://www.tauron-pe.pl/>.

Description of operation

The Management Board of the Company operates on the basis of Ksh and other regulations of law, provisions of the Company Articles of Association and provisions of the *Bylaws of the Management Board of TAURON Polska Energia Spółka Akcyjna z siedzibą w Katowicach*, which is available on the website of the Company <http://www.tauron-pe.pl/>. While performing their obligations the members of the Management Board are governed by regulations included in the Good Practices.

Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for submitting of statements on behalf of the Company. Should the Management Board be single person, one member of the Management Board or a proxy shall be entitled to submit statements on behalf of the Company.

Meetings of the Management Board are convened by the President of the Management Board or a Vice-President of the Management Board appointed by him/her. Meetings of the Management Board are also convened upon the motion of the majority of Vice-Presidents of the Company as well as upon the motion of the Chairperson of the Supervisory Board. The meetings take place in the Company's seat, on the date set by the person convening the meeting. In justified cases, the Management Board's meetings may take place outside the seat of the Company. President of the Management Board or a Vice-President appointed by him/her shall chair the meeting.

The Management Board votes in an open voting. The result of voting is recorded in the minutes of the meeting. The President of the Management Board orders a secret ballot upon the request of any member of the Management Board.

Resolutions of the Management Board are passed by an absolute majority of votes in the presence of 3/5 of the composition of the members of the Management Board. In case of an equal number of votes the President of the Board has a casting vote. The Management Board may pass resolutions in a written mode or by using means of direct remote communication. Voting in the aforementioned modes is ordered by the President of the Management Board or the Vice-President appointed by him/her, defining the deadline to vote by the members of the Management Board. It is acceptable to submit a different opinion. It shall be recorded in the minutes together with justification. Decisions of the Management Board, regulating business as usual, not requiring a resolution, are recorded only in the minutes.

Under the circumstances when the number of Vice-Presidents of the Management Board is lower than the Divisions, the Vice-Presidents of the Management Board may join the capacity of directors of two divisions, or distribute the competence in any other way which would be in compliance with the distribution of responsibilities performed by the Supervisory Board.

Scope of activities of the President of the Management Board covers competence in the area of operations of business units reporting to the Division of the President of the Board, in accordance with the organisational structure of the Company.

Scope of activities of the Vice-Presidents of the Management Board covers competence in the area of operations of business units reporting to the Divisions of the Vice-Presidents of the Board, in accordance with the organisational structure of the Company.

The structure of the divisions reporting to individual members of the Management Board is specified in the organisational chart of the Company, presented in item 1.5.2 of this report.

6.11.2. Supervisory Board

The current, fourth term of office of the Supervisory Board, started on 15 May 2014, i.e. on the day of convening of the Ordinary General Meeting of the Company approving the financial statement for the last full financial year

of the tenure of the members of the Supervisory Board of the third term, i.e for the financial year 2013. In accordance with the Company Articles of Association this is a joint term of office and it shall last for three years.

Personal composition of the Supervisory Board as at 31 December 2014 and as at the date of this report

1. Antoni Tajduś – Chairman of the Supervisory Board,
2. Agnieszka Woś – Vice Chairperson of the Supervisory Board,
3. Jacek Szyke – Secretary of the Supervisory Board,
4. Andrzej Gorgol – Member of the Supervisory Board,
5. Maciej Koński – Member of the Supervisory Board,
6. Leszek Koziarowski – Member of the Supervisory Board,
7. Michał Michalewski – Member of the Supervisory Board,
8. Marek Ściążko – Member of the Supervisory Board,
9. Maciej Tybura – Member of the Supervisory Board.

Changes in the personal composition of the Supervisory Board in 2014

As at 1 January 2014 the Supervisory Board consisted of the following members: Antoni Tajduś (Chairman of the Supervisory Board), Rafał Wardziński (Vice Chairman of the Supervisory Board), Leszek Koziarowski (Secretary of the Supervisory Board), Jacek Kuciński (Member of the Supervisory Board), Marcin Majeranowski (Member of the Supervisory Board), Jacek Szyke (Member of the Supervisory Board), Marek Ściążko (Member of the Supervisory Board) and Agnieszka Trzaskalska (Member of the Supervisory Board).

On 7 January 2014 the Extraordinary General Meeting of the Company appointed Aleksander Grad as a member of the Supervisory Board of the Company of the 3rd term as of 1 February 2014.

On 22 January 2014 the State Treasury, acting pursuant to its personal authority specified in § 23 item 1 p. 3 of the Company Articles of Association, dismissed Mr. Rafał Wardziński who acted as the Deputy Chairman of the Supervisory Board, from the Supervisory Board of TAURON.

On 22 January 2014 the State Treasury, acting pursuant to its personal authority specified in § 23 item 1 p. 3 of the Company Articles of Association, appointed Ms Agnieszka Woś as a member of the Supervisory Board of TAURON.

On 10 February 2014 the Supervisory Board of TAURON adopted the resolution on delegating the Member of the Supervisory Board, Aleksander Grad to the temporary performance of the duties of Vice President of TAURON Management Board in the period from 11 February 2014 until 11 May 2014.

On 17 March 2014, Member of the Supervisory Board, Aleksander Grad, resigned from his function of the Member of the Supervisory Board, with the effect as of 17 March 2014.

On 15 May 2014 the State Treasury, acting pursuant to its personal authority specified in § 23 item 1 p. 1) and 3) of the Company Articles of Association, appointed the following persons as members of the Supervisory Board of the 4th common term: Andrzej Gorgol, Agnieszka Woś, Antoni Tajduś, Michał Michalewski and Marek Ściążko.

The Ordinary GM of the Company convened on 15 May 2014 appointed Jacek Szyke as a member of the Supervisory Board of the 4th common term.

On 1 September 2014 the Extraordinary General Meeting of the Company, acting pursuant to § 22 item 1 of the Company Articles of Association, adopted the resolution on appointment of the following persons to the Company Supervisory Board for the fourth common term of office as of 1 September 2014: Maciej Koński, Leszek Koziarowski, Maciej Tybura.

Until the day of submission of this report, no other changes in the composition of the Supervisory Board have taken place.

Experience and competences of members of the Supervisory Board

Antoni Tajduś – Chairman of the Supervisory Board

Academic and scientific worker of the AGH Academy of Science and Technology in Kraków During his employment at the AGH, he obtained the following scientific degrees: PhD in technical sciences (1977), DSc in technical sciences (1990) and professor of technical sciences (1998). In the years 2005–2012 acted in the capacity of the Rector of the AGH Academy of Science and Technology in Kraków.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 31 January 2008. Currently acting in the capacity of the Chairman of the Supervisory Board and the Chairman of the Committee on Nominations and Remunerations of the Supervisory Board.

Agnieszka Woś – Vice Chairman of the Supervisory Board

Graduate of the College of Information Technology and Management in Rzeszów, specialisation: accounting and finance and the University of Economics in Kraków, specialisation: performance and development of enterprises. Obtained a title of doctor of economic sciences in 2010 in the scope of management sciences, at the University of Economics in Kraków.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 22 January 2014. Currently acting in the capacity of the Vice Chairperson of the Supervisory Board and the Chairperson of the Audit Committee of the Supervisory Board.

Jacek Szyke – Secretary of the Supervisory Board

Graduate of Faculty of Economics at Łódź University and Electric Faculty of Technical University in Poznań, where he also obtained PhD in technical sciences.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 14 September 2010. Currently acting in the capacity of the Secretary of the Supervisory Board and the Member of the Audit Committee of the Supervisory Board.

Andrzej Gorgol – Member of the Supervisory Board

Graduate of the Faculty of Law and Administration at the Maria Curie-Skłodowska University. Obtained the scientific title of Doctor of Sciences in law. He is also a certified solicitor.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 15 May 2014. Currently acting as a member of the Committee on Nominations and Remunerations of the Supervisory Board.

Maciej Koński – Member of the Supervisory Board

Graduate of the Warsaw School of Economics, faculty of Finance and Banking. In 2014 he obtained the title of doctor of technical sciences at Wrocław University of Technology.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 1 September 2014. Currently acting as a member of the Strategy Committee of the Supervisory Board.

Leszek Kozirowski – Member of the Supervisory Board

Graduate of Faculty of Law and Administration of Warsaw University, legal counsel in the Regional Chamber of Attorneys in Warsaw.

Appointed as the member of the Supervisory Board of TAURON Polska Energia S.A. as of 14 September 2010, he acted as the member of the Supervisory Board in the period until 15 May 2014, i.e. the day of termination of the 3rd common term of the Supervisory Board. In the aforementioned period he acted as the secretary of the Supervisory Board and member of the Audit Committee of the Supervisory Board. Re-elected to the Supervisory Board as of 1 September 2014. Currently acting as a member of the Committee on Nominations and Remunerations of the Supervisory Board.

Michał Michalewski – Member of the Supervisory Board

Graduate of the University of Economics in Katowice where he majored in finance and banking. The MBA degree at Nottingham Trent University in Great Britain. A graduate of numerous post-graduate courses in the field of management.

In the years 2008–2012 he acted as the Member of Supervisory Board of TAURON Polska Energia S.A.

Appointed as a member of the Supervisory Board of TAURON Polska Energia S.A. as of 15 May 2014. Currently acting as the member of the Strategy Committee of the Supervisory Board and Audit Committee of the Supervisory Board.

Marek Ściążko – Member of the Supervisory Board

Graduate of Faculty of Technology and Chemical Engineering, Technical University in Gliwice – speciality: chemical engineering, he obtained the PhD title at the same university.

Moreover, Marek Ściążko holds the title of Doctor of Sciences and a University Professor.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 31 January 2008. Currently acting as the member of the Strategy Committee of the Supervisory Board and Committee on Nominations of the Supervisory Board.

Maciej Tybura – Member of the Supervisory Board

A graduate of the University of Economic in Poznań, faculty of Enterprise Finance and Accounting.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 1 September 2014. Currently acting as a member of the Audit Committee of the Supervisory Board.

The detailed description of experience and competences of the Supervisory Members is published on the Company website <http://www.tauron-pe.pl/>.

Description of operation

A detailed description of the Supervisory Board operations is included in the Ksh, in the Company Articles of Association, which is available on the Company website <http://www.tauron-pe.pl/> and in the *Bylaws of the Supervisory Board of TAURON Polska Energia S.A. z siedzibą w Katowicach*.

The main form of performing supervision by the Supervisory Board over the Company's operations are meetings of the Supervisory Board. The Supervisory Board performs its obligations jointly. Meetings of the Supervisory Board are convened by the Chairperson of the Supervisory Board or Vice-Chairperson of the Supervisory Board by presenting a detailed agenda.

- 1) in accordance with decisions adopted by the Supervisory Board,
- 2) on his/her own initiative,
- 3) upon a written proposal of each member of the Supervisory Board,
- 4) upon a written proposal of the Management Board.

Meetings of the Supervisory Board take place in the Company's seat. In justified cases the venue of the meeting may be changed.

In order to convene a meeting, written invitation of all members of the Supervisory Board at least 7 days before the date of the Supervisory Board's meeting is required. Due to material reasons the Chairperson of the Supervisory Board may shorten this period to 2 days, defining the mode of giving the invitation. Notifications of the Supervisory Board meeting are sent by means of fax or electronic mail and are confirmed by phone. In the notification of the Supervisory Board meeting the Chairperson defines the date of the meeting, venue of the meeting as well as detailed draft of the agenda. The Supervisory Board shall meet when the need arises, however, not less frequently than once in every two months. The Supervisory Board may meet without convening a formal meeting if all members of the Supervisory Board are present and nobody appeals against the fact of holding the meeting or against the agenda.

A change of the proposed agenda may take place when all members of the Supervisory Board are present at the meeting and nobody appeals against the agenda. An issue not included on the agenda shall be included into the agenda of the next meeting.

Taking part in meetings of the Supervisory Board is the Supervisory Board Member's duty. A Member of the Supervisory Board shall give reasons of his/her absence in writing. Justification of the Supervisory Board Member's absence requires the Supervisory Board resolution. Members of the Management Board of the Company may take part in the Supervisory Board's meetings unless the Supervisory Board raises an objection. Participation of the Management Board members in the Supervisory Board meetings is compulsory if they were invited by the Chairperson of the Supervisory Board. Other persons may also take part in the meetings if they were invited in the above mentioned way.

The Supervisory Board may seek opinion of legal advisers who render regular legal advice for the Company, as well as, in justified cases, it may appoint and invite to meetings of the Supervisory Board appropriate experts in order to ask their advice and make an appropriate decision. In the aforementioned cases the Supervisory Board shall pass a resolution concerning commissioning the work to a chosen expert (audit or consulting company) obliging the Company's Management Board to conclude an appropriate agreement.

Meetings of the Supervisory Board shall be chaired by the Chairperson of the Supervisory Board, and in the case of his/her absence by the Vice-Chairperson. Due to material reasons, with the consent of the majority of the members of the Supervisory Board present at the meeting, the person chairing the meeting is obliged to submit to voting a motion to stop the meeting and establish a new date of resuming the Supervisory Board meeting. The Supervisory Board makes decisions in the form of resolutions. The Supervisory Board resolutions are passed mainly at the meetings. The Supervisory Board passes resolutions if at least half of its members are present at the meeting and all its members were invited in the way defined in the Regulations. Subject to absolutely binding regulations of law, including the Ksh as well as provisions of the Company's Articles of Association, the Supervisory Board passes resolutions by an absolute majority of votes of the persons present at the meeting, where the absolute majority of votes is understood as more votes submitted "for" than "against" and "abstain". Resolutions cannot be passed in issues not included in the agenda unless all members of the Supervisory Board are present and nobody voices an objection. It shall not apply to resolutions on justifying the Supervisory Board's member absence at the meeting. Voting of the resolutions is open. A secret ballot is ordered:

- 1) upon the request of at least one of the members of the Supervisory Board,
- 2) in personnel-related issues

The Supervisory Board, in accordance with the Articles of Association, may pass resolutions in writing or by using means of direct remote communication. Passing a resolution in such a mode requires a justification and a prior submitting of the draft of the resolution to all members of the Supervisory Board. Passing resolutions in this mode does not apply to the appointing the Chairperson, the Deputy Chairperson and the Secretary of the Board, appointing or suspending in the activities of a member of the Supervisory Board and dismissing these persons as well as other issues the settlement of which requires a secret voting. Voting on a resolution passed in the aforementioned mode, a member of the Supervisory Board indicates the mode of his/her voting, "for", "against" or "abstain". In case of failure to express the vote by a Member of the Supervisory Board in the time period defined by the Chairperson the resolution shall not be passed. Resolution with a note that it was passed in a written mode or by mode of voting using means of direct distance communication shall be signed by the Chairperson of the Supervisory Board. Resolutions passed in this mode shall be submitted at the first coming meeting of the Supervisory Board with announcing the result of the voting.

A possibility is allowed for members of the Supervisory Board to participate in the meeting and vote on the resolutions adopted within such a meeting using means of direct remote communication, i.e. tele- or videoconferences, provided that at the venue of the session, indicated in the notice of the meeting, at least half of the members is present as well as the technical possibility to ensure secure connection is provided.

Members of the Supervisory Board shall take part in meetings and perform their duties in person, and while performing their duties they are obliged to exercise due diligence. Members of the Supervisory Board are obliged to keep information connected with the Company activity which they have acquired in connection with holding their seat or at other occasion secret. The Supervisory Board performs its obligations jointly.

The Supervisory Board may, due to material reasons, delegate particular members to perform certain actions independently for a defined period of time. The Supervisory Board may delegate its members, for a period no longer than three months, to temporarily perform duties of the members of the Management Board who have been dismissed, submitted their resignation or if due to other reasons they cannot perform their functions. The aforementioned delegation requires obtaining permission from the member of the Supervisory Board who is to be delegated.

The detailed description of activities of the Supervisory Board in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the General Meeting and then published on the Company website <http://www.tauron-pe.pl/>.

The Supervisory Board may appoint among its members permanent or temporary working groups or committees to perform particular actions. The permanent committees of the Supervisory Board include:

- 1) Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. (Audit Committee),
- 2) Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A. (Nominations and Remuneration Committee),
- 3) Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. (Strategy Committee).

Composition, tasks and rules of operation of the aforementioned committees are defined in their regulations adopted by the Supervisory Board.

6.11.3. Audit Committee

In connection with the commencement, as of 15 May 2014, of the 4th common term of the Supervisory Board of the Company and the appointment of its members by the State Treasury and the General Meeting, on 2 June 2014 the Supervisory Board established the Audit Committee among its members.

Composition of the Audit Committee as at 31 December 2014 and as at the day of this report

1. Agnieszka Woś – Chairperson of the Audit Committee,
2. Michał Michalewski – Member of the Audit Committee,
3. Jacek Szyke – Member of the Audit Committee,
4. Maciej Tybura – Member of the Audit Committee.

Changes in the personal composition of the Audit Committee

As at 1 January 2014 the Audit Committee consisted of the following members: Marcin Majeranowski (Chairman), Leszek Koziorowski, Jacek Kuciński and Jacek Szyke.

On 2 June 2014, the Supervisory Board appointed the following members of the Audit Committee: Michał Michalewski, Jacek Szyke and Agnieszka Woś. On the same day, the Audit Committee elected Agnieszka Woś as the Chairperson of the Audit Committee among its members.

In connection with the appointment of new members of the Supervisory Board by the GM on 1 September 2014, on 28 October 2014 the Supervisory Board appointed Maciej Tybura as a member of the Audit Committee.

Until the day of submission of this report, no other changes in the composition of the Audit Committee have taken place.

Tasks and competences of the Audit Committee

The table below presents the tasks and competences of the Audit Committee as at 31 December 2014 and as at the day of this report.

Table no. 48. Competence of the Audit Committee

Issues requiring the resolution of the Audit Committee
as at 31 December 2014 and as at the day of this report:
1. monitoring of financial reporting process;
2. monitoring of the accuracy of financial information presented by the Company;
3. monitoring of the efficiency of internal control, internal audit and risk management systems existing in the Company;
4. monitoring of performing of financial revisions;
5. monitoring of independence and impartiality of the chartered accountant and the entity entitled to examine financial statements, including rendering by them services other than financial audit;
6. recommending of an entity entitled to examine financial statements to perform financial audit to the Supervisory Board.

The detailed description of activities of the Audit Committee in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the GM and then published on the Company website <http://www.tauron-pe.pl/>.

6.11.4. Nominations and Remuneration Committee

In connection with the commencement, as of 15 May 2014, of the 4th common term of the Supervisory Board of the Company and the appointment of its members by the State Treasury and the General Meeting, on 2 June 2014 the Supervisory Board established the Nominations and Remuneration Committee among its members.

Personal composition of the Nominations and Remuneration Committee as at 31 December 2014 and as at the day of this report

1. Antoni Tajduś – Chairman of the Nominations and Remuneration Committee,
2. Andrzej Gorgol – Member of the Nominations and Remuneration Committee,
3. Leszek Koziarowski – Member of the Nominations and Remuneration Committee,
4. Marek Ściążko – Member of the Nominations and Remuneration Committee.

Changes in the personal composition of the Nominations and Remuneration Committee

As at 1 January 2014 the Nominations and Remuneration Committee consisted of the following members: Antoni Tajduś (Chairman), Jacek Kuciński, Marek Ściążko and Agnieszka Trzaskalska.

On 2 June 2014, the Supervisory Board appointed the following members of the Nominations and Remuneration Committee: Andrzej Gorgol, Michał Michalewski, Marek Ściążko and Antoni Tajduś. On the same day the Nominations and Remuneration Committee elected Antoni Tajduś as the Chairman of the Nominations and Remuneration Committee among its members.

In connection with the appointment of new members of the Supervisory Board by the GM on 1 September 2014, on 28 October 2014 the Supervisory Board appointed Leszek Koziarowski as a member of the Nominations and Remuneration Committee.

On 28 October 2014, Michał Michalewski resigned from his function of the member of the Nominations and Remuneration Committee.

Until the day of submission of this report, no other changes in the composition of the Nominations and Remuneration Committee have taken place.

Tasks and competence of the Nominations and Remuneration Committee

The table below presents the tasks and competences of the Nominations and Remunerations Committee as at 31 December 2014 and as at the day of this report.

Table no. 49. Competence of the Nominations and Remuneration Committee

Issues requiring the resolution of the Nominations and Remunerations Committee	
as at 31 December 2014 and as at the day of this report:	
1.	recommendations to the Supervisory Board on a recruitment procedure for the positions of members of the Company Management Board,
2.	assessing candidates for members of the Management Board as well submitting an opinion in this scope to the Supervisory Board,
3.	recommendations to the Supervisory Board on the form and contents of agreements concluded with members of the Management Board,
4.	recommendations to the Supervisory Board on remuneration and bonus system of the members of the Management Board,
5.	recommendations to the Supervisory Board on the need to suspend a member of the Management Board due to material reasons
6.	recommendations to the Supervisory Board on the need to delegate a member of the Supervisory Board to temporarily perform the duties of members of the Management Board who cannot perform their duties together with a proposal of remuneration.

The detailed description of activities of the Nominations and Remuneration Committee in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the GM and then published on the Company website <http://www.tauron-pe.pl/>.

6.11.5. Strategy Committee

In connection with the commencement, as of 15 May 2014, of the 4th common term of the Supervisory Board of the Company and the appointment of its members by the State Treasury and the General Meeting, on 2 June 2014 the Supervisory Board established the Strategy Committee among its members.

Composition of the Strategy Committee as at 31 December 2014 and as at the day of this report

1. Jacek Szyke – Chairman of the Strategy Committee,
2. Maciej Koński – Member of the Strategy Committee,
3. Michał Michalewski – Member of the Strategy Committee,
4. Marek Ściążko – Member of the Strategy Committee.

Changes in the Strategy Committee personal composition

As at 1 January 2014 the Strategy Committee consisted of the following members: Jacek Szyke (Chairman), Jacek Kuciński, Marek Ściążko, Agnieszka Trzaskalska, Rafał Wardziński.

Due to the dismissal of Rafał Wardziński from the Supervisory Board by the State Treasury on 22 January 2014, the composition of the Strategy Committee was reduced to four persons.

On 2 June 2014, the Supervisory Board appointed the following members of the Strategy Committee: Michał Michalewski, Jacek Szyke and Marek Ściążko. On the same day, the Strategy Committee elected Jacek Szyke as the Chairman of the Strategy Committee among its members.

In connection with the appointment of new members of the Supervisory Board by the GM on 1 September 2014, on 28 October 2014 the Supervisory Board appointed Maciej Koński as a member of the Strategy Committee.

Until the day of submission of this report, no other changes in the composition of the Strategy Committee have taken place.

Tasks and competences of the Strategy Committee

The table below presents the tasks and competences of the Strategy Committee as at 31 December 2014 and as at the day of this report.

Table no. 50. Competence of the Audit Committee

Issues requiring the resolution of the Strategy Committee
as at 31 December 2014 and as at the day of this report:
1. assessment of the Corporate Strategy and presenting its results to the Supervisory Board;
2. recommending the scope and terms of submitting the strategic multi-annual plans to the Supervisory Board;
3. assessment of impact of the planned and undertaken strategic investments on assets of the Company;
4. monitoring the implementation of the strategic investment tasks;
5. assessment of activities concerning availability of significant Company assets;
6. opinion on strategic documents submitted to the Supervisory Board by the Management Board.

The detailed description of activities of the Strategy Committee in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the GM and then published on the Company website <http://www.tauron-pe.pl/>.

6.11.6. Description of activities of the Committees of the Supervisory Board

A detailed description of the activities of the Supervisory Board is included in the Regulations of individual Committees of the Supervisory Board of TAURON Polska Energia S.A.

The Committees of the Supervisory Board are advisory and opinion-making bodies acting collectively as a part of the Supervisory Board and perform support and advisory functions towards the Supervisory Board. The tasks of the Committees of the Supervisory Board are carried out by submitting motions, recommendations, opinions and statements on the scope of its tasks to the Supervisory Board, by means of resolutions. The Committees of the Supervisory Board are independent of the Management Board of the Company. The Management Board may not issue binding orders to the Committees of the Supervisory Board concerning performing their duties.

The Committees of the Supervisory Board consist of three to five members. The activities of the individual Committees are managed by their Chairpersons.

Meetings of the Committees are convened by the Chairperson of the specific Committee on his/her own initiative or upon the motion of a member of the Committee or Chairperson of the Supervisory Board and they are held as needed. In case of the Audit Committee the meetings are convened at least on a quarterly basis. The Chairpersons of the Committees may invite members of the Supervisory Board, who are not members of the specific Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company to the meetings of the Committees. The Chairperson of the specific Committee or a person appointed by him/her submits motions, recommendations and reports to the Supervisory Board.

The Committees of the Supervisory Board pass resolutions if at least a half of their members were present at the meeting and all their members have been duly invited. The resolutions of the Committees of the Supervisory Board are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given "for" than "against" and "abstain". The Committees of the Supervisory Board may pass resolutions in writing or by using means of direct remote communication.

Members of the Committees of the Supervisory Board may also participate in meetings and vote of the adopted resolutions by using means of direct remote communication, i.e. tele- or videoconferences.

The Company Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the Committees of the Supervisory Board. Every year, the Committees of the Supervisory Board provide public record information, through the Company, on the composition of the Audit Committee, number of meetings held and participation in the meetings during the year as well as on main activities. In addition, the Audit Committee confirms its positive assessment of the independence of financial audit process and submits a short description of steps taken to formulate such a motion.

The Company Management Board provides the possibility to use the services of external advisers by the Committees in the scope required for performing the obligations of the specific Committee.

6.12. Remuneration of key management and supervisory personnel

Remuneration of key management personnel

The total amount of remuneration understood as the value of salaries, awards and benefits received in cash, in kind or in any other form, due or paid by the Company to the Management Board Members in 2014 amounted to PLN 7,440 thousand gross.

The model of remuneration of Board Members consists of two components for determining the remuneration, the fixed part (monthly basic salary) and the floating part, depending on fulfilment of specific target criteria (implementation of the task commissioned).

The members of the Management Board of the Company are not covered by the incentive or bonus programme based on the capital of the Company, neither do they receive any remuneration or awards due to performance in governing bodies of subsidiaries of TAURON Capital Group.

The table below presents the remuneration of members of the Company Management Board for 2014, divided into components.

Table no. 51. Remuneration of members of the Company Management Board for 2014, divided into components (in PLN thousand)

No.	Surname and name	Period of holding the function in 2014	Remuneration*	Bonus*	Other benefits*	Total
1.	Dariusz Lubera	01 January 2014 – 31 December 2014	1,044	657	211	1,912
2.	Aleksander Grad	11 February 2014 – 16 March 2014** 17 March 2014 – 31 December 2014	801	175	87	1,063
3.	Katarzyna Rozenfeld	17 March 2014 – 31 December 2014	714	132	72	918
4.	Stanisław Tokarski	17 March 2014 – 31 December 2014	714	132	99	945
5.	Krzysztof Zawadzki	01 January 2014 – 31 December 2014	924	507	140	1,571
6.	Joanna Schmid	01 January 2014 – 17 March 2014	189	203	64	456
7.	Dariusz Stolarczyk	01 January 2014 – 17 March 2014	227	270	78	575
Total			4,613	2,076	751	7,440

* Excluding overheads

** A period of delegating Aleksander Grad, Member of the Supervisory Board to the temporary performance of activities of the Vice-President of the Company Management Board.

Remuneration of key supervising personnel

The model of remuneration of the Supervisory Board members consists in single component, fixed part.

The table below presents the remuneration of members of the Company Supervisory Board Members for 2014.

Table no. 52. Remuneration of members of the Supervisory Board of the Company for 2014 (in PLN thousand)

No.	Surname and name	Period of holding the function in 2014	Payroll and awards (in PLN thousand)
1.	Antoni Tajduś	01 January 2014 – 31 December 2014	143
2.	Agnieszka Woś	22 January 2014 – 31 December 2014	122
3.	Jacek Szyke	01 January 2014 – 31 December 2014	115
4.	Andrzej Gorgol	15 May 2014 – 31 December 2014	68
5.	Maciej Koński	01 September 2014 – 31 December 2014	36
6.	Leszek Koziorowski	01 January 2014 – 15 May 2014 01 September 2014 – 31 December 2014	81
7.	Michał Michalewski	15 May 2014 – 31 December 2014	68
8.	Marek Ściążko	01 January 2014 – 31 December 2014	108
9.	Maciej Tybura*	01 September 2014 – 31 December 2014	36
10.	Aleksander Grad*	1 February 2014 – 16 March 2014	3
11.	Jacek Kuciński	01 January 2014 – 15 May 2014	40
12.	Marcin Majeranowski	01 January 2014 – 15 May 2014	40
13.	Agnieszka Trzaskalska	01 January 2014 – 15 May 2014	40
14.	Rafał Wardziński	01 January 2014 – 22 January 2014	8
Total			908

* Member of the Supervisory Board delegated to temporary performance of the activities of the Vice President of the Management Board of the Company in the period from 11 February 2014 to 16 March 2014.

6.13. Agreements concluded with managing persons which envisage compensation in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation is caused by merger of the Company through takeover

Between the Company and managing persons no agreements were concluded which envisage compensation in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation is caused by merger of the Company through takeover.

7. OTHER SIGNIFICANT INFORMATION AND EVENTS

7.1. Proceedings pending before the court, competent arbitration authority or public administration authority

During the reporting period no proceedings were pending before any court, competent arbitration authority or public authority body, related to the Company or subsidiaries of TAURON Capital Group, whose single or aggregate value would exceed at least 10% of the equity of the Company.

7.2. Important achievements in research and development

In 2014 companies of TAURON Capital Group carried out many projects co-financed from external sources. The most significant projects are presented in the table below.

Table no. 53. Projects carried out in 2014 by companies of TAURON Capital Group, co-financed from external sources

No.	Projects/programmes/tasks	Source of co-financing
1.	<ol style="list-style-type: none"> 1) The Project comprising pilot scale research in the scope of monitoring and reduction of mercury emission. 2) The Project comprising chemical accumulation of energy through production of methane from the captured CO₂. 3) The Project comprising the construction of a system for individual assessment of disruptions in electric energy quality, including the power electronic interface to connect dispersed renewable energy sources. 	KIC InnoEnergy
2.	<ol style="list-style-type: none"> 1) Under the strategic programme on: <i>Advanced technologies of energy acquisition</i>, the following tasks were carried out: <ul style="list-style-type: none"> • Task 1: Development of technologies for high-performing “zero-emission” coal units integrated with CO₂ capturing from flue gas, • Task 2: Development of oxy-combustion technology for pulverised and fluidised bed boilers integrated with CO₂ capture, • Task 3: Development of coal gasification technology for highly effective production of fuels and electric energy. 2) The GEKON Programme under which the implementation of the project in the scope of dynamic management of transmission capacity of power grids with the application of innovative measurement techniques has been launched. 3) The Applied Research Programme under which the implementation of the project in the scope of manufacturing of demineralised water to replenish the water-steam circuit by means of electromembranary treatment has been launched. 	NCBiR
3.	The MANAGER Project concerning the management of mine water for the purpose of mitigation of environmental hazards following the termination of mining exploitation.	Research Fund for Coal and Steel of the European Union
4.	The ICP4Life project refers to the construction of the Integrated Collaborative Platform for Managing the Product-Service Engineering Lifecycle.	Horizon 2020: Framework Programme for Research and Innovation

Moreover, in 2014 companies of TAURON Capital Group financed many other research and development activities from own funds, at various scale, enhancing the effectiveness of companies’ performance and minimising the environmental impact of process they conduct.

In 2014 the Company, jointly with partners from the EU countries, started the implementation of the first project entitled *An Integrated Collaborative Platform for Managing the Product-Service Engineering Lifecycle – ICP4Life*, financed under the Horizon 2020 programme. Project deliverables may support companies of TAURON Capital Group in their works associated with renovations and maintaining the generation equipment and distribution grids.

On the other hand, in December 2014 the Feasibility Study of the Sectoral Programme for Power Industry was submitted to NCBiR, developed by the Company in cooperation, among others, with other enterprises from the energy sector, trade organisations and leading national universities. It is expected that the launch of the Programme shall provide support for the intensification of innovation in the energy sector, and competitions announced under the Programme shall also influence the directions of activities undertaken by TAURON Capital Group. At present, the evaluation of the application submitted is in progress.

The Company also conducted active measures in the scope of building the cooperation mechanisms between industry and science. In 2014, TAURON and 22 institutions, including: 18 universities, 2 institutes and 2 enterprises signed the consortium agreement establishing the Motorway of Technology and Innovation Institute, which provides a new platform for cooperation between industry and Polish universities.

In 2014, companies of TAURON Capital Group continued the activities carried out under the Knowledge, and Innovation Community KIC InnoEnergy, in particular, within the of the Polish node CC Poland Plus (one of six in the EU). TAURON has the status of Associated Partner in the structures of KIC InnoEnergy. The main area of interest of the Company covers the so-called clean coal technologies. At the same time, conducting research and coordination of activities in this area are the main activities of the company CC Poland Plus sp. z o.o. (CC Poland Plus) in which the Company is one of the shareholders. In 2014 representatives of the Company were involved in the activities of KIC InnoEnergy, associated with the evaluation of projects/initiatives proposed for implementation by other partners acting within KIC InnoEnergy structures.

Under the task comprising the development of technologies for high-performing “zero-emission” coal units integrated with CO₂ capturing from flue gas, research activities were continued with the use of the mobile pilot installation for CO₂ capturing, constructed in the previous year. In 2014 the installation was transported and installed at the unit with the fluidised bed boiler at Jaworzno III Power Plant (Power Plant II). The scientific partner of the project – Instytut Chemicznej Przeróbki Węgla (Institute of Chemical Coal Processing) conducted a series of tests at the installation, after which the installation was transported to Łaziska Power Plant. The follow-up projects are also planned, allowing for effective use of the research infrastructure held in the form of mobile pilot installation. A similar size installation, however, using a different technology for CO₂ separation – physical adsorption, under the second task, was used for the studies on CO₂ capturing in Łagisza Power Plant, where it cooperates with the biggest and most modern power unit of TAURON Capital Group – the 460 MW capacity unit.

In the reporting year, activities initiated in 2012 were also continued in the Company, resulting from the signed Consortium Agreement – HTRPL High Temperature Nuclear Reactor in Poland. The participation of the Company is associated with the implementation of the stage called, the *Analysis of the experience of the energy operator in application of cogeneration systems from the perspective of potential implementation of the technology of high temperature reactors*, under the research project on *Technologies supporting the development of safe nuclear power industry*, within the scope of Research Task no. 1 entitled: *Development of high temperature reactors for industrial application*. The leader of the Consortium is the AGH University of Science and Technology (Akademia Górniczo-Hutnicza) in Kraków.

On the other hand, in companies of the Sales Area, implementation of the pilot project in the scope of demand side management was completed in 2014. The project was related to the studies on the possible reduction of electric energy demand for the selected group of consumers on the territory of the Silesian province. Activities have also been undertaken under the “Smart Home” project, aimed at preparation of the undertaking and acquisition of co-financing for its implementation from KIC InnoEnergy. This project comprises the creation of a system of integrated devices allowing for effective remote management of electric equipment and controlling of security at home.

In order to improve the coordination of the research and development activities in TAURON Capital Group, in 2014 the Research and Development Office commenced its activities, established in 2013 within the structures of the Department of Regulation and External Funds of the Company. The office, among others, coordinates the activities in the scope of research and development in TAURON Capital Group and conducts cooperation with universities and research and development centres in the country and abroad.

In accordance with the assumptions, the establishment of the new organisational unit will be reflected in better adjustment of the research and development programmes conducted to the challenges faced by TAURON Capital Group, reduction of own R&D expenditure incurred, due to the effective use of the external funds, simultaneously benefiting from the support of the best specialists employed at universities and in research institutes as well as industrial partners from Poland and abroad.

At present, the activities aimed at development and implementation of the *Research and development policy in TAURON Group* are ongoing, which shall define the target model of research and development activity functioning in TAURON Capital Group, in particular, in the scope of:

- 1) indicating future competitive advantages of TAURON Capital Group, associated with the research and development activity,
- 2) indicating priority areas and development directions of the research and development activity, compliant with the current and predicted development trends in Europe and worldwide,
- 3) optimum use of the potential of both companies of TAURON Capital Group and the former economic and scientific partners,
- 4) optimum use of the support for research and development activity available under the public funds.

7.3. Issues concerning natural environment

The most important actions in the area of environmental protection

The most important actions in the area of environmental protection conducted in TAURON Capital Group in 2014 included:

- 1) construction of the installation for flue gas de-nitrification at 200 MW class units in Łaziska Power Plant and Jaworzno III Power Plant, which shall contribute to NO_x emission reduction in the units to the level of 200mg/Nm³; in 2014 installations at unit no. 9 in Łaziska Power Plant and unit no. 3 in Jaworzno III Power Plant were constructed,
- 2) commencement of construction of the power unit with 910 MW capacity in Jaworzno III Power Plant, whose commissioning shall significantly affect the reduction of ambient air emission of NO_x, SO₂, CO₂ and particulate matter,
- 3) continuation of implementation of environmental programmes: *Emergency oil spill – oil sumps, Equipping existing oil separators with additional safeguards and alarm signals. Change in the organisation of rainwater or melt water discharge and obtaining of the relevant permits* in TAURON Dystrybucja,
- 4) conducting the activities comprising the treatment (recovery) of mining waste in the filling installation and for production of aggregates and mixtures of aggregates.
- 5) modernisation of hydroelectric plants, aimed, among others, at mitigation of the hazard of environmental contamination with oils.

Companies of TAURON Capital Group conduct the responsible environmental protection policy and apply due diligence to ensure that the implemented investments are compliant with the requirements and consider the technological developments in the area of environmental protection.

Fees for economic use of the natural environment

In 2014 companies of TAURON Capital Group incurred costs of fees due to economic use of the environment at the total amount of approximately PLN 46,562.5 thousand.

The table below presents the level of fees for economic use of the environment due in 2014 in individual companies.

Table no. 54. The level of fees for economic use of the environment due in 2014

No.	Company name	Fees for economic use of the environment due for 2014 (in PLN thousand)
1.	TAURON Wytwarzanie	29,765.0
2.	TAURON Wydobycie	8,601.7
3.	TAURON Ciepło	8,000.9
4.	TAURON Dystrybucja	125.0
5.	KW Czatkowice	57.4
6.	TAURON Dystrybucja Serwis	9.2
7.	TAURON Obsługa Klienta	1.5
8.	TAURON EKOENERGIA	0.9
9.	TAURON Sprzedaż	0.9
Total		46,562.5

Criminal sanctions for infringement of the requirements in the area of environmental protection

On 28 July 2014 TAURON Ciepło received the decision of the Mayor of the City of Bielsko-Biała of 14 July 2014, imposing the fine in the amount of PLN 1,757,076.40 due to excessive logging of tree crowns on the premises of ZEC Bielsko-Biała EC1. The execution of the decision was postponed for a period of three years. The fine shall be waived for trees that will maintain their viability.

7.4. Policy on Corporate Social Responsibility (CSR)

In 2011, in acknowledgement that communication of CSR actions is particularly important in case of companies listed at stock exchange, within Corporate Strategy, the need to develop and implement the CSR strategy (within integration of PR function), at the level of the Company and "TAURON Group". Accordingly, in 2012 the *Strategy of Corporate Social Responsibility, i.e. the Strategy of Sustainable Development of TAURON Group for 2012-2015, with estimates up to the year 2020* was developed.

The strategic objectives defined by the Corporate Strategy and the strategies of Business Areas, provided basis for provisions of this document. The Strategy of sustainable development indicates two leading directions: ensuring the energy safety and client, as well as three supporting directions: involvement of employees in organisation development, environmental protection in the value chain and management of economic and social impacts. All key companies of TAURON Capital Group have been engaged in implementation of the strategy of sustainable development, appointing coordinators within their structures, to be responsible for supervising the implementation of the strategy and reporting of results to the corporate centre. On the other hand, in TAURON the coordinator for sustainable development was appointed, responsible, among others, for preparation of CSR reports.

The strategy of sustainable development is directly related to all areas of activities of TAURON Capital Group, consolidating both the approach to CSR and the methodology of assessment of actions undertaken based on the indicators of the Global Reporting Initiative. In 2014 the second report on sustainable development was published, presenting the measures undertaken by TAURON Capital Group in the area of Corporate Social Responsibility in 2013 as well as data summing up the implementation of the goals planned in the sustainable development strategy up to 2015. The report has been prepared in accordance with the latest reporting standards – GRI G.4, which was confirmed by the certificate – GRI Materiality Matters' Check. The report was subject to the external verification by an independent auditor. The Company was also audited in connection with joining the RESPECT Index – the index comprising companies listed at the stock exchange, operating in accordance with the rules of sustainable development. For the second time TAURON received a positive result and was included in the index.

One of the directions of the strategy of sustainable development is the management of the economic and social effects. The resulting goals are implemented, among others, through the activities of TAURON Foundation which enables even more effective implementation of CSR actions in the scope of care for safety of local communities and actions for public benefit.

In 2014 TAURON Foundation and the Company implemented, based on the employee voluntary programme, the next issue of the action *Houses of Positive Energy*, dedicated to 24-hours custody and caretaking facilities, aimed at improvement of the living conditions of children from orphanages. The action covered all the facilities within the area of operations of TAURON Capital Group. The project attracted substantial interest – over 70 establishments looking after almost 3,000 children participated in the event. In 2014 the Foundation also continued the project called *Heroes day by day*, the aim of which is to build awareness of potential donors of bone marrow and increase the number of potential donors. The volunteers of TAURON Foundation organised several information actions and days of bone marrow donor in companies of TAURON Capital Group, and during the events sponsored by TAURON, as a result of which 1975 potential bone marrow donors were registered.

TAURON Capital Group, acting in the area of southern Poland, has a leading position in energy sales and generation. These conditions cause that the scope of actions conducted for the benefit of the communities in which companies of TAURON Capital Group operate, is very broad. Many projects are supported which are important for inhabitants of the regions of Upper and Lower Silesia, Opolskie, Małopolska and Podkarpackie Regions. Among others, TAURON cooperates with the Mountain Voluntary Emergency Service (GOPR), the goal of which is to increase safety in the mountains. The Company is the strategic partner of the project, actively participating both in its summer and winter edition.

In 2014 TAURON also launched the cooperation with the SIEMACHA Association – one of the leading NGOs in the country focusing on implementation of projects in the area of education, sports and therapy, providing systemic assistance to children and teenagers. In the scope of the established cooperation, TAURON's patronage covered sports activities of the association, gaining the title of *TAURON – SIEMACHA's sports partner*. In 2014 such projects were supported as *Football Children's Day with TAURON*, *Juliada 2014* or *I swim with TAURON*.

Activities of companies of TAURON Capital Group are also worth mentioning. In 2014 the campaign called *TAURON Fuses* was continued. The part of the action implemented by TAURON Sprzedaż focused on raising awareness of clients on the energy market, in particular, in order to protect against practices of unfair sellers. On the other hand, a part of the project related to education of children and teenagers was conducted by TAURON Dystrybucja, teaching the rules of safe electric energy use. A new stage of the *TAURON Fuses* campaign was also launched, *Switch on at work* addressed mainly to employees of construction companies who have contact with electric energy and electricity supplied equipment in their work.

The Company is also the signatory of the declaration signed on 17 June 2009 during the national conference under the cycle *Responsible Energy*, comprising the principles of sustainable development in energy sector in Poland. In 2013 the Company joined a group of signatories of the *Business declaration for the sustainable development*, consequently undertaking to get involved in the implementation of strategic goals of the *Vision of sustainable development for the Polish business 2050*.

7.5. Awards and distinctions

In 2014 TAURON and companies of TAURON Capital Group received the following awards and distinctions.

Figure no. 70. Awards and distinctions

AWARDS AND DISTINCTIONS GRANTED TO TAURON and COMPANIES OF TAURON CAPITAL GROUP IN 2014	
FEBRUARY	<p>Granting the distinction to TAURON in the 10th issue of the ranking <i>The most interesting of the best</i>. The Editor's Office of the Economic Monthly, New Industry and the wnp.pl portal granted the distinction illustrating the most important tendencies in implementation of IT projects for enterprises, indicating projects worth particular business and public attention.</p>
APRIL	<p>Gaining the <i>Forbes Diamonds</i> award by TAURON in the annual ranking distinguishing activities of the best companies. The website of the Company was also awarded, recognised as the best website in the Province of Silesia, winning the e-Diamonds Forbes & Biznes.pl 2014. ranking. The Company TAURON Dystrybucja, during the Forbes Diamonds gala 2014 received the first award in the category of enterprises of revenue exceeding 250 million PLN in Małopolska Region. Within the same classification, TAURON Sprzedaż received a distinction.</p> <p>Taking 7th position by TAURON in the 16th issue of the List of top 500 published by <i>Rzeczpospolita</i>, like a year ago. The same place was gained in the ranking of the best companies that improved their net result, accompanying the List of 500. TAURON Capital Group was also recognised as the 5th biggest investor and 9th biggest employer in Poland.</p>
MAY	<p>Taking the 6th position by TAURON Capital Group in the List of 500 by <i>Polityka</i>, simultaneously maintaining its position gained last year, and among the most profitable enterprises it was promoted by one position – to the fifth place.</p> <p>TAURON Capital Group was ranked 13th in the ranking of twenty leaders organised for the 20th Anniversary of the List of 500.</p> <p>Taking the 2nd place by TAURON among the top companies of the Silesian Province in the ranking of <i>Pillars of Polish Economy</i>, published by "Puls Biznesu". The Jury has taken into account the scale of activities of the enterprises and their importance for the local community.</p>
JUNE	<p>TAURON gaining the distinction in the plebiscite: <i>Hero of the Capital Market 2014</i>, organised by the Association of Individual Investors – the biggest and the most important organisation associating persons investing in the capital.</p>
SEPTEMBER	<p>Taking the 24th place by TAURON Capital Group in the list of top 500 comprising the biggest companies from Central and Eastern Europe, developed by "Rzeczpospolita" daily and Deloitte. TAURON was also included among TOP 25 among the biggest companies listed on the stock exchange.</p>
OCTOBER	<p>Receiving of the main award by TAURON in the category of enterprises for the annual report for 2013 and the distinction for the annual report on Internet, granted by the jury of the competition <i>The Best Annual Report</i>, organised by the Institute of Accounting and Taxes.</p> <p>Distinguishing TAURON with the title <i>New Impulse 2014</i> for the commencement of the implementation of 910 MW coal-fired unit construction at Jaworzno III Power Plant.</p>
DECEMBER	<p>The report on sustainable development of TAURON Capital Group received the award of Internet Users in the 8th edition of the competition on <i>Social Reports</i>, organised by the Forum of Responsible Business. The report contains the review of practices and projects addressed, among others to clients and local communities, implemented both by companies of TAURON Capital Group and the TAURON Foundation.</p>

7.6. Investor relations

Since the beginning of its stock exchange listing, the motto of the Company has been the effective and transparent information policy. Therefore, TAURON Capital Group pays special attention to communication with the investor environment. It is conducted not only at the level obligatory activities required by law (current and periodical reports) but also through many additional activities addressed directly to institutional and individual investors. The Company

participates in many investor conferences, road shows in Poland and abroad, where the participants of the capital market may get acquainted with the situation of TAURON Capital Group and the condition of the energy sector and its perspectives.

Each publication of periodical reports in 2014 was combined with organisation of conferences for analysts and managers, during which members of the Company Management Board discussed financial results published in the reports and presented key achievements in the reported periods, followed by question and answer sessions. The conferences were broadcast on Internet in Polish and in English and it was possible to listen to them by phone. Owing to these activities, investors interested in the Company had a possibility to follow these events directly and acquire information at the same time as the participants of the conferences.

In 2014 the Members of the Management Board participated in fifteen conferences and road shows during which about 100 meetings were held with managers and analysts. Meetings with corporate investors were held not only in Poland but also in the financial centres of Europe and North America, among others, in New York, London, Paris and Vienna.

On 22 October 2014, the Company organised the second issue of the Individual Investor's Day. Several dozen of individual investors interested in TAURON Capital Group had the opportunity to meet the Management Board and the management staff, and visit Jaworzno III Power Plant – a new biomass burning unit of 50 MW capacity and the pilot CCS installation designed for capturing, transport and storage of CO₂. During this event presentations were also held concerning the updated Corporate Strategy and financial results gained in the 1st half of 2014.

In 2014 the Company continued its activities oriented towards practical aspects of communication with individual investors. For many years TAURON has been the strategic partner of the programme initiated by the Ministry of Treasury, under the name "Civic Shareholding". The objective of the Programme is to encourage the Poles to active and aware participation in economic life of the country, through active saving and investing in shares of privatised companies and stock exchange instruments. Under the "Civic Shareholding" programme representatives of the Company conducted training in the scope of investor relations for other listed companies and actively participated in the preparation of the scenario and promotion of the educational video "Everything you would like to know about the exchange".

Activities have also focused on technical aspects of communication with investors. In 2014 the Company launched the application for mobile devices dedicated for investors and organised two chats with individual investors. Activity in the scope of contacts with individual investors resulted in joining the programme of Individual Investors' Association "10 of 10 – company friendly to investors" and receiving of the distinction *Hero of the Capital Market* in June 2014.

The Company also participated in other events addressed to small investors, among others, it was a partner of sports competitions of the capital market, *Capital Market Games* and supported the conference for individual investors *WallStreet* in Karpacz.

TAURON cares for the content and validity of the information placed on the website related to investor relations which is the first contact with TAURON Capital Group for many investors. The Investor Relation section is updated on an on-going basis and contains a lot of useful information about important events, financial results, general meetings and video broadcasts of conferences summarising the financial results.

The high quality of investor relations conducted is confirmed by numerous awards and distinctions, granted to the Company in three last issues of the competition on *The Best Annual Report* organised by the Institute of Accounting and Taxes. In the last year's issue of the competition, TAURON received the first main award in the category of enterprises, for the report for 2013, and the distinction for the interactive annual report on Internet. Furthermore, Krzysztof Zawadzki – Vice President of the Board of Economics and Finance of TAURON, took the first place in the ranking of Thomson Reuters Extel 2014 for the best CFO (Chief Financial Officer) in investor communication among Polish listed companies.

The following table presents the timeline of events and activities carried out within investor relations which took place in 2014.

Table no. 55. Timeline of events and activities carried out within investor relations in 2014

No.	Date	Event
1.	07 January 2014	Extraordinary General Meeting of TAURON
2.	30 January 2014	Participation in DM mBank conference in Warsaw
3.	18 March 2014	Publication of the separate and consolidated annual report for 2013
4.	18 March 2014	Meeting of the Management Board with analysts managing funds associated with the publication of the financial results for 2013

No.	Date	Event
5.	26 March 2014	Participation in the CEE Energy Day, WOOD & Company conference, Warsaw
6.	3–4 April 2014	Participation in the Polish Capital Market Conference, DM PKO BP and GPW, London
7.	07 April 2014	Participation in the Energy & Mining Conference, UniCredit, Warsaw
8.	15 April 2014	Publication of recommendations of the Management Board concerning the profit distribution for 2013 and defining of the amount allocated for the payment of the dividend
9.	14 May 2014	Publication of the extended consolidated report for the 1st quarter of 2014
10.	14 May 2014	Meeting of the Management Board with analysts managing funds, associated with the publication of the financial results for the 1st quarter of 2014
11.	16 May 2014	Ordinary General Meeting of TAURON
12.	10 June 2014	Participation in the Utilities & Renewables Conference, Bank of America Merrill Lynch, London
13.	11–12 June 2014	Roadshow connected with the issue of bonds in cooperation with JP Morgan
14.	14 August 2014	Day of determining the right of dividend
15.	21 August 2014	Publication of the consolidated report for the 1st half of 2014
16.	21 August 2014	Meeting of the Management Board with analysts managing funds, connected with the publication of the financial results for the 1st half of 2014
17.	22 August 2014	Chat with individual investors
18.	4 September 2014	Meeting of the Management Board with analysts managing funds, associated with the publication of the financial results for the 1st half of 2014, DM PKO BP, Warsaw
19.	04 September 2014	Date of dividend payment
20.	15–16 September 2014	Participation in the Annual Emerging Europe Investment Conference, UniCredit, Warsaw
21.	30 September 2014	Participation in the EuroLatam Infrastructure & Utilities Conference, Santander, New York
22.	2–6 October 2014	Roadshow in cooperation with Goldman Sachs, Boston, Des Moines, San Antonio, Austin
23.	8–9 October 2014	Participation in the Erste Group Investor Conference, Stegersbach
24.	13–15 October 2014	Roadshow associated with the issue of bonds in cooperation with ING
25.	22 October 2014	Day of Individual Investor in TAURON
26.	13 November 2014	Publication of the consolidated report for the Q3 2014
27.	13 November 2014	Meeting of the Management Board with analysts managing funds, associated with the publication of the financial results for Q3 2014
28.	13 November 2014	Chat with individual investors
29.	20 November 2014	Participation in the Utilities, Mining & Industrials Conference, ING, Warsaw
30.	17–21 November 2014	Participation in the investor conference within the Polish-American Innovation Week, GPW/HSBC, Los Angeles, San Diego and San Francisco
31.	4 December 2014	Participation in the WOOD's Winter in Prague Conference, WOOD & Company, Prague

Management Board of the Company

Katowice, 10 March 2015

Dariusz Lubera – President of the Board

Aleksander Grad – Vice President of the Board

Katarzyna Rozenfeld – Vice President of the Board

Stanisław Tokarski – Vice President of the Board

Krzysztof Zawadzki – Vice President of the Board

APPENDIX A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

Below the glossary of trade terms and list of abbreviations most commonly used in this report, is presented.

Table no. 56. Explanation of abbreviations and trade terms applied in the text of the report

No.	Abbreviation and trade term	Full name/explanation
1.	Abener Energia	Abener Energia S.A. with the seat in Stalowa Wola
2.	ArcelorMittal	ArcelorMittal Poland S.A. with its seat in Dąbrowa Górnicza
3.	ARE	Agency of Energy Market (Agencja Rynku Energii S.A.) with the seat in Warsaw
4.	AUTOZET	"AUTOZET" sp. z o.o. with its seat in Tarnów
5.	Bank Pekao	Bank Pekao S.A. with the seat in Warsaw
6.	BELS INVESTMENT	BELS INVESTMENT sp. z o.o. with its seat in Jelenia Góra
7.	BGK	Bank Gospodarstwa Krajowego with the seat in Warsaw
8.	BH Warszawa	Bank Handlowy w Warszawie S.A. with the seat in Warsaw
9.	Biomasa GT	Biomasa Grupa TAURON sp. z o.o. with its seat in Stalowa Wola (formerly: "BUDO-TRANS" limited liability company)
10.	BNP Paribas BP	BNP Paribas Bank Polska S.A. with the seat in Warsaw
11.	BRE Bank	BRE Bank S.A. with the seat in Warsaw
12.	BUDO-TRANS	"BUDO-TRANS" sp. z o.o. with the seat in Stalowa Wola (currently: Biomasa Grupa TAURON sp. z o.o.)
13.	BZ WBK	Bank Zachodni WBK S.A. with the seat in Wrocław
14.	CAO	Central Allocation Office GmbH with the seat in Freising, Germany
15.	Cash pooling	Cash pooling operating in the Company – consolidation of balances of bank accounts through physical cross-posting of cash from accounts of TAURON Capital Group in the bank in which cash pooling operates to the bank account of Pool Leader whose function is fulfilled by the Company. At the end of each working day, from cash is cross-posted from the bank accounts of companies of TAURON Capital Group which show positive balance to the bank account of Pool Leader. At the beginning of each working day, bank accounts of companies of TAURON Capital Group are credited from the bank account of the Pool Leader with the amount demanded to maintain cash flow of the company of TAURON Capital Group on a given working day.
16.	CC Poland Plus	CC Poland Plus sp. z o.o. with the seat in Kraków
17.	CCS	(Carbon Capture and Storage) CO ₂ sequestration – the process based on separation and capturing of carbon dioxide from flue gases in order to reduce its emission to ambient air
18.	Colour certificates	Property rights resulting from certificates of origin of energy generated in the way subject to support, the so-called colour certificates: <ol style="list-style-type: none"> 1) green – certificates of origin of electric energy from renewable energy sources, 2) violet – certificates of origin of electric energy generated in cogeneration, burning methane released and captured during underground mining works in active, under liquidation or liquidated hard coal mines, or burning gas acquired from biomass processing, 3) red – certificates of origin of electric energy from cogeneration (CHP certificates – Combined Heat and Power), 4) yellow – certificates of origin of electric energy generated in cogeneration from sources of total installed capacity below 1 MW or gas-burning,
19.	CIRS	(Currency Interest Rate Swap) – transaction of interest rate exchange
20.	CSR	(Corporate Social Responsibility) – social responsibility of business
21.	CUW	Centre of Common Services, CUW IT – IT services, CUW R – services in the area of accounting
22.	Deloitte Polska	Deloitte Polska Sp. z o. o. Spółka Komandytowa with its seat in Warsaw
23.	DM	Brokerage House

No.	Abbreviation and trade term	Full name/explanation
24.	Good Practices	Good Practices of Companies Listed at GPW
25.	EIB	The European Investment Bank with the seat in Luxemburg
26.	EBIT	(Interest Rate Swap) result on operating activity before taxing
27.	EBITDA	(Earnings before Interest, Taxes, Depreciation and Amortization) result on operating activity before taxing, increased by amortization and depreciation
28.	e-BOK	Electronic Customer Service Office
29.	EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. with the seat in Stalowa Wola
30.	EDF	EDF Polska Centrala sp. z o.o. with the seat in Warsaw
31.	EEX	(European Energy Exchange) European Energy Exchange with the seat in Leipzig
32.	EKOPEC	EKOPEC sp. z o.o. with the seat in Będzin
33.	EL-AUTO	Zakład Obsługi Zaplecza Transportu Energetyki "EL-AUTO" sp. z o.o. with its seat in Częstochowa
34.	Elektrownia Blachownia Nowa	Elektrownia Blachownia Nowa sp. z o.o. with its seat in Kędzierzyn Koźle.
35.	ELVITA	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA-Jaworzno III sp. z o.o. with its seat in Jaworzno
36.	ENEA	ENEA S.A. with the seat in Poznań
37.	ENERGA	ENERGA S.A. with the seat in Gdańsk
38.	Enpower	Enpower sp. z o.o. with the seat in Katowice,
39.	Enpower service	Enpower Service sp. z o.o. with the seat in Katowice
40.	ERM	Complex System of Enterprise Risk Management
41.	EU ETS	(European Union Emission Trading System) the European system of CO ₂ emission allowances trading
42.	EUA	(European Union Allowances) – allowance to introduce the equivalent to the air, within the meaning of art. 2 item 4 of the Act of 17 July 2009 on the management system of emissions of greenhouse gases and other substances, carbon dioxide (CO ₂), which is used for settlements of emission size within the system, which can be managed based on principles stipulated in the Act of 28 April 2011 on the system of greenhouse gases emission allowances trading (Journal of Laws No. 122, item 695).
43.	EUR	Euro – a common European currency introduced in some EU Member States
44.	FITCH	FITCH rating agency
45.	GAZ-SYSTEM	Operator of Transmission Gas Pipelines GAZ-SYSTEM S.A. with its seat in Warsaw
46.	GDF Suez	GDF SUEZ Energia Polska S.A. with its seat in Połaniec
47.	GPW	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) with the seat in Warsaw
48.	GRI	Global Reporting Initiative
49.	TAURON Capital Group	TAURON Polska Energia S.A. Capital Group
50.	"TAURON Group"	TAURON Group established by the Management of the Company pursuant to the Code of TAURON Group, comprising the Company and selected companies of TAURON Capital Group.
51.	GUS	Central Statistical Office (Główny Urząd Statystyczny)
52.	GWh	gigawatt hour
53.	GZE	Górnośląski Zakład Elektroenergetyczny S.A. with the seat in Gliwice
54.	ING Bank	ING Bank Śląski S.A. with the seat in Katowice

No.	Abbreviation and trade term	Full name/explanation
55.	IRGIT	Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Exchange Clearing House) with the seat in Warsaw
56.	IRIESP	Instructions of transmission grid operation and maintenance
57.	IRS	(Interest Rate Swap) contract on exchange of interest rate payments, one of the basic derivatives subject to trade at the interbank market
58.	LTC	Long-term contracts – long-term contracts on sales of power and electric energy, listed in the Appendix no. 1 to the Act of 29 June 2007 on principles of covering of the costs incurred by producers due to the premature termination of long-term contracts for sales of power and electric energy (Journal of Laws No 130, item 905, as amended).
59.	EC	European Commission
60.	KGHM	KGHM Polska Miedź S.A. with the seat in Lubin
61.	KIC InnoEnergy	Community of Knowledge and Innovation – KIC InnoEnergy, with its seat in Kraków
62.	Code of TAURON Group	The document entitled Code of TAURON Group, adopted by the Management Board of the Company
63.	Audit Committee	Audit Committee of the Supervisory Board of TAURON Polska Energia S.A.
64.	Nominations and Remuneration Committee	Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A.
65.	Strategy Committee	Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A.
66.	Kompania Węglowa	Kompania Węglowa S.A. with the seat in Katowice
67.	Ksh	Code of Commercial Companies
68.	KSE	National Power System
69.	kv	kilovolt – 1,000 volts
70.	KW Czatkowice	Kopalnia Wapienia Czatkowice sp. z o.o. with the seat in Krzeszowice
71.	KWK Brzeszcze	“Brzeszcze” Coal Mine with its seat in Brzeszcze
72.	Marselwind	Marselwind sp. z o.o. with the seat in Katowice
73.	MEGAWAT MARSZEWO	MEGAWAT MARSZEWO sp. z o.o. with the seat in Jelenia Góra
74.	IMF	International Monetary Fund with its seat in Washington
75.	Mg	Megagram – million gram (1,000,000 g) i.e. 1 t
76.	MOSTOSTAL	Mostostal Warszawa S.A. with the seat in Warsaw
77.	MSR	(Market Stability Reserve) stabilisation reserve on the market of allowances
78.	IFRS	International Financial Reporting Standards
79.	MW	Megawatt
80.	MWe.	Megawatt of electric capacity
81.	MWt	Megawatt of heating capacity
82.	MWh	Megawatt hour
83.	NCBiR	National Centre for Research and Development
84.	Business Area	Area of operations of subsidiaries included in TAURON Group, determined by the Company, constituting the business segment of TAURON Group
85.	Governance Area	Governance Area indicated in the List of Governance Areas, i.e. the document issued by the Management Board of the Company, pursuant to the Code, established based on Corporate Strategy and included in the business model of TAURON Group
86.	OPR	Operating Power Reserve
87.	DSO	Distribution System Operator
88.	TSO	Transmission System Operator

No.	Abbreviation and trade term	Full name/explanation
89.	OTC	(Over The Counter Market) – the European market operating outside the regulated exchange market
90.	RES	Renewable Energy Sources
91.	PEPKH in liquidation	Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. with the seat in Tarnów, in liquidation
92.	PGE	PGE Polska Grupa Energetyczna S.A. with the seat in Warsaw
93.	PGE EJ1	PGE EJ1 sp. z o.o. with the seat in Warsaw
94.	PGK	Tax Capital Group
95.	PGNiG	Polskie Górnictwo Naftowe i Gazownictwo S.A. with the seat in Warsaw
96.	PGNiG Termika	PGNiG Termika S.A. with the seat in Warsaw
97.	PIR	Polskie Inwestycje Rozwojowe S.A. with its seat in Warsaw
98.	GDP	Gross Domestic Product
99.	PKO BP	Powszechna Kasa Oszczędności Bank Polski S.A.
100.	PLN	The symbol of Polish currency – Polish Zloty
101.	PMEC	Property rights for certificates of origin confirming generation of electricity in other co-generation sources
102.	PMGM	Property rights for certificates of origin confirming generation of electricity in co-generation, from gas-fired sources or sources with the total installed capacity below 1 MW
103.	PMMET	Property rights for certificates of origin confirming generation of electricity in co-generation, burning methane released and captured during underground mining works in active, under liquidation or liquidated hard coal mines, or burning gas acquired from biomass processing.
104.	PMOZE	Property rights for certificates of origin confirming generation of electricity in RES in the period before 1 March 2009
105.	PMOZE_A	Property rights for certificates of origin confirming generation of electricity in RES in the period after 1 March 2009
106.	PSE	Polskie Sieci Elektroenergetyczne S.A. with the seat in Konstancin-Jeziorna
107.	RAFAKO	RAFAKO S.A. with the seat in Racibórz
108.	RB	Balancing Market
109.	RDN/RDNg	Day Ahead Market
110.	Organisational Regulations/ Bylaws	Document entitled Organisational Regulations of TAURON Polska Energia S.A.
111.	RESPECT Index	Exchange index where companies operating in accordance with the sustainable development rules are listed
112.	ROIC	Return On Invested Capital
113.	RTT/RTTg	Commodity Forward Market
114.	SPOT Market	In relation to electric energy, it is the place of concluding of trade transactions for electric energy, for which the period of delivery falls at the latest, three days after the date of transaction (usually one day before the date of delivery). Functioning of SPOT market for electric energy is strongly linked with RB operating provided by the TSO
115.	Company	TAURON Polska Energia S.A. with its seat in Katowice
116.	Corporate Strategy	The document entitled Corporate Strategy of TAURON Group for 2014–2017 with estimates until the year 2023, being the update of the document Corporate Strategy of TAURON Group for 2011–2015 with estimates until the year 2020.
117.	TAMEH Czech	TAURON Czech s.r.o. with its seat in Ostrava, Czech Republic
118.	TAMEH HOLDING	TAMEH HOLDING sp. z o.o. with its seat in Dąbrowa Górnicza

No.	Abbreviation and trade term	Full name/explanation
119.	TAMEH POLSKA	TAMEH POLSKA sp. z o.o. with its seat in Dąbrowa Górnicza
120.	TAURON	TAURON Polska Energia S.A. with its seat in Katowice
121.	TAURON Ciepło	TAURON Ubezpieczenia sp. z o.o. with the seat in Katowice (formerly: Enpower service sp. z o.o.)
122.	TAURON Ciepło S.A.	TAURON Ciepło S.A. with its seat in Katowice (a company acquired by Enpower service sp. z o.o. which changed the enterprise name to "TAURON Ciepło sp. z o.o." on 30 April 2014)
123.	TAURON Czech Energy	TAURON Czech Energy s.r.o. with its seat in Ostrava, Czech Republic
124.	TAURON Dystrybucja	TAURON Dystrybucja S.A. with its seat in Kraków
125.	TAURON Dystrybucja Pomiary	TAURON Dystrybucja Pomiary sp. z o.o. with the seat in Tarnów
126.	TAURON Dystrybucja Serwis	TAURON Dystrybucja Serwis S.A. with the seat in Wrocław
127.	TAURON EKOENERGIA	TAURON EKOENERGIA sp. z o.o. with its seat in Jelenia Góra
128.	TAURON Ekoserwis	TAURON Ekoserwis sp. z o.o. with the seat in Rożnów
129.	TAURON Obsługa Klienta	TAURON Obsługa Klienta sp. z o.o. with the seat in Wrocław
130.	TAURON Sprzedaż	TAURON Sprzedaż sp. z o.o. with its seat in Kraków
131.	TAURON Sprzedaż GZE	TAURON Sprzedaż GZE sp. z o.o. with the seat in Gliwice
132.	TAURON Sweden Energy	TAURON Sweden Energy AB (publ) with its seat in Stockholm, Sweden
133.	TAURON Ubezpieczenia	TAURON Ubezpieczenia sp. z o.o. with the seat in Katowice
134.	TAURON Wydobycie	TAURON Wydobycie S.A. with the seat in Jaworzno (formerly: Południowy Koncern Węglowy S.A.)
135.	TAURON Wytwarzanie	TAURON Wytwarzanie S.A. with the seat in Katowice
136.	TAURON Wytwarzanie GZE	TAURON Wytwarzanie GZE sp. z o.o. with the seat in Gliwice
137.	TAURON Wytwarzanie Serwis	TAURON Wytwarzanie Serwis sp. with the seat in Jaworzno
138.	TGE	Towarowa Giełda Energii S.A. (Polish Power Exchange) with the seat in Warsaw
139.	TWh	Terrawatt hour
140.	EU	the European Union
141.	UOKiK	Office for Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów)
142.	USD	(United States Dollar) international abbreviation of American dollar
143.	ERO	Energy Regulatory Office
144.	WFOŚiGW Katowice	Regional Fund of Environmental Protection and Water Management in Katowice
145.	WFOŚiGW Kraków	Regional Fund of Environmental Protection and Water Management in Kraków
146.	GM/SM	General Meeting/Shareholders' Meeting
147.	ZEC Bielsko-Biała	Zespół Elektrociepłowni Bielsko-Biała S.A. with its seat in Bielsko-Biała
148.	ZE PAK	Complex of power plants Pątnów - Adamów - Konin S.A. with its seat in Konin
149.	ZG Janina	Janina Mining Plant
150.	ZW Katowice	Zakład Wytwarzania Katowice in Katowice
151.	ZW Nowa	Zakład Wytwarzania Nowa in Dąbrowa Górnicza (formerly: Elektrociepłownia EC Nowa sp. z o.o.)
152.	ZW Tychy	Zakład Wytwarzania Tychy in Tychy (formerly: Elektrociepłownia Tychy S.A.)

APPENDIX B: LIST OF TABLES AND FIGURES

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