TAURON POLSKA ENERGIA S.A.

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

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(in PLN '000)

STATEMENT OF COMPREHENSIVE INCOME

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

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

(in PLN '000)

STATEMENT OF FINANCIAL POSITION

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

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

(in PLN '000)

STATEMENT OF FINANCIAL POSITION – continued

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

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

(in PLN '000)

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2014

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

YEAR ENDED 31 DECEMBER 2013

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

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

(in PLN '000)

STATEMENT OF CASH FLOWS

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

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

INTRODUCTION

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

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

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

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

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

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

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

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

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

The consolidated financial statements for the year ended 31 December 2014 prepared by the Company were approved for publication on 10 March 2015.

Composition of the Management Board

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

Dariusz Lubera – President of the Management Board;

Aleksander Grad – Vice-President of the Management Board;

Katarzyna Rozenfeld – Vice-President of the Management Board;

Stanisław Tokarski – Vice-President of the Management Board;

Krzysztof Zawadzki – Vice-President of the Management Board.

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

Changes in the composition of the Management Board in the year ended 31 December 2014 have been presented in the Management Board's report on the activities of TAURON Polska Energia S.A. for the year ended 31 December 2014 (point 6.11.1.).

2. Shares in related parties

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

(in PLN '000)

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

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

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

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

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

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

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

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

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

STATEMENT OF COMPLIANCE WITH IFRS

3. Statement of compliance

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

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

4. Going concern

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

5. Functional and presentation currency

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

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (POLICIES) APPLIED

6. Material values based on professional judgment and estimates

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

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

Impairment of assets

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

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

The level of the weighted average cost of capital (WACC) during the projection period, as used in the calculations, ranges from 7.94% to 10.03% in nominal terms before tax. WACC is calculated taking into account the risk-free rate determined by reference to the yield on 10-year treasury bonds (4.3%) and the risk premium for operations appropriate for the power industry (5.5%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at the level of 2.5% and it corresponds to the estimated long-term inflation rate.

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

- The adopted price path of power coal, other coal sizes and gaseous fuels;
- The adopted electricity wholesale price path, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring CO_2 emission allowances;
- Emission limits for generating electricity published by the Ministry of Economy, adjusted by capital expenditure incurred and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted by the level of operations, i.e. generation of heat;
- Green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates;
- Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return on capital is conditional on the Regulatory Asset Value;
- The adopted electricity retail price path based on the wholesale price of black energy, taking into account the costs of excise duty, the obligation to cancel energy certificates as well as an appropriate level of margin;
- Sales volumes taking into account GDP growth and increased market competition;
- Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;
- Maintaining or growing the production capacity of the existing non-current assets as a result of replacement and development investments.

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

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

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

(in PLN '000)

Measurement of provisions for employee benefits

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

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

	Year ended 31 December 2014	Year ended 31 December 2013
Discount rate (%)	2.25%	4.00%
Estimated inflation rate (%)	2.35%	2.50%
Employee rotation rate (%)	5.83%	5.67%
Estimated salary increase rate (%)	2.35%	2.50%
Estimated electricity price increase rate (%)	4.80%	3.50%
Estimated increase rate for contribution to the Social Fund (%)	4.50%	4.50%
Remaining average employment period	10.64	10.70

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

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

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

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

Deferred tax asset

Deferred tax asset is measured using tax rates to be applied as at the moment of its probable realization, assuming tax regulations effective as at the balance sheet date.

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

Provision for the obligation to surrender energy certificates

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

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

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

Intra-group bonds

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

Write-downs of inventories

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

Depreciation and amortization rates

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

Measurement of derivatives

Fair value of currency forwards is based on discounted future cash flows from the concluded transactions based on the difference between the forward price and transaction price. The forward price is calculated based on the fixing of the National Bank of Poland and the curve implied by FX Swap transactions. As at the end of the reporting period the Company held no foreign currency forwards.

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

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

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

7. New accounting standards and interpretations

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

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

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

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

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

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

Based on preliminary analysis of IFRS 15's impact on the accounting policies applied, the new standard changes the method of accounting for contracts with customers, in particular if services and goods are provided under a single contract, which happens rarely in the Company. The new guidelines of IFRS 15 are not expected to result in the need to change the systems, but before the standard enters into force the Company intends to carry out a five-step analysis of contracts with customers including contract identification, indication of individual liabilities, determining prices, assigning them to individual liabilities and revenue recognition. The new standard requires considerably more detailed disclosure of sales and revenue in financial statements.

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

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

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

8. Changes to accounting policies

The accounting principles (policies) adopted for the preparation of the financial statements are consistent with those adopted for the preparation of the annual financial statements of TAURON Polska Energia S.A. for the year ended 31 December 2013, except for the following standards and amendments to standards applicable in the EU to annual periods beginning on or after 1 January 2014:

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

The introduction of the abovementioned standards and amendments to standards has not exerted a significant effect on the accounting principles (policy) adopted by the Company.

9. Significant accounting policies

9.1. Translation of items denominated in foreign currencies

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

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

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

(in PLN '000)

Exchange rates applied for the purpose of balance sheet measurement:

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

9.2. Property, plant and equipment

Property, plant and equipment are fixed assets:

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

Property, plant and equipment are measured at cost less depreciation charges and impairment losses. The initial value of fixed assets includes their cost increased by all expenses directly related to the purchase and bringing the asset to a usable condition. Depreciation charges are calculated at cost of the given asset less its residual value. Depreciation begins when a given asset is available for use. Depreciation of fixed assets is based on a depreciation plan determining the projected useful life of each asset. The depreciation method applied reflects the manner of the entity's consuming economic benefits generated by the asset.

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

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

Depreciation method and rate, as well as the residual value of fixed assets are verified at least at the end of each financial year. Any changes resulting from the review are recognized as estimate changes. Depreciation charges are recognized in profit or loss in an appropriate category corresponding to the function of a given asset item.

An item of property, plant and equipment may be derecognized from the statement of financial position after its disposal or when the entity does not expect any economic benefits from the further use of the asset. All gains or losses arising from derecognition of an asset from the statement of financial position (calculated as the difference between the potential net selling price and the carrying amount of an item) are recognized in profit or loss in the period of such derecognition.

Fixed assets under construction are measured at cost less impairment losses. Fixed assets under construction are not depreciated until completion of the construction and commissioning.

9.3. Investment property

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

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

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

9.4. Intangible assets

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

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

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

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

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

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

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

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

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

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

9.5. Impairment of non-financial non-current assets

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

The recoverable amount of the asset or cash-generating unit corresponds to the fair value less costs to sell the asset, or CGU, respectively, or its value in use, whichever is higher. The recoverable amount is determined for each asset except for assets not generating cash flows independent of those generated by other assets within the given asset group. When estimating the value in use, projected cash flows are discounted to the current value with the discount rate not including tax effects, which reflects current market estimates of time value of money and risk typical for the given type of assets.

If the carrying amount of an asset exceeds its recoverable amount, impairment occurs and the amount of the asset is reduced to the recoverable amount determined. Impairment losses on assets used in continuing operations are charged to the classes of expenses corresponding to the function of the given impaired asset.

9.6. Shares in subsidiaries

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

9.7. Financial assets

Categories of financial assets:

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

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

Assets qualified as FVTPL meet one of the following conditions:

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

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

Loans and receivables

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

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

Financial assets available for sale (AFS)

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

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

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

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

9.8. Impairment of financial assets

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

Financial assets measured at amortized cost

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

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

Financial assets carried at cost

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

Financial assets available for sale

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

9.9. Derivative financial instruments

The Company hedges FX risk using currency forward contracts.

The Company also concludes forward and future contracts for purchase and sale of emission allowances, power and other commodities (currently: Gasoil). Transactions concluded and held for own use are not included in the scope of IAS 39. Transactions concluded for speculation purposes comply with the definition of a financial instrument and in line with IAS 39 are measured at the end of a reporting period.

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

In order to hedge interest rate risk the Company uses interest rate swaps, which has been discussed in detail in Note 9.10.

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

9.10. Hedge accounting

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

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

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

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

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

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

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

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

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

9.11. Other non-financial assets

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

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

Prepayments are determined in the amount of incurred, reliably measured expenses pertaining to future periods, which will result in future inflow of economic benefits to the entity.

Prepayments are recognized based on the elapsed time or performances. The time and method of settlement are justified by the nature of the settled expenses, in line with the prudence principle.

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

Other non-financial assets include in particular receivables due under public law (except for income tax settlements, which are presented separately in the statement of financial position), a surplus of assets over liabilities due to the Company's Social Benefit Fund and advance payments for future purchases of property, plant and equipment, intangible assets and inventories. Advance payments are presented in line with the assets they refer to, as current or non-current assets, respectively.

9.12. Inventories

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

At initial recognition inventories are measured at cost.

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

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

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

9.13. Trade and other receivables

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

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

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

9.14. Cash and cash equivalents

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

Balance of cash and cash equivalent disclosed in the statement of cash flows includes the cash and cash equivalents as defined above. For overdrafts covered by the cash management process, in line with IAS 7, the balance of cash reduced by outstanding overdraft liabilities is recognized in the statement of cash flows. The balances of loans granted and taken out in cash pool transactions are disclosed as an adjustment to the balance of cash, as they are mainly used to manage current liquidity.

9.15. Issued capital

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

9.16. Interest-bearing loans and borrowings

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

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

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

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

9.17. Trade payables and other financial liabilities

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

Financial liabilities measured at fair value through profit or loss include held-for-trading financial liabilities. Derivatives are also classified as held for trading, unless they are classified as effective hedging instruments.

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

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

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

9.18. Provisions for employee benefits

In accordance with the Compensation Policy the employees of the Company are entitled to the following post-employment benefits:

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

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

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

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

9.19. Other provisions

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

The Company recognized the following other provisions:

- Provision for the obligation to surrender energy certificates

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

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

Provision for the obligation to surrender certificates for energy produced using renewable sources or CHP units is recognized:

– in the portion corresponding to energy certificates held at the end of the reporting period – in the value of certificates held;

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

The provision is charged to operating expenses.

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

9.20. Other non-financial liabilities

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

9.21. Company Social Benefits Fund

The Act on social benefits fund of 4 March 1994 with subsequent amendments states that employers with headcount over 20 people are obliged to establish such a fund ("Fund"). Therefore, the Company has established the fund and it makes periodical appropriations. The objective of the Fund is to co-finance social activities in the Company.

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

9.22. Lease

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

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

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

9.23. Taxes

Tax Capital Group

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

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

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

Current tax

Income tax recognized in profit or loss includes actual tax charge for the given reporting period determined by the Company in line with provisions of the CIT Act, any tax adjustments from previous years and a change in the deferred tax asset and deferred tax liability accounted for in profit or loss.

Deferred tax

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

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

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

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

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

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

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

VAT

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

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

The net VAT, recoverable or due to the tax authorities is recognized in the statement of financial position in Other non-financial assets or Other non-financial liabilities.

9.24. Business combinations

Business combinations of entities under common control are accounted for using pooling of interests method.

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

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

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

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

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

9.25. Statement of comprehensive income

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

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

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

9.26. Sales revenue

Revenue is recognized in the amount it is probable that future economic benefits relating to a transaction will flow to the Company and the amount of the revenue can be measured reliably. Revenue is recognized at the fair value of the payment, received or due, following reduction by VAT, excise duty, other sales taxes, charges and discounts. Revenue recognition criteria:

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

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

9.27. Operating expense

The Company presents costs by function.

Such costs include:

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

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

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

9.28. Other operating revenue and expense

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

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

9.29. Financial revenue and expense

Financial revenue and expense include in particular those regarding:

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

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

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

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

9.30. Earnings per share

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

9.31. Statement of cash flows

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

(in PLN '000)

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

10. Information on operating segments

10.1. Operating segments

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

"Holding Operations" segment assets include:

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

"Holding Operations" segment liabilities include:

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

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

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

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

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

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

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

(in PLN '000)

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

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

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

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

10.2. Geographic areas of operations

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

(in PLN '000)

11. Sales revenue

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

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

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

12. Expenses by type

	Year ended 31 December 2014	Year ended 31 December 2013
Costs by type		
Depreciation of property, plant and equipment and amortization of intangible assets	(19 434)	(23 232)
Materials and energy	(1 301)	(3 456)
Distribution services	(164)	(2 227)
Consultancy services	(6 169)	(9 034)
IT services	(26 160)	(24 943)
Other external services	(20 477)	(19 614)
Taxes and charges	(4 871)	(22 857)
Employee benefits expense	(71 474)	(67 317)
Impairment loss on inventories	(3 206)	(4 412)
Advertising expenses	(31 921)	(27 509)
Other	(2 472)	(2 477)
Total costs by type	**(187 649)**	**(207 078)**
Change in prepayments, accruals and deferred income	–	11 213
Selling and distribution expenses	25 286	39 498
Administrative expenses	80 365	81 998
Cost of goods for resale and materials sold	(8 444 857)	(10 448 967)
Cost of sales	**(8 526 855)**	**(10 523 336)**

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

(in PLN '000)

13. Employee benefits expenses

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

14. Dividend income

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

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

15. Other finance income

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

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

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

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

(in PLN '000)

16. Finance costs

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

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

17. Income tax

17.1. Tax expense in the statement of comprehensive income

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

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

(in PLN '000)

17.2. Reconciliation of the effective tax rate

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

17.3. Deferred income tax

Deferred income tax results from:

	As at 31 December 2014	As at 31 December 2013
Deferred tax liability		
– difference between tax base and carrying amount of fixed and intangible assets	198	2 314
– interest receivable on bonds	22 459	10 038
– difference between tax base and carrying amount of other financial assets	4 470	3 170
– other	406	143
Deferred tax liability	**27 533**	**15 665**

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

(in PLN '000)

17.4. Tax Capital Group

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

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

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

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

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

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

18. Dividends paid and proposed

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

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

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

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

(in PLN '000)

19. Property, plant and equipment

Year ended 31 December 2014

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

Year ended 31 December 2013

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

(in PLN '000)

20. Investment property

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

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

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

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

21. Non-current intangible assets

Year ended 31 December 2014

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

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

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

(in PLN '000)

Year ended 31 December 2013

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

22. Shares

Change in shares, year ended 31 December 2014

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

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

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

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

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

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

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

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

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

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

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

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

Purchase of shares in TAURON Wydobycie S.A.

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

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

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

Purchase of the remaining shares in TAURON Wydobycie S.A. and in Kopalnia Wapienia Czatkowice Sp. z o.o.

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

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

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

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

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

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

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

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

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

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

The fair value of shares in TAMEH HOLDING Sp. z o.o. was PLN 414 938 thousand. The purchase price for shares taken up was increased by acquisition costs of PLN 873 thousand. The value of shares in TAMEH POLSKA Sp. z o.o. reached PLN 382 457 thousand. Moreover, following the division of TAURON Wytwarzanie S.A. and TAURON Ciepło Sp. z o.o. and contribution of organized parts of enterprises to TAMEH POLSKA Sp. z o.o. the carrying amount of shares held was reduced by PLN 16 983 thousand and PLN 365 469 thousand, respectively.

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

Shares taken up in TAURON Sweden Energy AB (publ)

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

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

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

(in PLN '000)

Change in shares, year ended 31 December 2013

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

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

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

23. Bonds

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

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

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

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

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

(in PLN '000)

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

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

24. Derivatives

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

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

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

Derivatives (IRS) include interest rate swap contracts concluded in order to hedge interest cash flows related ot bonds issued, as presented in detail in Note 34.1 to these financial statements.

25. Loans granted

Under the agreements of 20 June 2012 among PGNiG S.A., TAURON Polska Energia S.A. and Elektrociepłownia Stalowa Wola S.A., TAURON Polska Energia S.A. granted a subordinated loan and a VAT loan to Elektrociepłownia Stalowa Wola S.A. with a view to satisfying the necessary conditions for provision of funding to Elektrociepłownia Stalowa Wola S.A. by the European Bank for Reconstruction and Development and the European Investment Bank. In October 2014 the Company granted a short-term loan of PLN 500 thousand to TAMEH HOLDING Sp. z o.o.

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

	As at 31 December 2014		As at 31 December 2013	
	Principal	Interest	Principal	Interest
Subordinated loan	177 000	21 331	177 000	12 310
VAT loan	5 850	12	–	–
Other loans	500	5	–	–
Total loans, of which:	**183 350**	**21 348**	**177 000**	**12 310**
Non-current	**177 000**	**21 331**	**177 000**	**12 310**
Current	**6 350**	**17**	**–**	**–**

26. Other financial assets

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

(in PLN '000)

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

27. Current intangible assets

Under current intangible assets, the Company discloses energy certificates.

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

28. Inventories

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

(in PLN '000)

29. Trade and other receivables

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

30. Other short-term non-financial assets

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

31. Cash and cash equivalents

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

	As at 31 December 2014	As at 31 December 2013
Cash at bank and in hand	264 260	77 978
Short-term deposits (up to 3 months)	964 620	429 149
Total cash and cash equivalents presented in the statement of financial position, including:	**1 228 880**	**507 127**
– restricted cash	44 765	70 330
Cash pool	(1 151 591)	(1 615 281)
Overdraft	(11 918)	(93 645)
Foreign exchange and other differences	3 564	3 378
Total cash and cash equivalents presented in the statement of cash flows	**68 935**	**(1 198 421)**

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

The balance of restricted cash consists mainly of:

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

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

(in PLN '000)

32. Issued capital and other capitals

32.1. Issued capital

Issued capital as at 31 December 2014

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

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

32.2. Major shareholders

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

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

32.3. Reserve capital

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

32.4. Revaluation reserve from valuation of hedging instruments

	Year ended 31 December 2014	Year ended 31 December 2013
Opening balance	**(126 651)**	**(189 756)**
Remeasurement of hedging instruments	(21 171)	30 904
Remeasurement of hedging instruments charged to profit or loss	964	2 493
Deferred income tax	3 839	29 708
Closing balance	**(143 019)**	**(126 651)**

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

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

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

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

(in PLN '000)

32.5. Retained earnings and dividend limitation

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

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

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

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

33. Earnings per share

Earnings per share (in PLN)	Year ended 31 December 2014	Year ended 31 December 2013
Basic and diluted, for profit for the year	0.65	0.96

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

	Year ended 31 December 2014	Year ended 31 December 2013
Net profit attributable to ordinary shareholders	1 146 443	1 688 972
Number of ordinary shares	1 752 549 394	1 752 549 394

(in PLN '000)

34. Interest-bearing loans and borrowings

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

34.1. Bonds issued

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

Bonds as at 31 December 2014

Tranche/ Bank	Maturity date	Currency	As at balance sheet date		of which maturing within (after the balance sheet date)					
			Accrued interest	Principal at amortized cost	up to 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
B	12 December 2015	PLN	485	299 716	–	299 716	–	–	–	–
B	30 January 2015	PLN	2 287	150 000	150 000	–	–	–	–	–
C	12 December 2016	PLN	4 849	2 997 442	–	–	2 997 442	–	–	–
BGK*	20 December 2019	PLN	115	99 797	–	–	–	–	99 797	–
BGK*	20 December 2020	PLN	115	99 791	–	–	–	–	–	99 791
BGK*	20 December 2021	PLN	115	99 787	–	–	–	–	–	99 787
BGK*	20 December 2022	PLN	115	99 784	–	–	–	–	–	99 784
BGK*	20 December 2023	PLN	115	99 781	–	–	–	–	–	99 781
BGK*	20 December 2024	PLN	115	99 781	–	–	–	–	–	99 781
BGK*	20 December 2025	PLN	115	99 780	–	–	–	–	–	99 780
BGK*	20 December 2026	PLN	115	99 777	–	–	–	–	–	99 777
BGK*	20 December 2027	PLN	115	99 776	–	–	–	–	–	99 776
ING**	4 November 2019	PLN	7 953	1 748 810	–	–	–	–	1 748 810	–
Total bonds			**16 609**	**6 094 022**	**150 000**	**299 716**	**2 997 442**	**–**	**1 848 607**	**798 257**

* Bank Gospodarstwa Krajowego
** ING Bank Śląski

Bonds as at 31 December 2013

Tranche	Maturity date	Currency	As at balance sheet date		of which maturing within (after the balance sheet date)					
			Accrued interest	Principal at amortized cost	up to 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
A	29 December 2015	PLN	252	847 060	–	–	847 060	–	–	–
B	12 December 2015	PLN	592	299 426	–	–	299 426	–	–	–
B	30 January 2015	PLN	2 300	150 000	–	–	150 000	–	–	–
C	12 December 2016	PLN	5 918	2 994 974	–	–	–	2 994 974	–	–
Total bonds			**9 062**	**4 291 460**	**–**	**–**	**1 296 486**	**2 994 974**	**–**	**–**

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

(in PLN '000)

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

	Year ended 31 December 2014	Year ended 31 December 2013
Opening balance	**4 291 460**	**4 288 247**
Issue*	2 946 640	–
Redemption	(1 148 200)	–
Change in valuation	4 122	3 213
Closing balance	**6 094 022**	**4 291 460**

* Costs of issue have been included.

Pursuant to the agreement concluded in 2013 with Bank Gospodarstwa Krajowego, in the year ended 31 December 2014 the Company issued bonds with the total par value of PLN 900 000 thousand, with redemption dates falling annually, from 20 December 2019 to 20 December 2027 and equal portions of PLN 100 000 thousand.

On 4 November 2014, the Company issued five-year unsecured bonds for the amount of PLN 1 750 000 thousand with the value up to PLN 5 000 000 thousand as of July 2013 under Bond Issue Scheme. The interest is floating based on WIBOR 6M plus a 0.9 mark-up with a 6-month interest period. The underwriting syndicate is composed of the following banks: ING Bank Śląski S.A. (lead underwriter), mBank S.A. and Bank Pekao S.A.

Additionally, on 24 January 2014, Tranche E short-term bonds with the par value of PLN 200 000 thousand and maturing on 24 February 2014 were issued by the Company. Another issue of Tranche E bonds with the redemption date of 28 April 2014 and the value of PLN 100 000 thousand took place on 28 March 2014.

On 29 December 2014 the Company carried out early redemption of Tranche A bonds with the par value of PLN 848 200 thousand and the original maturity date of 29 December 2015.

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

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

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

34.2. Loans from the European Investment Bank

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

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

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

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

(in PLN '000)

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

34.3. Loan granted by a subsidiary

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

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

34.4. Cash pool

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

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

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

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

Under the cash pool agreement the Company is entitled to use external financing in the form of an overdraft of PLN 300 000 thousand and an intraday limit up to PLN 500 000 thousand. As at 31 December 2014 the Company had no outstanding amounts under the facilities in question.

34.5. Overdraft facilities

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

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

(in PLN '000)

35. Lease

35.1. Operating lease liabilities

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

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

35.2. Finance lease liabilities

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

	As at 31 December 2014		As at 31 December 2013	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
Within 1 year	3 910	2 990	4 314	3 266
Within 1 to 5 years	31 910	30 169	35 832	33 159
More than 5 years	–	–	–	–
Minimum lease payments, total	**35 820**	**33 159**	**40 146**	**36 425**
Less amounts representing finance charges	(2 661)	–	(3 721)	–
Present value of minimum lease payments, of which:	**33 159**	**33 159**	**36 425**	**36 425**
Current	2 990	2 990	3 266	3 266
Non-current	30 169	30 169	33 159	33 159

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

36. Employee benefits

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

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

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

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

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

(in PLN '000)

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

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

37. Other provisions

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

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

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

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

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

(in PLN '000)

38. Deferred income and government grants

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

39. Other short-term non-financial liabilities

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

40. Significant items of the statement of cash flows

40.1. Cash flows from investing activities

Acquisition of shares

Expenditure for acquisition of shares of PLN 98 625 thousand resulted primarily from payment of a portion of the price, i.e. PLN 77 500 thousand, for the acquisition of shares in a subsidiary TAURON Wydobycie S.A., as discussed in detail in Note 22 to these financial statements.

Acquisition of bonds

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

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

Redemption of bonds

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

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

Interest received

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

40.2. Cash flows from financing activities

Issuance of debt securities

Proceeds from issue of debt securities result from the issue of long-term unsecured bonds for the amount of PLN 1 750 000 thousand issued by the Company in 2014 under the Bond Issue Scheme of July 2013, the issue of Tranche E short-term bonds in the amount of PLN 300 000 thousand and long-term bonds issued under the Company's agreement with Bank Gospodarstwa Krajowego in the amount of PLN 900 000 thousand, as discussed in detail in Note 34.1 to these financial statements.

Redemption of debt securities

Expenditure for redemption of interest-bearing securities result from early redemption of Tranche A bonds in the amount of PLN 848 200 thousand in 2014 and redemption of Tranche E short-term bonds in the amount of PLN 300 000 thousand, as discussed in detail in Note 34.1 to these financial statements.

Proceeds from loans and borrowings obtained by the Company

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

Loans and borrowings repaid

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

Interest paid

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

(in PLN '000)

OTHER INFORMATION

41. Contingent liabilities

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

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

Changes in the year ended 31 December 2014:

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

Claims filed by Huta Łaziska S.A.

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

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

Based on a decision of 12 October 2001, the President of Energy Regulatory Office (ERO) ordered GZE to resume electricity supplies to Huta on such terms as set out in the agreement of 30 July 2001, at the price of PLN 67/MWh until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July

2006, the Court of Appeals in Warsaw passed a final judgment ending the dispute over the decision of the President of ERO dated 14 November 2001. Huta filed a cassation appeal against the judgment of the Court of Appeals, which was dismissed by the judgment of the Supreme Court dated 10 May 2007.

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

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

42. Collateral against liabilities

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

The key items collateralize the following agreements:

Bond issue schemes

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

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

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

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

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

As at 31 December 2014, under the agreement and at the request of the Company PKO Bank Polski S.A. extended bank guarantees to collateralize liabilities of the subsidiaries of TAURON Polska Energia S.A. totaling PLN 990 thousand (Note 41 hereto) and to collateralize transactions entered into by the Company:

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

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

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

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

Overdraft facility agreements

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

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

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

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

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

On 18 December 2014 the Company concluded new agreements with PKO Bank Polska S.A.: an overdraft agreement up to PLN 300 000 thousand and an intraday limit agreement up to PLN 500 000 thousand, as discussed in detail in Note 34.4 to these financial statements. The agreements in question are collateralized with:

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

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

Other

With a view to collateralizing transactions entered into at the ICE Futures Europe and the European Energy Exchange, mainly forwards concerning emission allowances, the Company transfers margin deposits for such transactions to separate bank accounts – as at 31 December 2014, such deposits amounted to PLN 5 791 thousand.

In order to collateralize the Company's transactions on the Polish Power Exchange ("TGE"), a subsidiary, TAURON Wytwarzanie S.A., has given a surety to Izba Rozliczeniowa Giełd Towarowych S.A. ("IRGIT") for the liabilities of TAURON Polska Energia S.A. on the Polish Power Exchange up to PLN 45 000 thousand and collateral in the form of a freeze on EUA emission allowances in the KRUE Register, held by TAURON Wytwarzanie S.A. (8 739 thousand tons) has been provided. The surety expired on 31 March 2014. In October 2014 in order to collateralize IRGIT's claims under the surety agreement between TAURON Wytwarzanie S.A. and IRGIT for the liabilities of TAURON Polska Energia S.A. (up to PLN 80 000 thousand), pursuant to the Alienation Agreement concluded by TAURON Wytwarzanie S.A. and IRGIT, the freeze on EUA emission allowances of TAURON Wytwarzanie S.A. in the Register of Allowances, have been made (12 821 thousand tons). The surety agreement expires on 31 March 2015. Additionally, the Company's transactions concluded on the Polish Power Exchange are also collateralized with EUA emission allowances for 6 600 thousand tons on the account of TAURON Polska Energia S.A. kept by the Register of Allowances pursuant to the Alienation Agreement concluded by IRGIT and the Company.

TAURON Polska Energia S.A. is a party to a finance lease agreement concerning real property in Katowice with the carrying amount of PLN 32 552 thousand as at 31 December 2014. The agreement is collateralized by assignment of receivables, two blank promissory notes and authorization to debit a bank account.

(in PLN '000)

43. Capital commitments

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

44. Related party disclosures

44.1. Transactions with related parties and State Treasury companies

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

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

Revenue and expense

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

Receivables and liabilities

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

(in PLN '000)

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

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

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

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

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

44.2. Executive compensation

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

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

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

(in PLN '000)

45. Financial instruments

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

Categories and classes of financial assets	Note	As at 31 December 2014		As at 31 December 2013	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Assets at fair value through profit or loss		**1 811**	**1 811**	**34**	**34**
Derivatives	24	1 811	1 811	34	34
2 Financial assets available for sale		**5 179**	**–**	**6 973**	**–**
Long-term shares	22	5 179	–	6 973	–
3 Loans and receivables		**7 991 292**	**8 204 820**	**6 547 235**	**6 547 235**
Trade receivables	29	941 842	941 842	1 083 164	1 083 164
Proceeeds from sale of intangible assets		–	–	1 015	1 015
Bonds	23	6 798 726	7 012 254	5 217 830	5 217 830
Cash Pool loans granted	34.4	29 224	29 224	114	114
Other loans granted	25	204 698	204 698	189 310	189 310
Other financial receivables		16 802	16 802	55 802	55 802
4 Financial assets excluded from the scope of IAS 39		**20 804 620**	**–**	**20 446 849**	**–**
Shares in subsidiaries	22	20 388 768	–	20 214 349	–
Shares in jointly-controlled entities	22	415 852	–	–	–
Advance payment for acquisition of shares		–	–	232 500	–
5 Cash and cash equivalents	31	**1 228 880**	**1 228 880**	**507 127**	**507 127**
Total financial assets, of which in the statement of financial position:		**30 031 782**		**27 508 218**	
Non-current assets		**26 536 141**		**25 813 371**	
Shares		20 809 799		20 221 322	
Bonds		5 522 725		5 165 000	
Loans granted		198 331		189 310	
Other financial assets		5 286		237 739	
Current assets		**3 495 641**		**1 694 847**	
Trade and other receivables		988 949		1 134 856	
Bonds		1 276 001		52 830	
Derivative instruments		1 811		34	
Cash and cash equivalents		1 228 880		507 127	

(in PLN '000)

Categories and classes of financial liabilities	Note	As at 31 December 2014		As at 31 December 2013	
		Carrying amount	Fair value	Carrying amount	Fair value
1 Financial liabilities at fair value through profit or loss		**15 183**	**15 183**	**1 169**	**1 169**
Derivatives	24	15 183	15 183	1 169	1 169
2 Financial liabilities measured at amortized cost		**9 811 465**	**9 849 118**	**8 127 697**	**8 127 697**
Arm's length loans, of which:		3 052 552	3 090 205	2 909 144	2 909 144
Liability under the cash pool loan	34.4	1 180 815	1 180 815	1 615 395	1 615 395
Loans from the European Investment Bank	34.2	1 160 411	1 198 064	1 293 749	1 293 749
Loan from the subsidiary	34.3	711 326	711 326	–	–
Overdraft	34.5	11 918	11 918	93 645	93 645
Bonds issued	34.1	6 110 631	6 110 631	4 300 522	4 300 522
Trade liabilities		594 007	594 007	772 481	772 481
Other financial liabilities		42 244	42 244	47 717	47 717
Liabilities due to purchases of fixed and intangible assets		113	113	4 188	4 188
3 Liabilities under guarantees, factoring and excluded from the scope of IAS 39		**33 159**	**33 159**	**36 425**	**36 425**
Liabilities under finance leases	35.2	33 159	33 159	36 425	36 425
4 Hedging derivative instruments (liabilities)	24	**180 933**	**180 933**	**159 762**	**159 762**
Total financial liabilities, of which in the statement of financial position:		**10 040 740**		**8 325 053**	
Non-current liabilities		**7 503 745**		**5 571 250**	
Interest-bearing loans and borrowings		7 374 836		5 445 279	
Liabilities under finance leases		30 169		33 159	
Other financial liabilities		5 239		5 239	
Derivative instruments		93 501		87 573	
Current liabilities		**2 536 995**		**2 753 803**	
Current portion of interest-bearing loans and borrowings		1 800 265		1 858 032	
Current portion of liabilities under finance leases		2 990		3 266	
Trade and other payables		631 125		819 147	
Derivative instruments		102 615		73 358	

Financial instruments measured at fair value as at the end of the reporting period, i.e. assets and liabilities measured at fair value through profit or loss and hedging derivatives were measured in line with the method described in Note 6 to these financial statements. Fair value hierarchy disclosures were discussed in Note 45.2.

Financial instruments classified to other categories of financial instruments:

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

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

(in PLN '000)

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

45.2. Fair value hierarchy

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

Classes of financial instruments	As at 31 December 2014		As at 31 December 2013	
	1 level	2 level	1 level	2 level
Assets				
Derivate instruments – commodity	312	–	34	–
Derivate instruments – CCIRS	–	1 499	–	–
Liabilities				
Derivate instruments – commodity	562	–	40	–
Derivate instruments – currency	–	–	–	1 129
Derivate instruments – CCIRS	–	1 241	–	–
Derivate instruments – IRS	–	194 313	–	159 762

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

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

Year ended 31 December 2014

	Assets at fair value through profit or loss	Financial assets available for sale	Loans and receivables	Financial assets excluded from the scope of IAS 39	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Hedging instruments	Total
Dividends	–	1 271	–	1 075 565	–	–	–	–	**1 076 836**
Interest income/ (expense)	12 300	–	388 816	–	–	(279 385)	(1 019)	(75 699)	**45 013**
Commissions	–	–	–	–	–	(14 017)	–	–	**(14 017)**
Exchange differences	3 527	–	118	–	–	(17 154)	–	–	**(13 509)**
Impairment losses/ revaluation	–	–	(173)	–	(12 236)	–	–	–	**(12 409)**
Gain/(loss) on disposal of investments	–	(19)	–	32 442	–	–	–	–	**32 423**
Other	1 197	–	–	–	(1 811)	–	–	–	**(614)**
Net profit/(loss)	**17 024**	**1 252**	**388 761**	**1 108 007**	**(14 047)**	**(310 556)**	**(1 019)**	**(75 699)**	**1 113 723**
Remeasurement	–	–	–	–	–	–	–	(20 207)	**(20 207)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(20 207)**	**(20 207)**

(in PLN '000)

Year ended 31 December 2013

	Assets at fair value through profit or loss	Financial assets available for sale	Loans and receivables	Financial assets excluded from the scope of IAS 39	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Liabilities under guarantees, factoring and excluded from the scope of IAS 39	Hedging instruments	Total
Dividends	–	414	–	1 500 213	–	–	–	–	**1 500 627**
Interest income/ (expense)	26 201	–	245 881	–	–	(278 531)	(131)	(50 845)	**(57 425)**
Commissions	–	–	–	–	–	(12 664)	–	–	**(12 664)**
Exchange differences	(4 496)	–	1 584	–	–	–	–	–	**(2 912)**
Impairment losses/ revaluation	–	–	–	–	(1 049)	–	–	–	**(1 049)**
Other	2 644	–	–	–	(1 704)	–	–	–	**940**
Net profit/(loss)	**24 349**	**414**	**247 465**	**1 500 213**	**(2 753)**	**(291 195)**	**(131)**	**(50 845)**	**1 427 517**
Remeasurement	–	–	–	–	–	–	–	33 397	**33 397**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**33 397**	**33 397**

46. Financial risk management

The TAURON Capital Group has implemented the policy for management of specific risks in the area of finance, which defines the strategy for management of the currency and interest rate risk. The policy has also introduced hedge accounting in the Group, which lays down the principles and defines the types of hedge accounting, along with the accounting treatment of hedging instruments and hedged items, to be applied as part of hedge accounting under IFRS. The policy for specific risk management in the area of finance and hedge accounting principles are applicable to the cash flow risk and not to the fair value risk due to its limited significance for the Group. The policy has been presented in detail in Note 50 to the consolidated financial statements for the year ended 31 December 2014.

Hedge accounting

As at 31 December 2014 the Company concluded hedging transactions subject to specific risk management policy. Pursuant to a decision of the Financial Risk Management Committee of 30 January 2012, in March 2012 the Company hedged the interest rate risk arising from bonds issued under the Bond Issue Scheme, by entering into an interest rate swap (IRS) transaction for a term of 5 years. The aforementioned transaction was concluded due to fluctuations in the projected future cash flows from interest payments resulting from the issue of bonds in PLN with a floating interest rate based on WIBOR 6M. The Company hedged 80% of such cash flows. Following early redemption of Tranche A bonds carried out on 29 December 2014 discussed in detail in Note 34.1 to these financial statements, the Company no longer applied hedge accounting to a portion of IRS contracts hedging the bonds redeemed. The Company applies hedge accounting to the remaining transactions. The accounting treatment of the aforementioned hedging transactions has been presented in detail in Note 32.4 to these financial statements.

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

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

46.1. Credit risk

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

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

(in PLN '000)

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

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

46.1.1. Credit risk related to trade and other financial receivables

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

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

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

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

Trade and other receivables as at 31 December 2014

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

(in PLN '000)

Trade and other receivables as at 31 December 2013

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

46.1.2. Credit risk related to other financial assets

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

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

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

46.2. Liquidity risk

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

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

Additionally, in order to minimize the possibility of cash flow interruption and the risk of loss of liquidity, the TAURON Group, as in previous years, used the cash pooling mechanism. Regardless of funds collected by its individual members, cash pooling is linked to a flexible credit facility in the form of overdraft of PLN 300 000 thousand. As discussed in detail in Note 34.4 to these financial statements, under the cash pool agreement the Company is entitled to use external financing in the form of an overdraft up to PLN 300 000 thousand and an intraday limit up to PLN 500 000 thousand.

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

(in PLN '000)

Financial liabilities as at 31 December 2014

	Carrying amount	Contractual undiscounted payments*	Including contractual undiscounted payments maturing during the period (from the reporting date)					
			less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans and borrowings (including bonds issued)	**9 175 101**	**(10 449 395)**	(1 373 868)	(619 067)	(3 332 267)	(281 745)	(2 394 309)	(2 448 139)
Trade liabilities	**594 007**	**(594 007)**	(593 942)	(21)	(22)	(22)	–	–
Liabilities due to purchases of fixed and intangible assets	**113**	**(113)**	(113)	–	–	–	–	–
Other financial liabilities	**42 244**	**(42 244)**	(37 005)	–	–	–	(5 239)	–
Liabilities under finance lease	**33 159**	**(35 820)**	(958)	(2 952)	(4 032)	(4 150)	(23 728)	–
Derivative financial liabilities:								
Derivate instruments – IRS	**194 313**	**(198 470)**	–	(103 415)	(95 055)	–	–	–
Derivate instruments – CCIRS	**1 241**	**(45 378)**	–	1 190	2 351	1 389	(1 224)	(49 084)
Derivate instruments – commodity	**562**	**(580)**	–	(580)	–	–	–	–
Total	**10 040 740**	**(11 366 007)**	**(2 005 886)**	**(724 845)**	**(3 429 025)**	**(284 528)**	**(2 424 500)**	**(2 497 223)**

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

Financial liabilities as at 31 December 2013

	Carrying amount	Contractual undiscounted payments	Including contractual undiscounted payments maturing during the period (from the reporting date)					
			less than 3 months	3–12 months	1–2 years	2–3 years	3–5 years	over 5 years
Financial liabilities other than derivative instruments								
Interest-bearing loans and borrowings (including bonds issued)	**7 303 311**	**(8 032 954)**	(1 795 080)	(262 072)	(1 640 437)	(3 288 849)	(341 317)	(705 199)
Trade liabilities	**772 481**	**(772 481)**	(772 481)	–	–	–	–	–
Liabilities due to purchases of fixed and intangible assets	**4 188**	**(4 188)**	(4 188)	–	–	–	–	–
Other financial liabilities	**47 717**	**(47 717)**	(42 478)	–	–	–	(5 239)	–
Liabilities under finance lease	**36 425**	**(40 146)**	(1 082)	(3 231)	(3 923)	(4 032)	(27 878)	–
Derivative financial liabilities:								
Derivate instruments – IRS	**159 762**	**(166 684)**	–	(73 583)	(57 733)	(35 368)	–	–
Derivate instruments – currency	**1 129**	**(1 720)**	–	(1 720)	–	–	–	–
Total	**8 325 013**	**(9 065 890)**	**(2 615 309)**	**(340 606)**	**(1 702 093)**	**(3 328 249)**	**(374 434)**	**(705 199)**

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

46.3. Market risk

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

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

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

46.3.1. Interest rate risk

The Company is exposed to the risk of interest rate changes related to floating interest rate borrowings acquired and investing in assets with floating and fixed interest rates. The Company is also exposed to lost benefit risk related to a decrease in interest rates of fixed interest rate debt.

(in PLN '000)

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

Interest rate risk as at 31 December 2014 – floating rate

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

Interest rate risk as at 31 December 2014 – fixed rate

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

Interest rate risk as at 31 December 2013 – floating rate

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

(in PLN '000)

Interest rate risk as at 31 December 2013 – fixed rate

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

The Company has issued floating interest rate bonds only. A portion of bonds with interest cash flow fluctuations hedged with interest rate swaps as discussed in detail in Note 34.1 to these financial statements, was presented in the tables above together with measurement of hedging instruments under fixed-rate financial instruments.

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

46.3.2. Currency risk

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

Currency position as at 31 December 2014

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

Currency position as at 31 December 2013

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

In 2014 and in 2013 TAURON Polska Energia S.A. used forward transactions under its currency risk management policy. The objective of these transactions is to hedge currency risk related to trade transactions of the Company. The Company has not used hedge accounting to hedge currency risk. As at the end of the reporting period the Company held no open forward contracts.

46.3.3. Commodity price risk

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

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

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

46.3.4. Market risk – sensitivity analysis

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

The analysis of sensitivity to changes in market risk factors is conducted by means of a scenario analysis. The Company relies on expert scenarios reflecting its judgment concerning the behavior of individual market risk factors in the future.

The scenario analyses presented herein are aimed at examining the effect of changes in market risk factors on the Company's financial performance. The scope of the analysis includes only those positions which meet the IFRS definition of financial instruments.

The potential changes in foreign exchange rates have been determined within a horizon until the date of the next financial statements and calculated on the basis of annual implied volatility for FX options quoted on the interbank market for a given currency pair as at the end of the reporting period or, in the absence of quoted market prices, on the basis of historical volatility for a period of one year preceding the end of the reporting period.

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

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

Presented below is the sensitivity analysis for the interest rate and currency risks to which the Company is exposed as at the end of the reporting period, along with the effect of potential changes in individual risk factors on the gross financial profit/loss as well as other comprehensive income (gross), by classes of financial assets and liabilities.

46.3.4.1. Interest rate risk sensitivity analysis

The Company identifies its exposure to the interest rate risk for WIBOR and EURIBOR. The tables below present sensitivity of the gross financial profit/loss as well as other comprehensive income (gross) to reasonably possible changes in interest rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

(in PLN '000)

Year ended 31 December 2014

Classes of finacial instruments	31 December 2014		Sensitivity analysis for interest rate risk as at 31 December 2014					
			WIBOR				EURIBOR	
	Carrying amount	Value at risk	WIBOR + 69 bp		WIBOR -69 bp		EURIBOR + 97 bp	EURIBOR -97 bp
			Profit/(Loss)	*Other comprehensive income*	*Profit/(Loss)*	*Other comprehensive income*	*Profit/(Loss)*	*Profit/(Loss)*
Bonds	6 798 726	2 137 771	14 751	–	(14 751)	–	–	–
Loans granted	233 922	233 922	1 614	–	(1 614)	–	–	–
Cash and cash equivalents	1 228 880	1 228 880	8 320	–	(8 320)	–	209	(209)
Derivatives (assets)	1 811	1 499	(4 624)	–	4 624		(223)	223
Arm's length loans	3 052 552	1 180 815	(8 148)	–	8 148	–	–	–
Overdraft	11 918	11 918	–	–	–	–	(116)	116
Bonds issued	6 110 631	6 110 631	(42 163)	–	42 163	–	–	–
Derivates (liabilities)	196 116	195 554	(36 212)	31 773	36 212	(31 773)	(26 016)	26 016
Total			**(66 462)**	**31 773**	**66 462**	**(31 773)**	**(26 146)**	**26 146**

Year ended 31 December 2013

Classes of finacial instruments	31 December 2013		Sensitivity analysis for interest rate risk as at 31 December 2013					
			WIBOR				EURIBOR	
	Carrying amount	Value at risk	WIBOR + 95 bp		WIBOR -95 bp		EURIBOR + 23 bp	EURIBOR -23 bp
			Profit/(Loss)	*Other comprehensive income*	*Profit/(Loss)*	*Other comprehensive income*	*Profit/(Loss)*	*Profit/(Loss)*
Bonds	5 217 830	1 644 622	15 624	–	(15 624)	–	–	–
Loans granted	189 424	189 424	1 800	–	(1 800)	–	–	–
Cash and cash equivalents	507 127	507 127	4 746	–	(4 746)	–	17	(17)
Arm's length loans	2 909 144	1 615 395	(15 346)	–	15 346	–	–	–
Overdraft	93 645	88 602	(841)	–	841	–	(1)	1
Bonds issued	4 300 522	4 300 522	(40 855)	–	40 855	–	–	–
Derivates (liabilities)	160 931	159 762	–	75 397	–	(75 397)	–	–
Total			**(34 872)**	**75 397**	**34 872**	**(75 397)**	**16**	**(16)**

46.3.4.2. Currency risk sensitivity analysis

The Company identifies foreign currency risk related to EUR/PLN and USD/PLN exchange rates. The tables below present sensitivity of the gross financial profit/loss to reasonably possible changes in the EUR/PLN and USD/PLN exchange rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

Year ended 31 December 2014

Classes of finacial instruments	31 December 2014		Sensitivity analysis for currency risk as at 31 December 2014			
			EUR/PLN		USD/PLN	
	Carrying amount	Value at risk	exchange rate EUR/PLN +7.7%	exchange rate EUR/PLN -7.7%	exchange rate USD/PLN +12.89%	exchange rate USD/PLN -12.89%
			Profit/(Loss)	*Profit/(Loss)*	*Profit/(Loss)*	*Profit/(Loss)*
Trade and other financial receivables	958 644	4 671	360	(360)	–	–
Cash and cash equivalents	1 228 880	23 077	1 657	(1 657)	201	(201)
Derivatives (assets)	1 811	1 811	1 925	(1 925)	40	(40)
Overdraft	11 918	11 918	(918)	918	–	–
Arm's length loans	3 052 552	711 326	(54 772)	54 772	–	–
Trade and other financial liabilities	636 251	6 197	(452)	452	(41)	41
Derivatives (liabilities)	196 116	1 803	25 162	(25 162)	–	–
Total			**(27 038)**	**27 038**	**200**	**(200)**

(in PLN '000)

The exposure to risk as at 31 December 2014 is representative for the Company's exposure to risk during the annual period preceding the aforementioned date, except for material transactions which took place close to the end of the year 2014. They concern Arm's length loans class containing a loan from a subsidiary received in December 2014 and Derivatives – assets and liabilities which include CCIRS transaction entered into by the Company in November 2014 (Note 24).

Year ended 31 December 2013

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

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

47. Financial and capital management

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

48. Employment structure

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

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

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

Information concerning the fee of the certified auditor has been presented in the Management Board's report on the activities of TAURON Polska Energia S.A. for the year ended 31 December 2014 (Section 4.9).

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

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

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

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

(in PLN '000)

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

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

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

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

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

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

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

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

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

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

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

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

(in PLN '000)

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

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

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

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

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

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

51. Events after the end of the reporting period

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

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

Redemption of bonds

On 30 January 2015, the Company redeemed Tranche B bonds with the par value of PLN 150 000 thousand at their maturity.

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

Management Board of the Company:

Katowice, 10 March 2015

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