

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

MARCH 2015

TABLE OF CONTENTS

1. TAURON POLSKA ENERGIA S.A.	4
1.1. Basic data on the Company	4
1.2. Organisation and structure of TAURON Capital Group	4
1.3. Strategy and Policy of the Company Development	5
1.3.1. Development policy	5
1.3.2. Implementation of Corporate Strategy	6
1.3.3. Assessment of implementation opportunities of investment projects	9
1.3.4. Main domestic and foreign investments	9
1.4. The management concept of the Company and TAURON Capital Group	11
1.4.1. The management rules of the Company and TAURON Capital Group	11
1.4.2. Changes in the management rules of the Company and TAURON Capital Group	12
1.5. Organisational or capital links	13
2. OPERATIONS OF TAURON POLSKA ENERGIA S.A.	15
2.1. Factors essential for development	15
2.2. Factors and unusual events significantly affecting the financial result achieved	15
2.2.1. Internal factors and their assessment	15
2.2.2. External factors and their assessment	15
2.2.2.1. Macroeconomic environment	15
2.2.2.2. Market environment	16
2.2.2.3. Regulatory environment	20
2.3. Timeline of key events	21
2.4. Basic products, goods, services	23
2.5. Potential markets and sources of supply	24
2.6. Material events and achievements of the Company with significant impact on its operations	27
2.7. Information on agreements concluded by the Company	32
2.7.1. Agreements significant for operations of the Company	32
2.7.2. Significant transactions with affiliated entities concluded under conditions other than on arm's length basis	33
2.7.3. Information on agreements on credits and loans raised and terminated	33
2.7.4. Information on loans and sureties granted as well as sureties and guarantees received	35
2.8. Information concerning employment	37
3. RISK MANAGEMENT IN TAURON CAPITAL GROUP	39
4. ANALYSIS OF THE FINANCIAL AND ECONOMIC SITUATION OF TAURON POLSKA ENERGIA S.A.	45
4.1. Principles of the annual financial statement preparation	45
4.2. Overview of economic and financial values disclosed in the annual financial statement	45
4.3. Differences between the financial results recognised in the annual report and the forecasts of results for the year as published earlier	50
4.4. Basic financial and non-financial ratios	50
4.5. Income from the bonds issue programme	51
4.6. Financial instruments	52
4.6.1. Implementing financial instruments in the elimination of credit risk, significant disruptions of cash flows and losing financial liquidity	52
4.6.2. Goals and methods of financial risk management	52
4.7. Current and forecast financial situation	53
4.8. Assessment of financial resources management	53
4.9. Information concerning the entity authorised to examine financial statements	54
5. SHARES AND SHAREHOLDERS	55
5.1. Structure of shareholding and the level of the dividend paid	55
5.2. Number and nominal value of the Company shares as well as shares and stocks in affiliated entities of the Company held by the members of the management and supervisory bodies	55
5.3. Agreements concerning potential changes in the shareholding structure	56
5.4. Purchase of treasury shares	56
5.5. Programmes of employees shares	56
5.6. Listing of shares on the Warsaw Stock Exchange (GPW)	56

6. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE	60
6.1. Indicating the applied set of corporate governance rules	60
6.2. Indicating the abandoned rules of corporate governance	60
6.3. Description of main characteristics of internal control and risk management systems in relation to the process of generating the financial statements and consolidated financial statements	61
6.4. Shareholders holding large blocks of shares	62
6.5. Owners of securities providing special control rights	63
6.6. Limitations on performing of the voting right	63
6.7. Limitations on transfer of securities property rights	64
6.8. Rules on appointing and dismissing managing and supervising persons and their powers	64
6.8.1. Management Board	64
6.8.2. Supervisory Board	65
6.9. Description of the procedure of amendment of the Company Articles of Association	67
6.10. Operation of the General Meeting, its fundamental authorities and description of shareholders' rights and mode of their performance	67
6.11. Composition of managing and supervising bodies and their committees, its changes, description of performance	69
6.11.1. Management Board	69
6.11.2. Supervisory Board	71
6.11.3. Audit Committee	75
6.11.4. Nominations and Remuneration Committee	76
6.11.5. Strategy Committee	77
6.11.6. Description of activities of the Committees of the Supervisory Board	78
6.12. Remuneration of key management and supervisory personnel	78
6.13. Agreements concluded with managing persons which envisage compensation in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation is caused by merger of the Company through takeover	80
7. OTHER SIGNIFICANT INFORMATION AND EVENTS	81
7.1. Proceedings pending before the court, competent arbitration authority or public administration authority	81
7.2. Important achievements in research and development	81
7.3. Issues concerning natural environment	82
7.4. Policy on Corporate Social Responsibility (CSR)	82
7.5. Awards and distinctions	83
7.6. Investor relations	84
APPENDIX A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS	90
APPENDIX B: LIST OF TABLES AND FIGURES	94

1. TAURON POLSKA ENERGIA S.A.

1.1. Basic data on the Company

TAURON Polska Energia Spółka Akcyjna (hereinafter referred to as the Company or TAURON) was established on 6 December 2006 under the implementation of the *Programme for Power Engineering*. The founders of the Company included: State Treasury represented by the Minister of Treasury, EnergiaPro S.A. with its seat in Wrocław (currently: TAURON Dystrybucja), ENION S.A. with its seat in Kraków (currently: TAURON Dystrybucja) and Elektrownia Stalowa Wola S.A. with its seat in Stalowa Wola (currently: TAURON Wytwarzanie). The Company was registered in the National Court Register on 8 January 2007 under the enterprise name: Energetyka Południe S.A. The change of the Company enterprise to its current name, i.e. TAURON Polska Energia S.A., was registered on 16 November 2007.

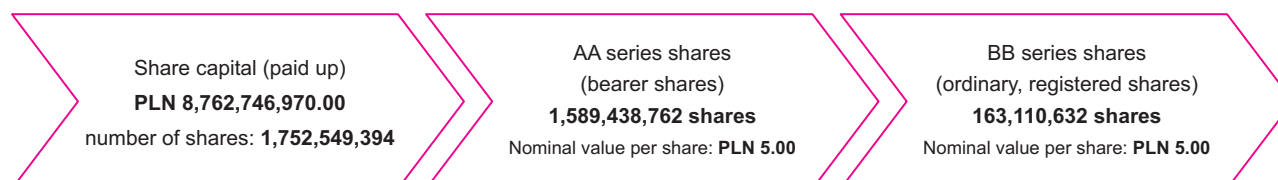
The table below presents general information on the Company and the basic types of activities conducted by the Company.

Table no. 1. General Information on TAURON:

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

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

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

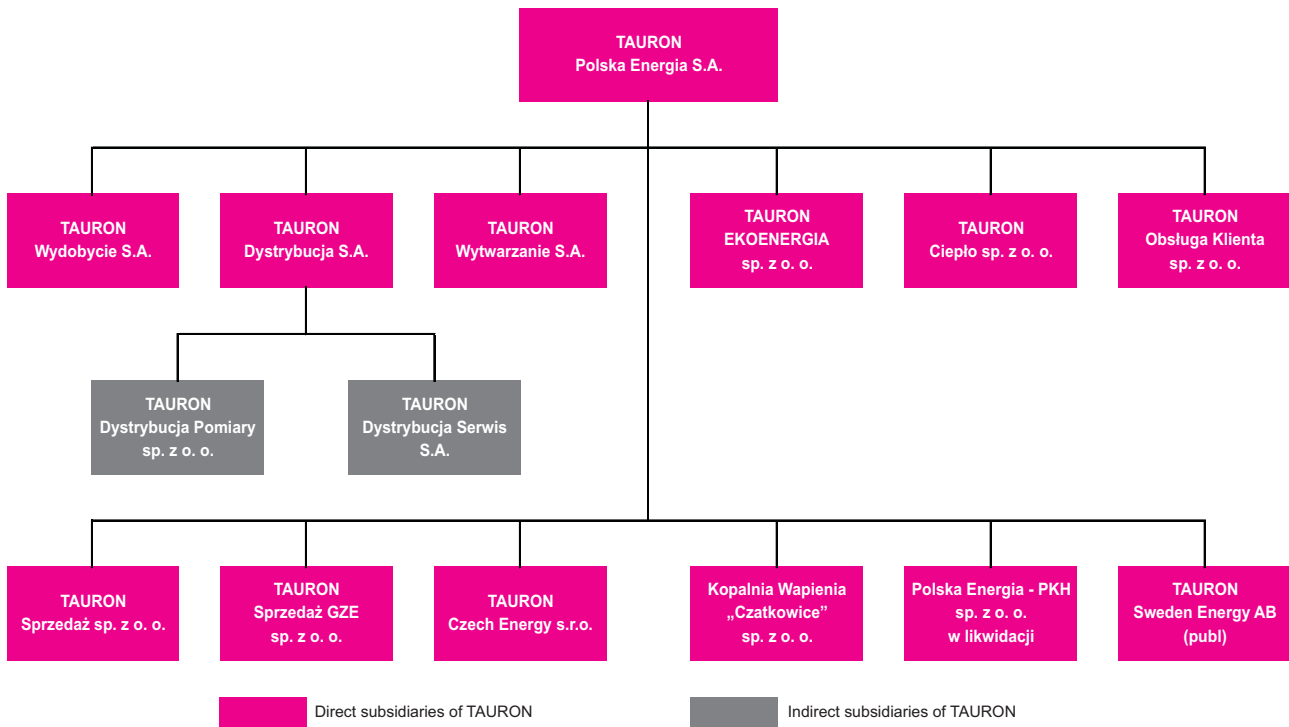


1.2. Organisation and structure of TAURON Capital Group

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

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

Figure no. 2. Structure of TAURON Capital Group, including companies subject to consolidation, as at 31 December 2014



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

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

Figure no. 3. Value chain in TAURON Capital Group



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

1.3. Strategy and Policy of the Company Development

1.3.1. Development policy

On 2 June 2014 TAURON Management Board adopted and the Supervisory Board issued a positive opinion on the document entitled *Corporate Strategy of TAURON Group for 2014–2017 with an outlook until 2023* (Corporate Strategy), which is an update of the corporate strategy adopted and approved in 2011. In 2014, activities performed so far were comprehensively reviewed and evaluated, and the assumptions accepted in the then existing economic, market and regulatory environment were verified in detail. When updating the Corporate Strategy the changing regulatory regime, market environment and general trends in the energy sector were taken into account, among which the most important factors affecting the sector are the EU and national regulations related to the conditions for the functioning of the energy sector in Poland, including, in particular, the energy and climate package (achievement of the 3x20 targets), the Polish Act on Energy Efficiency, Energy Efficiency Directive, European Union (EU)

assistance funds, European Commission's activities aimed at emission abatement, the Polish energy regulations package, regulations related to electricity distribution and development of smart technologies, Energy Policy of Poland until 2030, the Polish Nuclear Power Programme and Energy Roadmap 2050.

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

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

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

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

1.3.2. Implementation of Corporate Strategy

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

In the scope of implementing the investment tasks:

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

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

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

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

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

Growth in the most attractive lines of business

The growth will focus on the areas of operations where the highest potential for achieving high rates of return on investments exists. In the Generation, Heat and RES Areas, restoring and increasing of installed generation capacity up to the level of approximately 6.15 GW in 2023 from the current 5.4 GW is planned. Distribution and Sale Areas are also important growth drivers.

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

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

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

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

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

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

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

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

Operational and investment effectiveness at the level of best practice

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

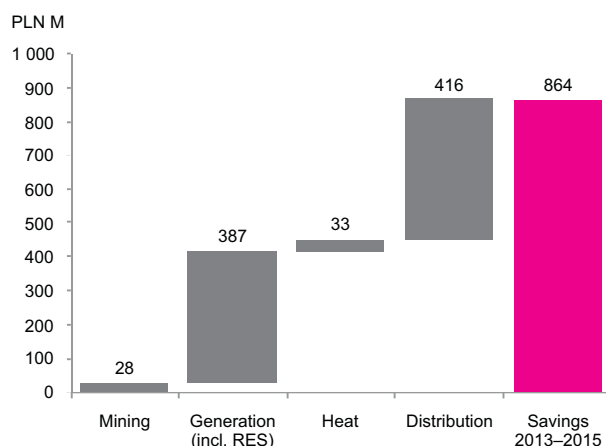
Treating budgetary discipline as a priority in the scope of investment expenditure and operating costs applies in each Business Area. The executed activities related to the improvement of operational and investment effectiveness enabled to prepare TAURON Capital Group to the functioning under the changeable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

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

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

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

Figure no. 4. Effectiveness Improvement Programme for 2013–2015



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

Management of exposure to market and regulatory risks

Due to the specific nature of TAURON Capital Group activities and the strong exposure to amendments in the regulations of the national and the EU law, management of market and regulatory risk is one of the key elements of implementation of Corporate Strategy, based, among others, on the continuous monitoring of the legislative activity related to the energy market at the EU level and in Poland. Market risk management takes place in all Business Areas (in particular, in regulated areas, such as Distribution and Heat), and it is coordinated by TAURON. In the scope of market risk, the management focuses mainly on energy trading.

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

Effective strategy of securities will cover the whole actions in the value chain of TAURON Capital Group, starting from the security of the assumed volume of fuel supply from the sources held, ending up with coverage of the specific volume of electric energy sold to end customers from own generation units. The policy conducted shall guarantee the secure functioning of the assets held in the Generation Area through provision of fuel supplies and maintaining of its price at an acceptable level. The detailed description of the risk management process in TAURON Capital Group is presented in item 3 of this Report.

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

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

Building an effective organisation

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

The activities performed in 2014 comprised the follow-up implementation of the target organisational structure and completing the integration of the general corporate function, including mainly in the areas of accounting and IT services. In the Sales and Customer Service Areas, many activities were conducted aimed at improving

the quality and growth of client satisfaction level, among others, through the harmonisation of processes, standardisation of documents, making the remote e-BOK channel available. The centralisation of billing systems for business clients was completed, the centralisation of billing systems for mass clients was continued. The centralisation of the service of financial and accounting processes and the IT service was continued. The measures implemented will ultimately contribute to the implementation of the Corporate Strategy in the whole value chain and to the strengthening of the position of TAURON Capital Group among the leading energy companies in the region.

1.3.3. Assessment of implementation opportunities of investment projects

Strategic investments as well as their financing are managed centrally at the level of the Company. On the basis of the conducted analyses, the Management Board of the Company assesses that TAURON Capital Group is able to finance the current and future investment projects from funds generated from operating activities and by acquisition of debt financing.

1.3.4. Main domestic and foreign investments

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

Purchase of equity securities

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

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

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

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

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

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

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

Taking over shares in newly established companies

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

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

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

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

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

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

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

The establishment of the company was aimed at enabling the implementation of the project comprising the division of the TAURON EKOENERGIA sp. z o.o. company (TAURON EKOENERGIA) through the separation of an organised part of the enterprise in the form of wind farms and its contribution to the Marselwind company.

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

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

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

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

Squeeze out

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

TAURON became the sole shareholder of TAURON Wytwarzanie, holding 100% share in the initial capital of this company.

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

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

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

Management Rules of the Company

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

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

The management rules of the Company are also specified in the *Organisational Regulations of TAURON Polska Energia S.A. (Organisational Regulations)*, pursuant to which the Company is managed by directly by the Management Board and through proxies, Directors of Departments and plenipotentiaries.

The President of the Board – Chief Executive Officer, manages business as usual of the Company and takes decisions on all issues concerning the Company, which are not subject to decisions of the Management Board or other governing bodies of the Company, and supervises the performance of the division which reports to him directly.

The President of the Board:

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

Vice-Presidents of the Management Board:

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

Directors of Departments:

- 1) manage the departments which report to them, being responsible for their performance results,
- 2) determine the goals, targets and tasks of individual business units included in the department they manage, within their subjective competence,

- 3) coordinate the structures subordinated to them, in accordance with the Company's interest and in compliance with the legal regulations,
- 4) implement the guidelines and recommendations of the Management Board Members and keep them informed of the performance of the subordinated department,
- 5) undertake any other necessary activities providing for effective and efficient performance of the subordinated department.

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

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

Management rules of "TAURON Group"

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

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

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

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

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

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

The Committees fulfil the following functions:

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

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

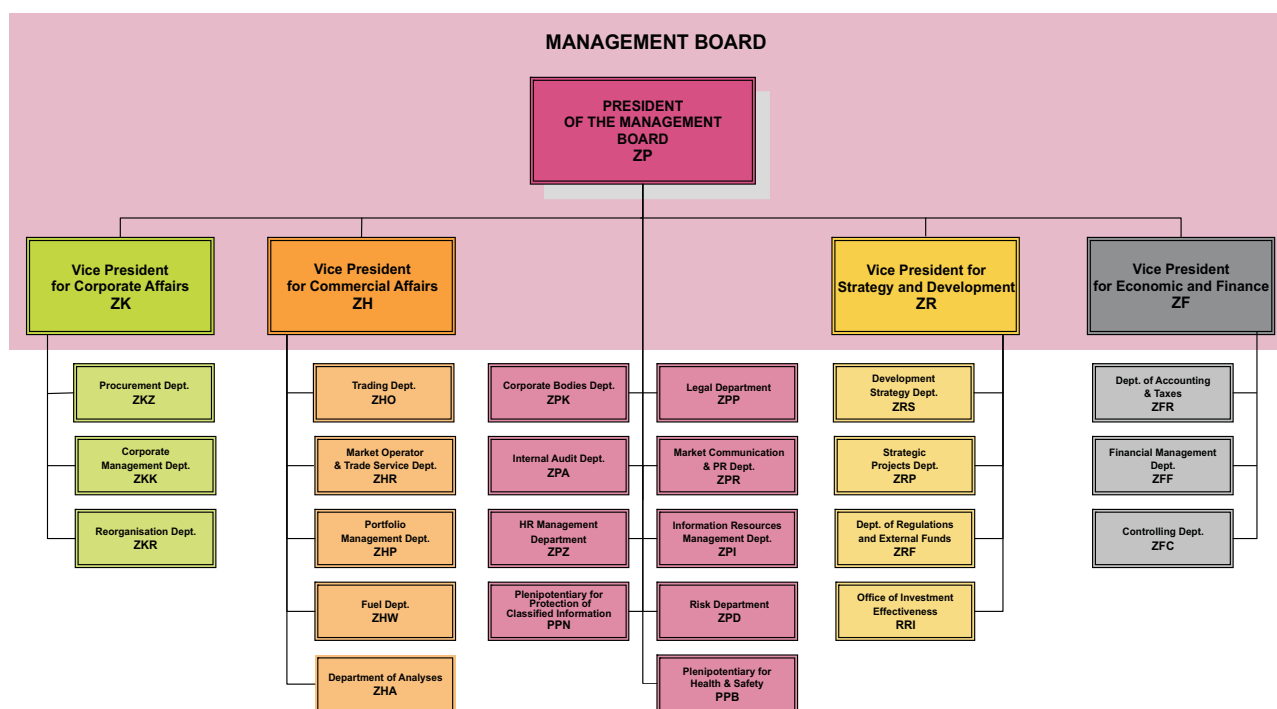
1.4.2. Changes in the management rules of the Company and TAURON Capital Group

Changes in the management rules of the Company

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

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

Figure no. 5. Organisational chart of TAURON Polska Energia S.A. as at the day of this report



Changes in the management rules of “TAURON Group”

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

1.5. Organisational or capital links

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

Table no. 2. Specification of significant subsidiaries covered by consolidation as at 31 December 2014 in which the Company holds direct and indirect share

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

* On 2 January 2014 the merger of companies: TAURON EKOENERGIA, and MEGAWAT MARSZEWO sp. z o.o. and BELS INVESTMENT sp. z o.o. was registered.

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

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

**** On 2 July 2014 the company Polska Energia – Pierwsza Kompania Handlowa sp. z o.o. (PEPKH) was put into liquidation.

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

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

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

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

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

2. OPERATIONS OF TAURON POLSKA ENERGIA S.A.

2.1. Factors essential for development

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

- 1) the macroeconomic situation, especially in Poland, and the economic situation in the area of TAURON and TAURON Capital Group operations, as well as at the level of the European Union and global economy, including volatility of interest rates and currency rates, etc., influencing the valuation of assets and liabilities recognised by the Company in the statement of financial situation;
- 2) political environment, especially in Poland as well as at the EU level, including the opinions and decisions of public administration institutions and authorities, for example: Office for Competition and Consumer Protection (OCCP), Energy Regulatory Office (ERO) and the EC,
- 3) changes in the regulations related to the energy sector, as well as changes in the legal environment, including: tax law, commercial law, environmental protection law,
- 4) situation in electric energy sector, including the activity and measures undertaken by competition in the energy market,
- 5) resumption of the support system of electric energy generation in high performance co-generation ("red" and "yellow" certificates),
- 6) geological and mining conditions,
- 7) number of free CO₂ emission allowances allocated after 2013, and prices of the allowances acquired,
- 8) prices of electric energy and fuel,
- 9) environmental protection requirements,
- 10) scientific and technical progress,
- 11) demand for electric energy and other products of the energy market, including changes arising from seasonality and weather conditions.

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

2.2.1. Internal factors and their assessment

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

2.2.2. External factors and their assessment

2.2.2.1. Macroeconomic environment

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

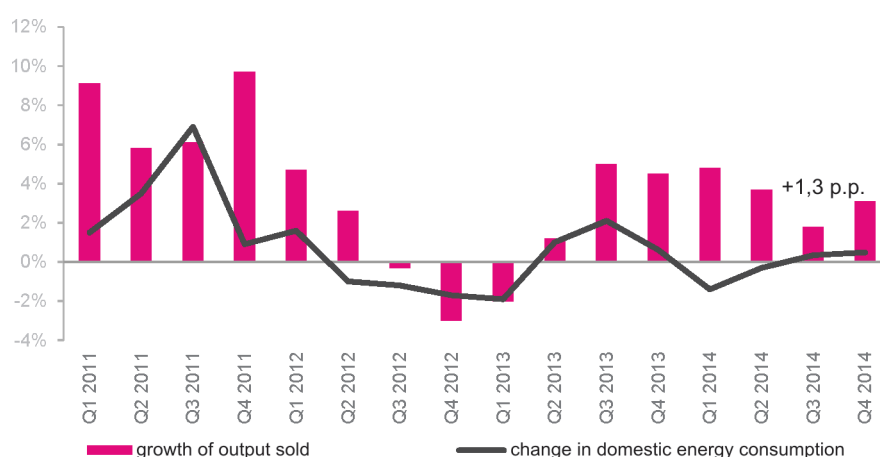
The condition of the Polish economy is considerably associated with the economic trends in the EU and in international markets. In 2014, the dynamics of economic growth in Europe was not optimistic.

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

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

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

Figure no. 6. Growth in industrial output sold and change in electric energy consumption (YoY change)



Source: PSE

2.2.2.2. Market environment

Prices of electric energy and related products

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

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

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

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

In 2014, the situation in KSE did not demonstrate any significant changes. According to the PSE data, in 2014, in relation to 2013, the insignificant growth in the domestic electric energy consumption occurred, only by less than 0.5%, reaching 158.7 TWh. On the other hand, electric energy production in Poland dropped by 3.7%, to 156.6 TWh.

The balance was compensated through energy import from the neighbouring countries. In 2014 Poland imported over 2.1 TWh of energy, whereas in the previous years it was the net exporter; in 2013 only export reached 4.5 TWh of energy. Import resulted mainly from higher SPOT market prices in Poland. The decline in energy production was visible in the whole generation sub-sector. For generation sources based on lignite, the decline of -4.8% was recorded, whereas for those based on hard coal it reached -5.1%. Even the quantity of energy produced in wind sources increased by only 23.4% in 2014, reaching 7.2 TWh, mainly due to poor wind conditions and the decline in the dynamics of wind sources installation in the system. At the end of 2014, capacity installed in wind farms reached 3,707 MW, whereas at the end of 2013, it reached 3,343 MW.

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

- 1) growth in prices of CO₂ emission allowances affecting the level of the clearing price (CRO) on the RB (by over PLN 6/Mg, on average),
- 2) introduction of new ORM payment mechanism with the maximum reference price of PLN 37.13/MWh in peak hours.

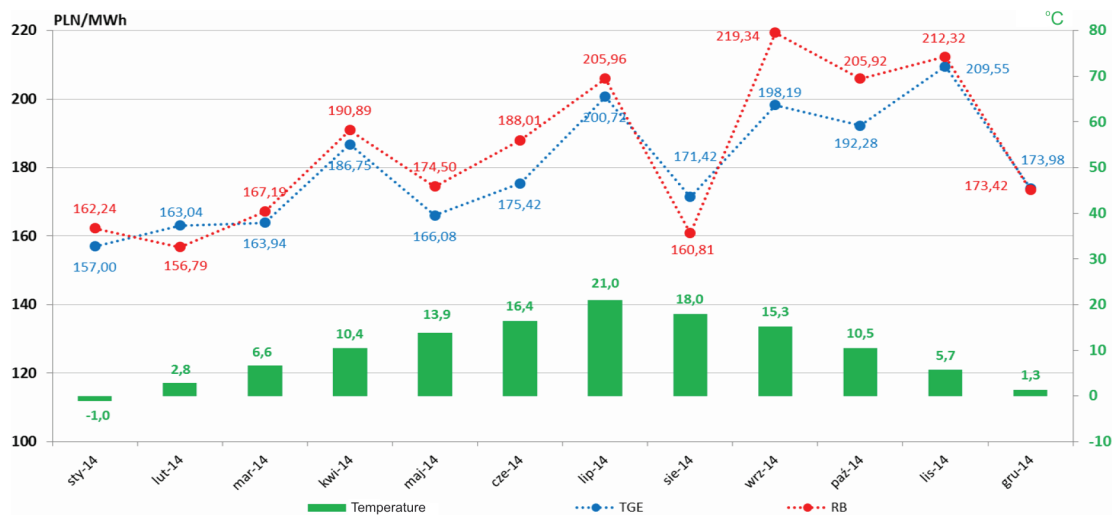
According to the TSO data for 2014, the following changes were recorded as compared to 2013:

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

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

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

Figure no. 7. Average monthly energy prices on the SPOT and RB markets and the average temperatures



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

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

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

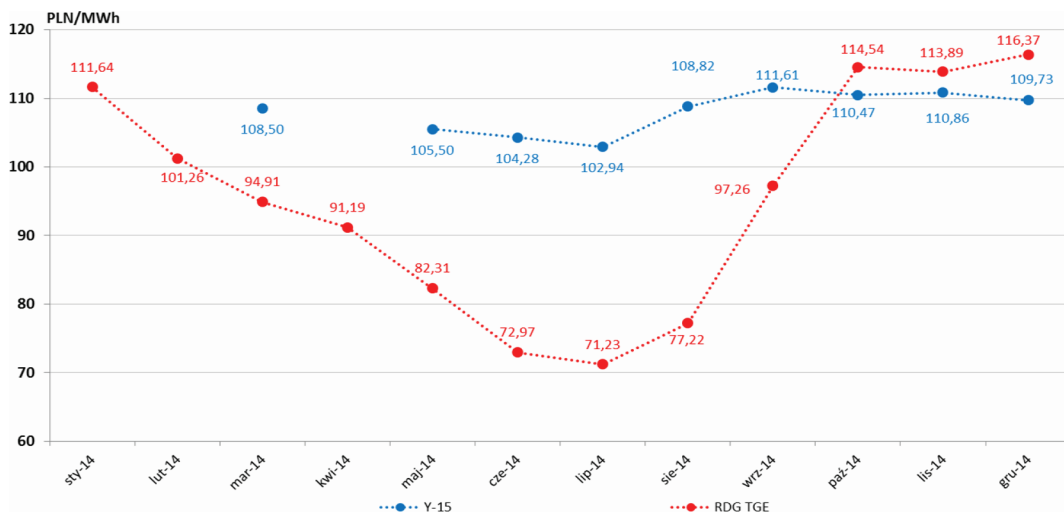
Figure no. 8. Trading of BASE Y-15 contracts



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

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

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

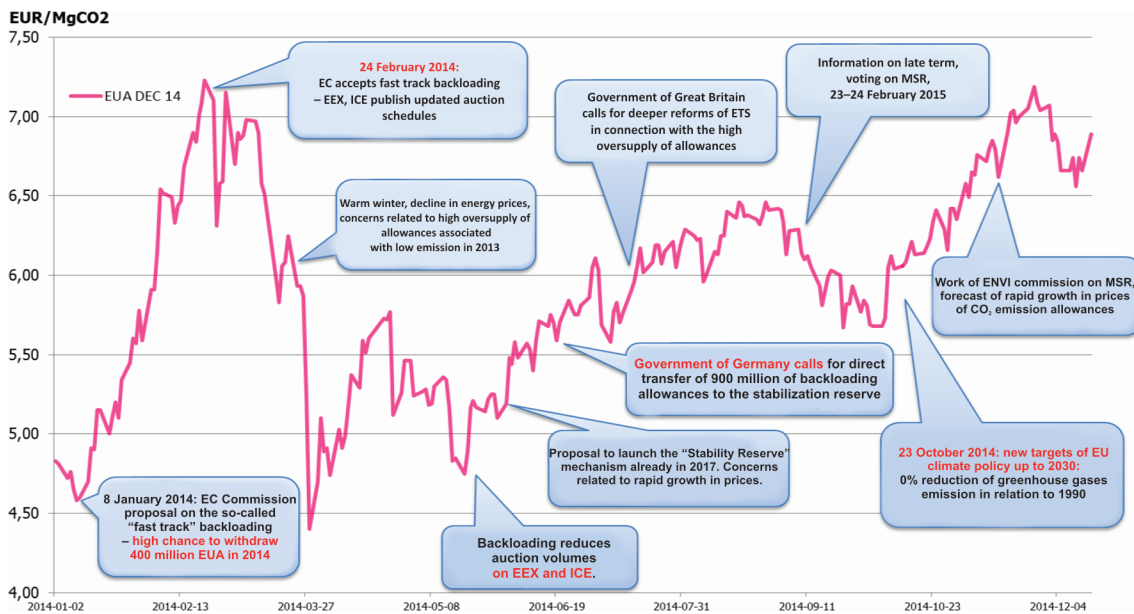


In 2014, upward trends were noted in the market of CO₂ emission allowances. Intensive work of the EC related to the European Union CO₂ Emission Trading System (EU ETS) had an impact on the growth of prices. Still in Q2 2013 the EUA units were quoted below EUR 3/Mg of CO₂, due to the significant oversupply estimated at a level of over 2 billion pcs.

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

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

Figure no. 10. Impact of EC activities and political events on quotations of the forward product, EUA Dec-14



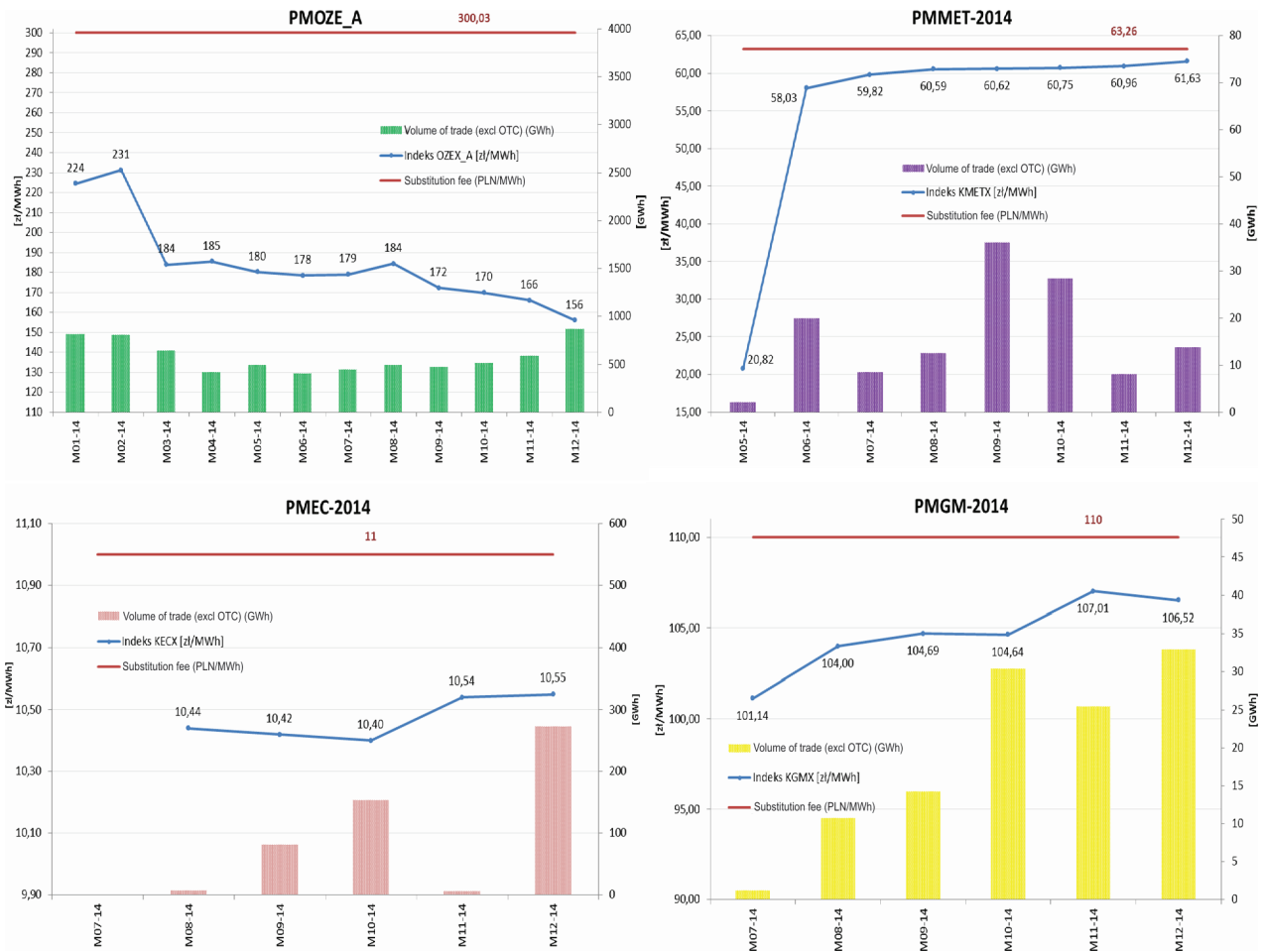
2014 brought significant changes in the market of property rights, associated mainly with the amendments to the legal regulations for the co-generation units. In the first two months of 2014, prices of the OZEX_A index increased from PLN 192.49 to 250.47/MWh, and the balance of the register from January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

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

For the PMMET-2014 property rights confirming energy production during methane combustion, the redemption obligation comprised certificates for production in the whole 2014. Prices of these rights in May 2014 remained at a very low level of approximately PLN 20/MWh. However, already in the consecutive month, the prices increased to almost PLN 59/MWh, reaching the level of PLN 61.50/MWh by the end of 2014.

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

Figure no. 11. Indices of property rights



2.2.2.3. Regulatory environment

Changes in the regulations of the energy sector

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

Arrangements in the scope of CO₂ emission allowances

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

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

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

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

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

On 14 March 2014 the Parliament of the Republic of Poland adopted the *Act on the amendment to the Act on Energy Law and certain other acts*, i.e. the so-called co-generation act. Following its signing by the President of the Republic of Poland, it was published in the *Journal of Laws on 15 April 2014*, which means that its provisions entered into force as of 30 April 2014. The co-generation act recovered the support system for the high-performance coal co-generation and gas co-generation functioning until the end of 2012. The support has been introduced for the years 2014–2018. The entry into force of the new co-generation act means the obligation imposed on energy suppliers in terms of purchase and redemption of energy certificates of origin (the so-called “red” certificates – for coal co-generation, the so-called “yellow” certificates for gas co-generation) or payment of the substitution fee. Energy suppliers were charged with additional costs to be incurred in order to fulfil the statutory obligation of redemption of “red” and “yellow” certificates. For the “red” certificates, in each of the years 2014–2018, this obligation amounts to 23.2% of the volume of the energy sold, whereas in case of the “yellow” certificates, this obligation shall grow from 3.9% in 2014 to 8% in 2018, which should contribute to the development of the co-generation sources operating based on gas fuel.

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

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

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

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

It will be possible to redeem the certificates originating from production in co-generation in individual years only within the settlement for a given year, i.e. until June of the consecutive year, which is a significant difference in relation to the previously operating mechanisms, when the possibility of “banking” the certificates of the previous years led to the disturbance of the balance between supply and demand and the instability in prices of certificates. The impact of this regulation on TAURON Capital Group will occur in various Areas and it will be subject to partial mutual compensation. In the Generation and Heat Area revenues due to sales of “red” and “yellow” certificates will be generated, whereas in the Sales Area the need to purchase such certificates will appear for the purpose of redemption.

Obligation of public sales of electric energy by generators

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

2.3. Timeline of key events

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

Figure no. 12. Timeline of key events

EVENTS IN TAURON IN 2014	
JANUARY FEBRUARY	<ol style="list-style-type: none"> 1. Appointment of Aleksander Grad as the member of the TAURON Supervisory Board of 3rd term by the Extraordinary GM of the Company. 2. Registration of the amendment to the Company Articles of Association. 3. Assignment of the ownership of TAURON Wydobycie shares held to Kompania Węglowa to the Company, following the approval of their sales by the GM of Kompania Węglowa. 4. Dismissal of Rafał Wardziński from the Company Supervisory Board by the Minister of Treasury and appointment of Agnieszka Woś as the member of the Company Supervisory Board of 3rd common term. 5. Delegating Aleksander Grad, Member of the Supervisory Board to the temporary performance of activities of the Vice-President of the Company Management Board.
MARCH APRIL	<ol style="list-style-type: none"> 1. Appointment of the Management Board of the Company of the 4th common term, consisting of: Dariusz Lubera (President of the Management Board), Aleksander Grad (Vice President of the Management Board), Katarzyna Rozenfeld (Vice President of the Management Board), Stanisław Tokarski (Vice President of the Management Board) and Krzysztof Zawadzki (Vice President of the Management Board). 2. Signing of the Agreement by the Company and Polish Development Investments (Polskie Inwestycje Rozwojowe) concerning the financing of the power unit of 413 MW_e at Łagisza Power Plant in Będzin. 3. Concluding the agreement on extension of effectiveness of the letter of intent of 23 December 2013, concluded between the companies: TAURON, TAURON Wytwarzanie, TAURON Ciepło, ArcelorMittal and ArcelorMittal Ostrava a.s., concerning the partnership cooperation in the area of industrial power engineering. 4. Approval of the tariff for gas fuels by the ERO President.
MAY JUNE	<ol style="list-style-type: none"> 1. Appointment of the following persons by the Minister of Treasury to the Supervisory Board of the Company of the 4th common term: Andrzej Gorgol, Michał Michalewski, Marek Ściążko, Antoni Tajduś and Agnieszka Woś and appointment of Jacek Szyke as the member of the Supervisory Board of the Company of the 4th common term. 2. Adoption of the resolution by the Ordinary TAURON GM on allocating a part of the profit for the financial year 2013 in the amount of PLN 332,984,384.86 for the dividend. 3. Adoption of the updated Corporate Strategy of TAURON Group for 2014-2017 with an outlook until 2023. 4. Awarding TAURON with the distinction <i>Hero of the Capital Market</i> granted by the Association of Individual Investors. 5. Signing of a letter of intent by TAURON, ENEA, ENERGA and PGE, concerning the cooperation in the scope of research, development and innovation as well as joint implementation of research and development projects.
JULY AUGUST	<ol style="list-style-type: none"> 1. Concluding of the consortium agreement by TAURON and 22 institutions, including 18 universities, 2 institutes and 2 enterprises, establishing the Motorway of Technology and Innovation Institute. 2. Confirmation of the long-term foreign and local currency ratings for the Company at "BBB" level, with stable outlooks by the Fitch Rating Agency. 3. Concluding of the credit agreement by TAURON and the European Investment Bank (EIB), worth PLN 295 million, for the implementation of investments in the areas of renewable energy and energy distribution. 4. Request of the shareholder, KGHM, concerning the convening of the Extraordinary TAURON GM and placing of the item concerning the supplementary election to the Supervisory Board of the Company on the agenda. 5. Acquisition of 100% share in TAURON Wytwarzanie share capital by TAURON. 6. Concluding of the partnership agreement by companies of TAURON Capital Group and companies of ArcelorMittal Group, concerning the establishment of a joint entity for implementation of the project in the scope of industrial power engineering.
SEPTEMBER OCTOBER	<ol style="list-style-type: none"> 1. Appointment of the following persons by the Extraordinary GM of the Company to the Supervisory Board of the Company of the 4th common term, upon the request of the shareholder, KGHM: Maciej Koński, Leszek Koziorowski and Maciej Tybura. 2. Concluding of the agreement by PGE, TAURON, ENEA, KGHM concerning the implementation of the joint project on construction of the first Polish nuclear power plant with the capacity of approximately 3 thousand MW_e. 3. Acquisition of 100% direct share in the share capital of TAURON Wydobycie and KW Czatkowice by TAURON. 4. Issuing of the approval of the OCCP President for the concentration based on implementation of the joint project in the scope of nuclear energy by PGE, TAURON, ENEA, KGHM within the PGE EJ1 company. 5. Confirmation of the international long-term foreign and local currency ratings for the Company at "BBB" level, with stable outlooks by the Fitch Rating Agency and granting ratings of the Fitch Agency. 6. Granting the main award to TAURON <i>The best annual report 2013</i>, for the best annual report of TAURON Capital Group for 2013.
NOVEMBER DECEMBER	<ol style="list-style-type: none"> 1. Issuing of the approval of the OCCP President for the concentration based on implementation of the joint project in the scope of power engineering by TAURON and ArcelorMittal within the TAMEH HOLDING company. 2. Issuance of five-year unsecured bonds with the value of PLN 1,750,000 thousand, by TAURON on the domestic market. 3. Concluding of the master agreement by TAURON with the Silesian University of Technology in Gliwice, on cooperation in the scope of educational, scientific, research and development and advisory activities. 4. Registration of the Tax Capital Group established for 2015-2017 by TAURON and the key companies of TAURON Capital Group. 5. Concluding of the consortium agreement by TAURON related to the project on <i>An Integrated Collaborative Platform for Managing the Product-Service Engineering Lifecycle (ICP4Life)</i>.

2.4. Basic products, goods, services

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

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

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

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

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

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

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

- 1) wholesale trading of electric energy and related products, in particular, in the scope of commercial service provided to companies, securing the needs in the area of fuels, CO₂ emission allowances and certificates of energy origin,
- 2) procurement management,
- 3) financial management,
- 4) management of IT model functioning,
- 5) advisory services in the scope of accounting and taxes,
- 6) legal service,
- 7) audit.

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

The basic operations of the Company, besides managing TAURON Capital Group, include wholesale electric energy trading on the territory of the Republic of Poland, based on the concession on electric energy trading issued by the ERO President for the period from 1 June 2008 until 31 May 2018. The Company has focused on the purchase and sales of electric energy for the needs of securing the purchase and sales positions of entities included

in TAURON Capital Group and on wholesale electricity trading. Sales of electric energy performed by the Company in the financial year 2014 was mainly addressed to the following companies: TAURON Sprzedaż and TAURON Sprzedaż GZE.

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

The Company also acts as the competence centre in the area of management and trade of CO₂ emission allowances for the companies of the TAURON Capital Group. Due to centralisation of emission trading, the synergy effect was obtained, consisting in optimisation of available resources of the entities included in TAURON Capital Group. Along the centralisation of this function in TAURON, the Company is responsible for settlements of CO₂ emission allowances, securing of emission demand of the subsidiaries, taking into consideration the allowances allocated and the support in the process of acquisition of allowances limits for the following periods. While implementing the aforementioned goals, the Company is the active participant of trade of CO₂ emission allowances.

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

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

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

2.5. Potential markets and sources of supply

Wholesale trade

TAURON conducts wholesale electric energy and gas trading for the needs of securing the purchase and sales positions of entities from TAURON Capital Group. The Company also deals with *proprietary trading* activities, i.e. trading of electric energy, natural gas, CO₂ emission allowances and related products, with the purpose of generating profits on volatility of prices over time. The activities of the Company comprise wholesale markets both in the country and abroad, and they are conducted on the SPOT market and forward market in contracts with physical delivery and in financial contracts. In Poland, the Company is an active participant of TGE and OTC platforms conducted by the London energy brokers, such as Tradition Financial Services. TAURON actively participates in auctions of the cross-border exchange of energy transmission capacity on the Polish-Czech, Polish-German and Polish-Slovakian border, managed by the CAO auction office. The trade on the German market is mainly conducted through the EPEX Spot SE and EEX exchanges in the scope of trading of financial instruments of futures type, besides, transactions on the OTC market are also concluded. On the Czech and Slovakian market, through its subsidiary – TAURON Czech Energy, the Company operates on the Prague Power Exchange PXE a.s., covering the Czech, Slovakian and Hungarian markets, as well as on the OTE a.s. (Czech Republic) and OKTE a.s. (Slovakia) exchanges.

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

In addition, TAURON conducts the *proprietary trading* activities on the SPOT market of natural gas of the German EEX exchange. Through the TAURON Czech Energy company, trading in the Czech market is also carried out as well as interconnector gas exchange between Poland and Czech Republic. The Company has been registered on the PRISMA European Capacity Platform GmbH enabling active participation in the mechanism of transmission capacity allocation. It provides the opportunity to secure the needs of import or export from/to the national gas system of the German market on competitive basis. The Company also cooperates with the GASPOOL Balancing Service GmbH gas hub, ONTRAS Gastransport GmbH and GASCADE Gastransport operators and customers in the scope of purchase / sale of gas on the Polish and German OTC market. Until mid-2014 TAURON also sold natural gas to end clients. As of July those functions were transferred to the TAURON Sprzedaz company for which TAURON conducts commercial operations associated with securing of positions on the exchange market.

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

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

The Company also acts as the competence centre in the area of CO₂ emission allowances for the companies of the TAURON Capital Group and the external customers. The management of CO₂ emission allowances is based on defining the demand for CO₂ emission allowances for facilities from TAURON Capital Group, defining the strategy of commercial activities in the procedure in case of deficit or surplus of allowances, implementation of EUA exchange to CER/ERU and active management of free allowances pool, in order to generate additional benefits. While fulfilling the role of administrator of facilities in TAURON Capital Group, the Company is also responsible for CO₂ emission settlements of individual facilities through the redemption of allowances in the European Register of Allowances. In the framework of the aforementioned activities, TAURON concludes sales agreements on behalf of TAURON Capital Group companies and administers the account in the European Register of Allowances. On behalf of TAURON Capital Group, TAURON actively participates in consultations of legal acts at the national and European level, as well as supports companies of the Generation and Heat Area in the process of acquiring free allowances for the third settlement period and in the process of acquiring units from projects reducing CO₂ emission. While implementing the above goals in the area of CO₂ emission allowances trading, the Company actively participates in trading on the European Climate Exchange (the ICE), the EEX exchange in Leipzig and the OTC market.

Electric energy – strategic Clients

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

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

Table no. 5. Volume of electric energy sales

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

Fuels

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

In 2014, about 42% of the current demand of TAURON Capital Group for fuel required for generation of electric energy and heat was satisfied by hard coal coming from own mining plants of TAURON Capital Group. The remaining part of the demand was covered from external sources.

Fuel purchases – coal

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

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

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

Table no. 6. Quantity of coal purchased in 2014

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

Fuel purchases – biomass

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

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

Fuel purchases – Gas

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

In 2014 the Company also supplied coke-oven gas to Elektrownia Blachownia (TAURON Wytwarzanie). The said gas was purchased by TAURON from ArcelorMittal Poland, Zdzeszowice Branch, under the multiannual Agreement for the supply of coke-oven gas. The transmission of the coke-oven gas was conducted within the agreement for provision of transmission services of the coke-oven gas concluded with Polska Spółka Gazownictwa sp. z o.o. Oddział w Zabrze, Zakład w Opolu Zabrze Branch, Plant in Opole.

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

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

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

Table no. 7. Fuel supplies executed by TAURON to entities of TAURON Capital Group

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

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

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

Important events in 2014

Extraordinary General Meeting of the Company

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

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

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

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

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

Detailed information on the aforementioned event is included in item 1.3.4 hereof.

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

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

Dismissal and appointment of Supervisory Board member of the Company

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

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

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

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

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

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

Dismissal and appointment of Members of the Company Management Board

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

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

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

Recommendation of the Management Board concerning the dividend pay-out

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

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

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

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

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

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

Development of the Centre of Common Services (CUW)

In May 2014 the Programme on *Integration of IT Functions* was completed, under which the Centre of Common IT Services was established (CUW IT), providing IT services to all companies of TAURON Capital Group. Within the framework of the Programme, IT assets, key agreements with external suppliers were transferred to CUW IT and assumptions of new corporate governance in the IT area were implemented, in particular, new organisational

and corporate structures. The new organisation, through standardisation of processes and services as well as centralisation of key IT tools, shall allow for cost optimisation of IT functioning in TAURON Capital Group as well as efficient responding to the changing requirements of individual business areas.

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

Ordinary General Meeting of TAURON

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

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

Appointment of Supervisory Board members of TAURON Company

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

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

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

Update of Corporate Strategy

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

Detailed information on the aforementioned event is included in item 1.3.1 hereof.

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

Agreement of Understanding of Polish energy groups related to innovation

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

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

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

The above activity is included in the implementation of the goals defined in the updated Corporate Strategy which focuses on the model of management of the research and development area in TAURON Capital Group. Effective management of the implementation of research and development works in TAURON Capital Group companies is aimed

at intensification of innovative activities and maximising the benefits arising from the access to knowledge and experience gained during implementation of such projects. It is also required to improve the effectiveness of applying for external funds for innovation in view of the opportunities and challenges facing the power engineering sector.

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

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

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

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

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

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

Confirming of the Fitch agency rating for TAURON

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

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

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

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

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

On 29 July 2014 the Company, in electronic form, a request from KGHM – the shareholder representing 10.39% of the share capital of the Company, to convene an urgent Extraordinary General Meeting of the Company, pursuant to the Company Articles of Association and the By-Laws of the Company General Meeting, and to include an item

concerning supplementary election of new members of the Company Supervisory Board on the agenda of the Meeting. In the rationale KGHM stressed that extending the current composition of the Supervisory Board would enable wider representation of shareholders in the Supervisory Board and have a positive impact on implementation of statutory responsibilities of this governing body.

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

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

The project associated with the planned separation of wind assets

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

Detailed information concerning the activities undertaken in the aforementioned scope is included in item 1.3.4 hereof.

Tax Capital Group

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

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

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

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

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

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

Important events after 31 December 2014

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

In response to the inquiry from Kompania Węglowa S.A. and Spółka Restrukturyzacji Kopalń S.A. of 16 January 2015 regarding possible purchase of all or a part of mining assets belonging now to Kompania Węglowa, TAURON expressed its initial interest in buying all or a part of KWK Brzeszcze assets. The final decision regarding the purchase of all or a part of KWK Brzeszcze mining assets will be taken following a detailed analysis, including economic and technical analyses, that would confirm the possibility of economically viable coal mining. TAURON Group owns two mining facilities and thus has competence and experience in the scope of management and restructuring of mining facilities. The possible

acquisition of all or a part of KWK Brzeszcze assets should enable TAURON to increase the level of coverage of coal demand by internal resources in generation plants of TAURON Capital Group, which is in line with the assumptions of the Corporate Strategy.

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

In relation to the aforementioned event, on 2 February 2015 the Company established the team to carry out the comprehensive analysis of KWK Brzeszcze, comprising, in particular, specific legal, financial, technical and geological aspects. Moreover, as a result of the team's work, the analysis of variants will be prepared, concerning the purchase of all or a part of the coal mine from Spółka Restrukturyzacji Kopalń S.A. or from Kompania Węglowa, including indication of effects for both variants. Possibilities of potential cooperation with the financial or infrastructural partner will be also analysed (terms of such cooperation supported by the market research). Moreover, the analysis will also comprise the structure of the transaction based on the special purpose vehicle (SPV), assuming the lack of consolidation of assets purchased and, at the same time, the elimination of risk associated with the potential deterioration of financial indicators of TAURON Capital Group, in particular, the net debt to EBIDTA ratio.

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

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

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

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

Other important events

In addition, events resulting from the contracts and agreements concluded, significant for the operations, described in item 2.7.1 of this report, should be also considered as important events with material impact on operations of the Company in the financial year 2014.

2.7. Information on agreements concluded by the Company

2.7.1. Agreements significant for operations of the Company

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

Signing the Partnership Agreement with ArcelorMittal

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

The goal of the parties to the Shareholders' Agreement is to achieve the return on engaged assets at the expected level and, among others, the implementation of an investment programme adjusting the assets to the environmental requirements, as well as possibly full exploitation of metallurgical gas for the production of power media. The Agreement was concluded for a period of 15 years, with a possibility of its extension.

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

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

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

In relation to the earlier arrangements concerning joint implementation of the nuclear energy project in Poland, on 3 September 2014 PGE, TAURON, ENEA and KGHM signed PGE EJ 1 Shareholders' Agreement (Shareholders' Agreement) concerning the project of preparation for the construction of a nuclear power plant in Poland. In accordance with the aforementioned Shareholders' Agreement, TAURON, ENEA and KGHM, as Business Partners, will purchase from PGE, under a separate agreement, 30% shares in total (each of the Business Partners will purchase 10% shares) in a special purpose vehicle – PGE EJ 1 which is responsible for the preparation and execution of the investment comprising the construction and operation of the first Polish nuclear power plant of approximately 3,000 MW_e capacity.

In accordance with the assumptions, PGE will act as the leader of the Project and the PGE EJ1 company will fulfil the function of the plant operator in the future.

In accordance with the Shareholders' Agreement, the parties committed jointly, proportionally to the shares held, to finance activities scheduled for 2014–2016 under the preliminary stage of the project, in order to define such elements as prospective partners, including the strategic partner, technology supplier, EPC (Engineering, Procurement, Construction) contractor, nuclear fuel supplier and obtaining funds for the Project, as well as organisational and competence related preparation of PGE EJ 1 to the role of the future operator of the nuclear power plant responsible for its safe and efficient operation (Integrated Procedure). Pursuant to the Shareholders' Agreement, financial involvement of TAURON during the preliminary stage of the project should not exceed the amount of approximately PLN 107 million and it should be based on contribution of funds up to the said amount to increased share capital of PGE EJ 1. On 25 September 2014 the parties extended the binding term of the agreement in connection with the procedure pending before the President of OCCP concerning the intended concentration. On 7 October 2014, the President of OCCP issued the unconditional approval to perform the concentration, based on establishment of the joint entrepreneur, PGE EJ1, by the parties to the Shareholders' Agreement.

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

With reference to the provisions of § 91 item 6 point 3 of the Regulation of the Minister of Finance of 19 February 2009 on *current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state*, the Company hereby informs that it is not aware of any other agreements concluded, significant for the operations of the Company, other than the agreements mentioned above, including the agreements concluded between shareholders (partners), insurance agreements, cooperation or collaboration agreements.

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

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

Detailed information on significant transactions with affiliated entities has been provided in note 44 to the financial statement for the year ended on 31 December 2014.

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

Working capital facilities, short-term loans

In accordance with the financial model adopted in TAURON Capital Group, only TAURON may act as the party to working capital credits and loans raised with external institutions. In 2014 the Company continued to use the overdraft facility in the amount of PLN 300,000 thousand on the basis of the Agreement with Bank Pekao S.A., (Pekao Bank) concluded in December 2011, with the repayment term falling on 31 December 2014. The credit agreement was associated with the cash pooling system operating in TAURON Capital Group until 31 December 2014, serviced by Pekao Bank. The aforementioned credit agreement expired on 31 December 2014. In connection with the term character of the Agreement described above, as a result of the public procurement procedure ended on 18 December 2014, the Company concluded the agreement on overdraft facility with PKO BP S.A. bank (PKO BP bank) for the amount of PLN 300,000 thousand, which has become effective as of 30 December 2014, with the repayment term falling on 29 December 2017.

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

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

The Company also used the overdraft facility in the amount of EUR 26,500 thousand in Nordea Bank Finland Plc., with the repayment term falling on 31 January 2014. The facility was used for the needs of clearing the transactions of purchase/exchange of CO₂ emission allowances. The credit was repaid on time. In accordance with the foregoing, on 30 January 2014, for the needs of clearing the transactions of purchase/exchange of CO₂ emission allowances, the Company concluded the overdraft agreement with Nordea Bank Polska S.A. (currently PKO BP bank) up to the amount of EUR 25,000 thousand, with the repayment term until 31 December 2015. Pursuant to the annex of 21 March 2014, the subjective scope of the agreement was extended by a possibility to finance electric energy trading.

The table below presents detailed specification of agreements for working capital loans effective in the Company in 2014.

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

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

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

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

Table no. 9. Balance of loans granted to the Company by subsidiaries under cash pooling system as at 31 December 2014

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

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

Credit and loans of investment nature

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

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

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

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

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

Loans granted

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

The detailed description of the loans granted is included in item 2.7.3. hereof.

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

At the same time, pursuant to the agreement concluded on 20 June 2012 between the Company, Polskie Górnictwo Naftowe i Gazownictwo S.A. and EC Stalowa Wola, TAURON granted a VAT loan to EC Stalowa Wola, whose funds shall be used for financing of the VAT payable due to implementation costs of the investment involving the construction of the CCGT unit in Stalowa Wola, with the capacity of 449 MWe and 240 MWt.

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

Table no. 10. Disbursements and repayments of the VAT loan in 2014

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

Sureties and guarantees granted and received

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

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

Table no. 11. The table below specifies the agreements on sureties, guarantees and commitments effective as at 31 December 2014

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

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

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

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

Table no. 12. Specification of bank guaranties granted under the agreements effective as at 31 December 2014

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

At the same time, within TAURON Capital Group, in order to secure the transactions executed by the Company at TGE in electric energy markets and participation in the system of securing the liquidity of transaction settlement,

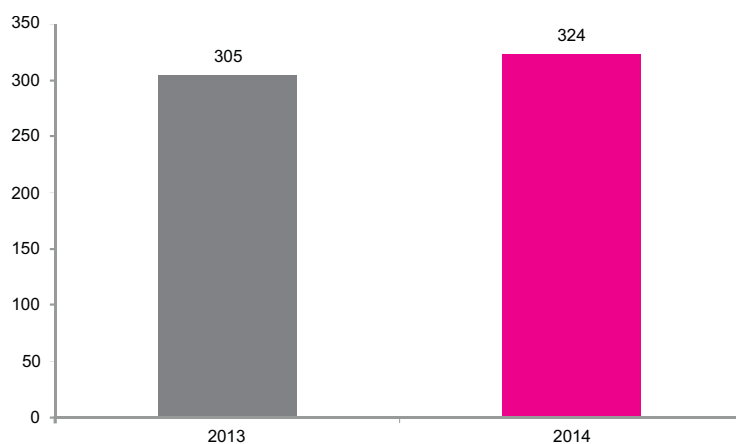
in 2014 the following agreements were effective, based on which TAURON Wytwarzanie granted the surety to the Company in favour of the IRGIT, on account of the settlement of future transactions:

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

2.8. Information concerning employment

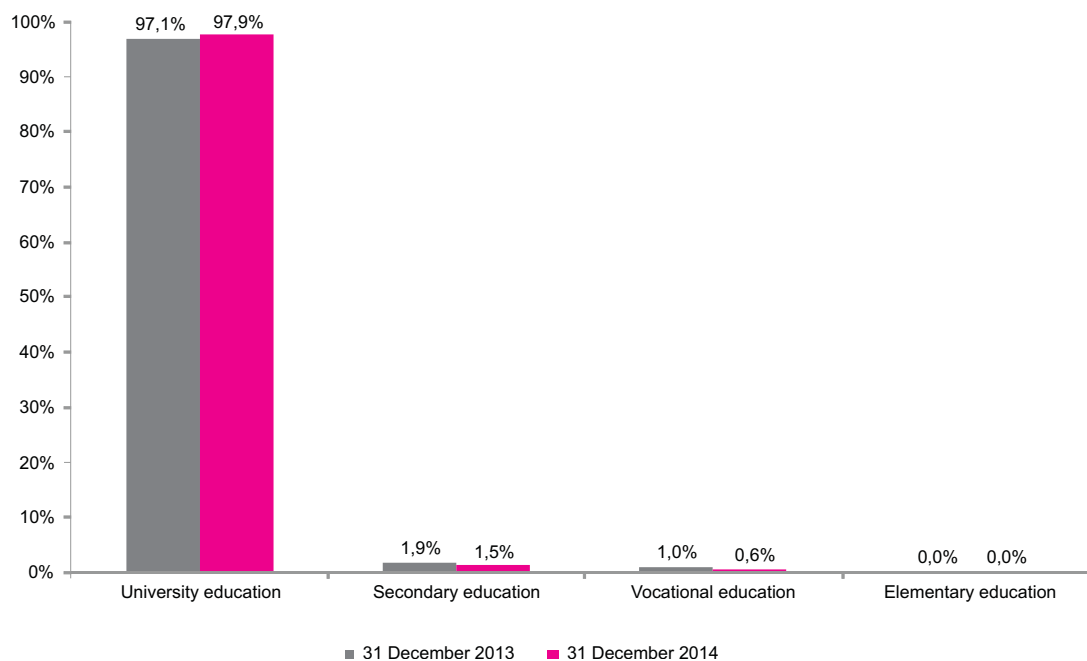
The figure below shows the levels of employment in the Company in FTEs (rounded up to a full FTE), in the years 2013-2014.

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



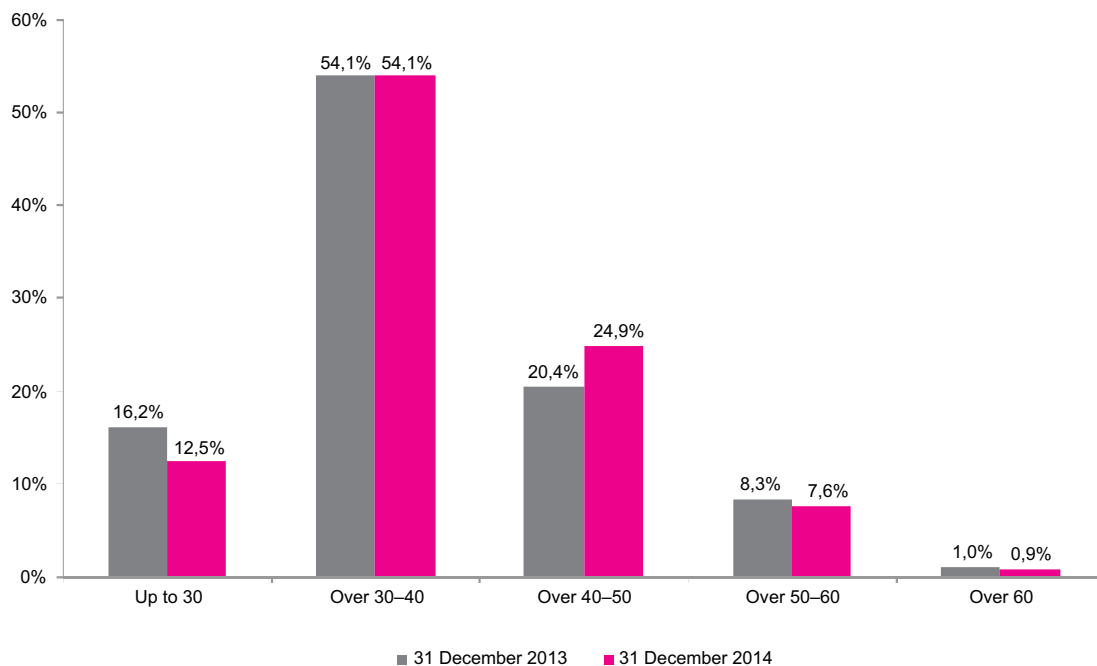
The figure below presents the structure of employment in the Company according to education as at 31 December 2013 and 31 December 2014.

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



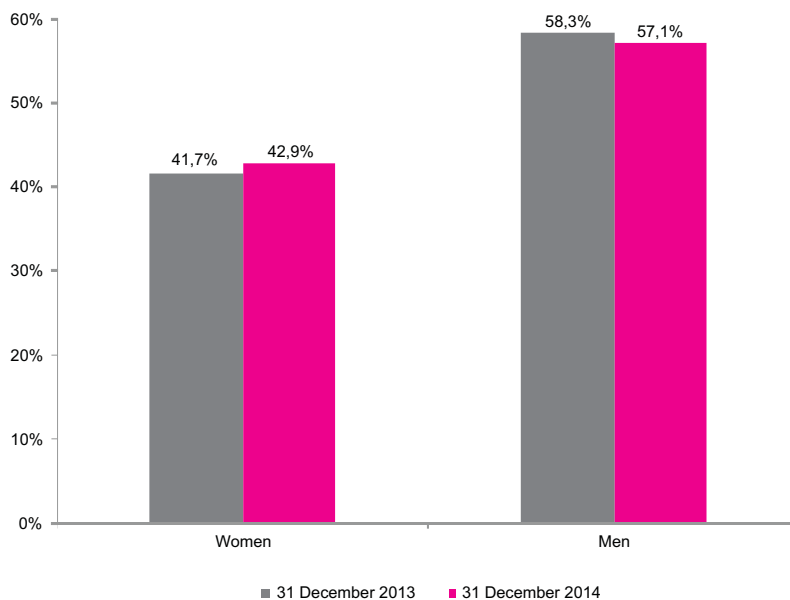
The figure below presents the structure of employment in the Company according to age as at 31 December 2013 and 31 December 2014.

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



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

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



3. RISK MANAGEMENT IN TAURON CAPITAL GROUP

Risk and threat factors

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

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

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

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

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

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

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

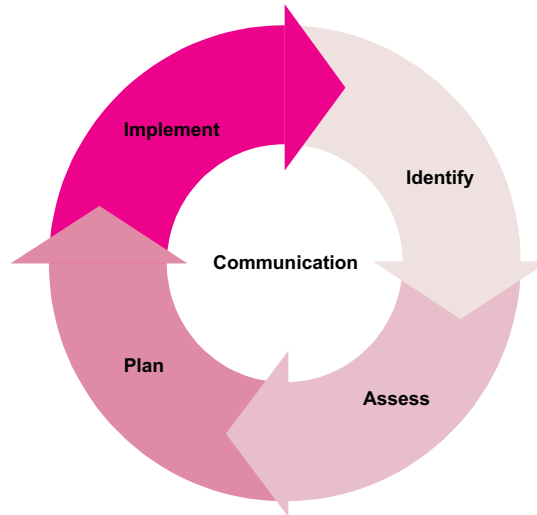
Enterprise risk management

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

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

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

Figure no. 17. Stages in enterprise risk management in TAURON Capital Group



The risk management process comprises continuous measures presented below:

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

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

Table no. 13. Participants of the risk management process

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

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

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

Within the framework of the aforementioned update, among others:

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

Commercial risk management

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

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

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

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

Financial and credit risk management

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

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

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

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

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

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

The Company manages financial risk (currency, interest rates, liquidity) based on the developed *Policy of managing risk specific in the financial area in TAURON Group*, adopted for application. This process is described in detail in item 4.6.2. hereof.

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

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

Table no. 14. Description of risk factors

No.	Types of risk	Risk description
I. Strategic risks		
1.	Risk of fund raising and financial services	Risk associated with the lack of possibilities to raise funding for operational and investment needs or high costs of acquisition of such financing, arising from tightening of the crediting policy of banks, unfavourable market conditions, unstable macroeconomic situation, which may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities due to the lack of resources for projects included in the Corporate Strategy and in investment plans, and for operations.
2.	Risk of unstable legal system and the European Union regulations connected with the functioning of the energy sector, including the environmental protection	Risk related to unfavourable legal changes, modifications in the Polish and the European Union regulations as well as to the legislative environment uncertainty. The risk factors may have significant adverse impact on operations of TAURON Capital Group and its financial situation through increase of operating costs of the enterprise, necessary to change the strategy of the Company or TAURON Capital Group companies, permanent exclusion of specific technologies arising from the requirement to implement the EU regulations, limiting the generation capacity of the Company and undermining its negotiation position against the institutions.

No.	Types of risk	Risk description
2.	Risk of tariff approval by the ERO President	Risk connected with the refusal of the President of ERO to approve the requested tariffs concerning the products offered and services provided, limited possibility to introduce amendments to the tariffs approved before and the refusal to recognise investment expenditure in the development plan, or in their part which shall not cover the actual costs of their generation. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through higher cost of operations, loss of income, reduced profitability of the operations and limitation of funds for development.
3.	Risk of loss of the Tax Capital Group/PGK status	Risk associated with a possibility to lose the status by the Tax Capital Group due to the failure to comply with the statutory requirements (e.g. too low profitability of the Group, ownership changes infringing the required levels in the capital structure of PGK companies), challenging of the settlements between PGK and other affiliated entities, unsettled tax liabilities of the PGK companies. The materialisation of the risk may result in the loss of tax optimisation, increased costs of fiscal year closing, the requirement to prepare additional documentation of transfer prices.
4.	Risk of non-compliance with the requirements of ERO/OCCP/Instruction of Transmission Grid Operating and Maintenance (IRIESD)	Risk associated with the possibility of the aforementioned authorities challenging the accuracy of the activity conducted by TAURON Capital Group in the scope of independence and equal treatment of entities on the market, infringement of antimonopoly regulations or abuse of the dominating position. The risk factors may have material adverse effect on TAURON Capital Group operations, its financial situation or results of its activities through withdrawal or change in the scope of the effective concessions, the requirement to change agreements for the supply of electric energy, incurring additional costs and a possibility of imposing financial penalties.
5.	Risk connected with the strategic investment process	Risk associated with the ineffective process of strategic investments comprising the planning, implementation, monitoring and closing, arising from the inappropriate selection of investment for the investment portfolio, lack of sufficient investment diversification, adopting incorrect assumptions, underestimation of expenditures, lack of possibility to provide own funding, difficult access to external financing. The indicated risk factors may cause financial losses, possible loss of liquidity, increase in costs of investments or lower benefits than assumed, extended period of return from investment, loss of investment profitability, delay in implementation schedule, exceeding of the budget, necessity to incur additional expenditures, reduction of profitability or interruption of the project.
6.	Risk of TAURON Capital Group organisation and corporate governance	Risk associated with ineffective cooperation among TAURON Capital Group companies in the scope of governance processes, reporting and information management. The risk factors may have adverse effect on TAURON Capital Group operations, its financial situation or results of its activities by incomplete implementation of TAURON Capital Group strategic objectives or the extended period of their accomplishment, delays in decision making or taking wrong decisions.
II. Operational risks		
1.	Commercial risk	The risk is associated with the volatility of prices of electric energy, property rights, CO ₂ emission allowances and the significant and/or unexpected changes in prices of coal and other fuels, as well as volatility of sales and generation volumes. The volatility referred to above, including the adverse change in a medium-term perspective, may significantly affect the financial result of TAURON Capital Group through the growth of costs, reduction of the margin and limitation of the revenues gained, as well as the fulfilment of the legal requirements related to maintaining of the relevant fuel reserves or imposing a fine in case of failure to fulfil those requirements. The Company manages the commercial risk based on the developed and adopted <i>Policy of risk management in the commercial activities in TAURON Group</i> , which specifies the set of rules and principles of commercial risk management at the level of TAURON Capital Group. The above document constitutes the implementation of market practices and solutions used in the scope of commercial risk management in electric energy trading and related products trading (CO ₂ emission allowances, property rights, fuels), including their adjustment to the structures of TAURON Capital Group, considering the specific nature of the energy sector.
2.	Risk connected with the obligation to redeem CO ₂ emission allowances	Risk connected with emitting CO ₂ to the atmosphere as well as the need to redeem the relevant quantity of CO ₂ emission allowances. The risk factors may have adverse impact on operations of TAURON Capital Group, its financial standing or results of its activities, through the fines imposed for each unit of unredeemed allowance, or decreasing the planned electricity sales profitability and the increase in costs associated with the failure to issue free allowances and their inaccurate redemption.
3.	Risk of variable generation cost	Risk associated with potential errors in selection of units and distribution of loads of unit scheduling. The selection of units is performed on the basis of TSO data and decision, maintenance information from power plants, plans of units, variable costs and data published by TSO. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, through the necessity to select a more expensive generation unit or change in the optimum production schedule, which results in the increased variable cost of electric energy production.

No.	Types of risk	Risk description
4.	Assets failure risk	Risk connected with occurrence of serious and/or permanent failures and damages of equipment used by the TAURON Capital Group companies. Risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through loss of income arising from the interruptions and shutdowns, the necessity to incur additional costs of repairs of the grid infrastructure and non-grid infrastructure, the requirement to pay fines.
5.	Risk of fixed assets management	Risk associated with the lack of possibility to use fixed assets due to their ineffective management causing their poor technical condition, inadequate costs of fixed assets insurance resulting from their underestimation or overestimation, as well as the costs of holding redundant assets. Risk factors may have material adverse effect on TAURON Capital Group operations, its financial situation or results of its activities due to the lack of optimum use of the assets, its faster wear arising from inadequate exploitation, the need of incurring costs of remedying failures arising from wrong asset management.
6.	Environmental risk, including the risk associated with the atmospheric conditions	The risk consisting in a possibility to incur losses resulting from non-compliance with the legal regulations (including those arising from the way of implementation of the European law in the national law, administrative decisions), and including the possibility of occurrence of environmental damage or serious industrial accident or failure. The risk factors may have material adverse effect on operations of TAURON Capital Group, its financial situation or results of its activities through the requirement to incur significant costs of compliance, pay damages, or the potential threat to the implementation of production tasks.
7.	Risk of unregulated legal status of the real property utilised	Risk connected with a possibility of occurrence of massive financial claims of land owners due to unregulated legal status of the foundation of a building or structure on the foreign land, undermining the legal status and claims of third parties in relation to certain components of assets. The risk factors may have material unfavourable effect on operations of TAURON Capital Group, its financial situation or results of its activities through higher cost of operations or interruption of operating activities.
8.	Risk of occurrence of natural hazards or unfavourable geological and mining conditions	Risk connected with threats to implementation of production tasks, hazards to safety of maintenance of the mining plant or safety of the staff due to natural risk factors within the development of the mining works, difficulties connected with the roof and floor conditions hampering the mining process, as well as natural hazards occurring in the mining plants (water and fire conditions, rock bumps).
9.	Risk of implementation of agreements on electric energy sales, including the comprehensive agreements	Risk associated with provisions in electric energy sales agreements, unfavourable for TAURON Capital Group, including the comprehensive agreements for energy consumers, ineffective service of electric energy sales agreements, including the comprehensive agreements. In case of failure to comply with the qualitative standards of customer service and qualitative parameters of electric energy supply, arising from the processes of sales and customer service, or the extended time of implementation of activities in the scope indicated in the master agreement for electric energy sales and provision of distribution services, may lead to the increased quantity of granted discounts and imposed fines, increased complaint rate, increased number of proceedings conducted by ERO or OCCP, loss of the Company's good image.
10.	Risk of metering and settlement data	Risk associated with incorrect or delayed settlement of electric energy distribution services by the DSO, arising from the inaccurate reading or lack of reading of the metering and settlement systems, incorrectly fixed metering and settlement systems, inaccurate entry of data to the settlement system, untimely transmission of metering data to the billing systems, which may result in issuing incorrect invoices and incorrect values of sales, lack of possibility to issue invoices, deviations against the assumed level of revenues and costs, problems with the correct settlement of taxes, clients' complaints.
III. Disaster Risks		
1.	Risk of destruction of key machinery and equipment	The risk associated with a possibility of permanent destruction of machinery or equipment resulting in long-term decommissioning of a power unit, which may cause a significant loss of financial revenues and additional costs associated with the purchase of new elements or entire machines.
2.	Risk of cyber attack	The risk refers to the attack on the IT network controlling the performance of power units or the transmission grid, causing shutdown of power units and, in extreme cases, destruction of key elements of electric power infrastructure, which may result in the lack of possibility of their performance over a longer period of time, leading to the deterioration of financial results through the decline in revenues and the necessity to incur additional costs to recover their efficiency.

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

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

4.1. Principles of the annual financial statement preparation

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

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

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

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

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

Statement of comprehensive income

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

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

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

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

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

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

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

Revenue

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

Table no. 16. Revenues on sales of the Company

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

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

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

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

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

Specification (PLN thous.)	2014	2013	2012	Dynamics (2014/2013)
Electric energy	7,925,020	9,877,998	9,298,615	80%
Gas	76,970	72,424	6,934	106%
Property rights of energy origin	378,235	471,420	127,579	80%
CO ₂ emission allowances	183,451	367,103	376,240	50%
Other	369	1,189	10,851	31%
Total revenues on sales of goods and materials	8,564,045	10,790,134	9,820,219	79%
Commercial services	57,641	61,861	51,993	93%
Other	68,113	57,765	17,660	118%
Total revenues on sales of services	125,754	119,626	69,653	105%
Total revenues on sales	8,689,799	10,909,760	9,889,872	80%

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

Lower revenues in trading of CO₂ emission allowances result from the purchase of allowances in 2013 due to the risk of delay in allocation of free allowances in Q1 2014.

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

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

Costs

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

Table no. 18. Level and structure of costs

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

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

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

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

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

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

Financial end economic standing of the Company

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

Table no. 19. Annual separate statement of financial standing

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

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

The increase in assets at the end of 2013 in relation to 2012 arises mainly from the increase of item *Bonds*, comprising bonds purchased by the Company, issued by its subsidiaries.

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

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

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

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

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

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

Statement of Cash Flows

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

Table no. 20. Statement of Cash Flows

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

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

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

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

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

4.4. Basic financial and non-financial ratios

Financial ratios

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

Table no. 21. Basic financial indicators of the Company

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

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

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

Non-financial ratios

The non-financial ratios in the Company are closely related to the specific nature of its activities, the resources held and the adopted Corporate Strategy, including:

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

4.5. Income from the bonds issue programme

In accordance with the adopted financing model, in 2014 TAURON conducted the following external issues of bonds:

- 1) within the programme of bond issue concluded on 16 December 2010 between the Company and Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Pekao bank, PKO BP bank, mBank S.A. (formerly: (BRE Bank S.A.), Nordea Bank Polska S.A. (currently PKO BP bank), Nordea Bank AB, BNP Paribas Bank Polska S.A., Bank Zachodni WBK S.A., it issued two series of bonds with the following denomination:
 - a) PLN 200,000 thousand – date of issue: 24 January 2014, date of redemption: 24 February 2014, Tranche E,
 - b) PLN 100,000 thousand – date of issue: 28 March 2014, date of redemption: 28 April 2014, Tranche E.

The funds acquired from the aforementioned issues have been allocated for financing of the current needs of TAURON Capital Group.

- 2) within the programme of bond issue concluded on 31 July 2013 between the Company and ING Bank Śląski S.A., Pekao bank and BRE Bank S.A. (currently: mBank S.A.), in November it conducted the issue of five year unsecured bonds on the domestic market for the nominal amount of PLN 1,750,000 thousand.

The funds acquired under the aforementioned programme have been acquired for financing of the current and future expenses associated with the implemented investment programme of TAURON Capital Group.

- 3) within the bond issue programme concluded on 31 July 2013 between the Company and Bank Gospodarstwa Krajowego, it issued bonds for the total amount of PLN 900,000 thousand.

The funds acquired under the aforementioned programme have been acquired for financing of the current and future expenses associated with the implemented investment programme of TAURON Capital Group.

Within TAURON Capital Group the internal programme on issue of bonds operates, under which in 2014 the companies acquire funds from TAURON for the implementation for investment projects.

Acting on the basis of the implemented model of central financing as well as in accordance with the terms and conditions of the effective programme on issue of internal bonds, in 2014 the Company was purchasing bonds issued by companies of TAURON Capital Group, with the maturity term of one to six years. The major objective of bond issue was the acquisition of funds by companies of TAURON Capital Group for the implementation of the investment programme and refinancing of the existing debt.

The table below shows the value of issues taken over and not redeemed, divided into individual companies of TAURON Capital Group (issuers) according to the status as at 31 December 2014.

Table no. 22. The value of issues taken over and not redeemed, divided into individual companies of TAURON Capital Group (issuers) as at 31 December 2014

No.	Company name	Value of issues taken over (in PLN thousand)
1.	TAURON Dystrybucja	2,050,000
2.	TAURON Wytwarzanie	1,940,000
3.	TAURON EKOENERGIA	1,180,000
4.	TAURON Ciepło	1,055,520
5.	TAURON Wydobycie	370,000
6.	TAURON Obsługa Klienta	85,000
Total		6,680,520

Besides acquisition of bonds of TAURON Capital Group companies, the Company did not purchase any other debt securities.

In December 2014 the Company performed earlier redemption of bonds issued under Tranche A for the nominal amount of PLN 848,200 thousand from the Bond Issue Programme, with the base maturity term in December 2015.

4.6. Financial instruments

4.6.1. Implementing financial instruments in the elimination of credit risk, significant disruptions of cash flows and losing financial liquidity

Within the financial risk management, in 2014 the Company hedged the risk of cash flow volatility resulting from the indebtedness held, based on WIBOR reference rate, by its partial mitigation through concluding the interest rate swap transactions (IRS). Moreover, in 2014, the Company, within the policy of financial risk management, hedged the currency exposure arising within the commercial activities (mainly due to the CO₂ emission allowances trading), by concluding forward contracts. The aim of these transactions was to hedge the Company against the risk of cash flow volatility resulting from currency exchange rate fluctuations. In addition, in December 2014 the Company concluded the currency interest rate swap transaction (CIRS). The said transaction effectively eliminates the currency risk of EUR/PLN exchange rate changes in relation to interest coupons against the loan in EUR throughout its entire effective period.

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

Table no. 23. Information on forward and derivative transactions as at 31 December 2014 (data in thousand)

No.	Type of transaction concluded	Total denomination of the specific type of transaction	Currency			Maturity date of the specific type of transaction		Valuation of transaction of the specific type as at 31 December 2014
			PLN	EUR	other	up to one year	above one year	
1.	IRS	440,000	X			X		- 13.380
		3,000,000	X				X	- 180.933
2.	CIRS	704,928	X				X	257

4.6.2. Goals and methods of financial risk management

The Company manages financial risk, understood as currency risk and interest rate risk in accordance with the prepared *Policy of risk management specific for the financial area in TAURON Group*, adopted for application, which is the collection of principles and standards compliant with the best practices in this area.

Due to correlation between the risk incurred and the level of achievable income, these regulations are used to maintain the risks at the previously established, acceptable level. The main goal of financial risk management is to mitigate sensitivity of cash flows of the Company to financial risk factors and to minimise financial costs and collateral costs under transactions with the use of derivative instruments.

Simultaneously, the policy implements hedge accounting principles which determine the rules and types of hedge accounting policy as well as the booking approach to recognising of hedging instruments and items hedged under the hedge accounting, in compliance with IFRS. In accordance with the above mentioned policy, the Company applies the derivatives the characteristics of which allows for application of hedge accounting.

4.7. Current and forecast financial situation

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

4.8. Assessment of financial resources management

Due to the measures implemented in the previous years and continued in 2014, resulting in centralising the financial management area in TAURON Capital Group, the Company effectively managed its financial resources. The main tools enabling effective management of financial resources include the implemented central financing model as well as the *Policy of liquidity management of TAURON Group*, including the cash pooling operating in TAURON Capital Group. Moreover, the financial management system is supported by the central *Policy of managing risks specific in the financial area of TAURON Group* and the central *Insurance policy of TAURON Group*, in which the Company plays the role of manager and decision maker in the scope of directions of the actions undertaken, which allows for determining the relevant limits of risk exposure.

In accordance with the adopted central model of financing, the Company is responsible for acquisition of financial resources for the companies of TAURON Capital Group. Resources acquired both internally (from companies of TAURON Capital Group, generating financial surpluses), as well as externally (from the financial market) are subsequently transferred to companies of TAURON Capital Group, reporting the need for financing (for this purpose the programme of issue of intra group bonds was implemented in TAURON Capital Group).

Such model of acquisition of funding sources allows, among other things, for decreasing of the costs of capital, increasing of the possibility to obtain financing, it reduces the number and form of hedges established on assets of TAURON Capital Group and covenants required by financial institutions, as well as reduces administrative costs. The central model of financing also enables to acquire financial sources unavailable for individual companies, such as, for example, Euro bonds. Implementation of the central financing model effectively influenced the change of approach to investment funding in TAURON Capital Group. The financing is acquired based on the consolidated balance sheet of the whole TAURON Capital Group, while the funding sources are not assigned to any specific investment projects, but they are incurred to cover the financial gap at the level of TAURON Capital Group. The structure of financing of investment projects in the specific period corresponds to the whole activity of TAURON Capital Group. The model adopted enables to implement investment plans in accordance with the adopted Corporate Strategy.

Another key element influencing the effectiveness of financial management is the policy of liquidity management. Through implementation of relevant forecasting standards it becomes possible to establish the precise liquidity position allowing for optimising of selection of the moment of fund raising as well as the maturity term and types of deposit instruments as well as the appropriate level of liquidity provision. The above factors influence both the cost reduction and safety enhancement. The current liquidity management is supported by the implemented cash pooling mechanism. Its overriding goal is to provide for current financial liquidity in TAURON Capital Group, with simultaneous limitation of costs of short-term external financing and maximising of financial revenue due to cash surpluses held. Owing to the cash pooling structure, companies of TAURON Capital Group facing short-term deficits of funds, may use funds of companies recognising financial surpluses, without the need to acquire external financing.

Moreover, TAURON implemented a coherent programme of bank guarantees. Under one agreement concluded between TAURON and PKO BP bank, and then between TAURON and companies of TAURON Capital Group, it is possible to issue guarantees in favour of any company of in TAURON Capital Group, within the centralised limit. The above mentioned activity reduced the cost of bank guarantees acquired, made their acquisition independent of the standing of an individual company and limited the total number of activities required to obtain the guarantee. In addition, TAURON concluded the master agreement with BZ WBK bank for bank guarantees issued for IRGIT, which significantly reduces the cost of collaterals required in connection with the electric energy trading at the stock exchange.

In 2014, the Company demonstrated full capacity to settle its liabilities on their maturity date.

4.9. Information concerning the entity authorised to examine financial statements

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

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

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

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

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

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

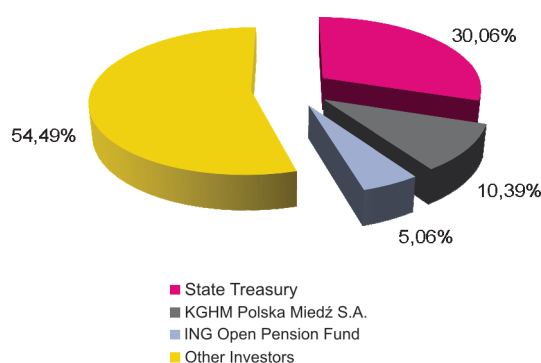
5. SHARES AND SHAREHOLDERS

5.1. Structure of shareholding and the level of the dividend paid

As at 31 December 2014 and as at the day of this report, the share capital of the Company, in accordance with the entry to the National Court Register, amounted to PLN 8,762,746,970.00 and it was divided into 1,752,549,394 shares with the nominal value of PLN 5 each, including 1,589,438,762 ordinary bearer shares of AA series and 163,110,632 ordinary registered shares of BB series.

The table below presents the structure of the shareholding as at 31 December 2014 and as at the day of this report.

Figure no. 18. Structure of the shareholding as at 31 December 2014 and as at the day of this report



The table below presents the level of the dividend paid in the years 2010–2013.

Table no. 25. The level of the dividend paid in the years 2010–2013

Dividend paid for 2010–2013						
No.	Financial year for which the dividend was paid	Amount of the dividend paid (PLN)	% of profit net	Value of dividend per share paid (PLN)	Day of dividend	Date of dividend payment
1.	2010	262,882,409.10	31%	0.15	30.06.2011	20 July 2011
2.	2011	543,290,312.14	44%	0.31	2 July 2012	20 July 2012
3.	2012	350,509,878.80	24%	0.20	3 June 2013	18 June 2013
4.	2013	332,984,384.86	25%	0.19	14 August 2014	4 September 2014

5.2. Number and nominal value of the Company shares as well as shares and stocks in affiliated entities of the Company held by the members of the management and supervisory bodies

The table below presents the status of the Company shares, held by management staff as at 31 December 2014 and as at the day of this report.

Table no. 26. Proprietary status of the Company shares – managing persons

No.	Name and surname	TAURON shares	
		Number	Nominal value (in PLN)
1.	Dariusz Lubera	6,576	32,880
2.	Aleksander Grad	0	0
3.	Katarzyna Rozenfeld	0	0
4.	Stanisław Tokarski	30,000	150,000
5.	Krzysztof Zawadzki	27,337	136,685

Members of the Management Board did not hold stocks or shares in affiliated entities of the Company.

As at 31 December 2014 and as at the day of this report, Members of the Supervisory Board did not hold stocks or shares of the Company and stocks or shares in affiliated entities of the Company.

5.3. Agreements concerning potential changes in the shareholding structure

The Management Board does not have any information on existence of any agreements (including agreements concluded after the balance sheet day), as a result of which changes in the ratio of the shares held by shareholders and bondholders may occur in the future.

5.4. Purchase of treasury shares

In 2014 and as at the day of this report, the Company did not hold treasury shares.

5.5. Programmes of employees shares

In 2014, employee shares programmes operated in the Company.

5.6. Listing of shares on the Warsaw Stock Exchange (GPW)

Shares of TAURON have been listed at the Primary Market of GPW since 30 June 2010. In 2014 the price of TAURON shares ranged from PLN 4.04 to PLN 5.69 (according to closing prices). The price of shares during the last session in 2013 reached the level of PLN 4.37. A year later, the price was PLN 5.05. The return rate* on investments in the Company shares in 2014 amounted to 20.07%, whereas the WIG20 index in this period decreased by 3.54%, and the WIG30 index – by 1.97%. One of the main reasons of the poor condition of Polish exchange indices was the reform of the capital part of the pension system and the insecure geopolitical situation associated with the conflict in Ukraine.

Share prices of companies representing the energy sector demonstrated much better trends than the market, consequently, the WIG-Energia index in 2014 increased by 23.6%. As analysts indicate, the main factor influencing the improvement in valuation of energy companies in 2014 was the growth in electric energy market prices resulting, among others, from the introduction of the support mechanism for energy producers in the form of ORM.

As at 31 December 2014, TAURON shares were included in the following exchange indices:

1. **WIG** – covering all companies listed at the Primary Market of GPW which meet the base criteria of participation in the indices, Share of TAURON in WIG index: 1.835%,
2. **WIG-Poland** – the national index which includes only the shares of national companies listed at the Primary Market of GPW, which meet the base criteria of participation in the indices. Share of TAURON in WIG-Poland index: 1.907%.
3. **WIG20** – index calculated based on the value of share portfolio of 20 biggest and most liquid companies of the Primary Market of GPW. Share of TAURON in WIG20 index: 2.770%.
4. **WIG30** – index comprising 30 biggest and most liquid companies listed at the Primary Market of GPW. Share of TAURON in WIG30 index: 2.550%.
5. **WIG-Energia** – the sectoral index comprising companies participating in WIG index and simultaneously classified to the energy sector. Share of TAURON in WIG-Energia index: 16.514%.
6. **Respect Index** – index grouping companies acting in accordance with the highest standards of social responsibility. Share of TAURON in Respect Index: 5.347%.
7. **MSCI Emerging Markets Index** – index comprising key companies listed at exchanges of emerging markets. Share of TAURON in MSCI Emerging Markets Index: 0.0406%.
8. **MSCI Poland Standard Index** – index comprising over 20 key companies listed at GPW. Share of TAURON in MSCI Poland Standard Index: 2.3984%
9. **CECE Index** – index of the Vienna Exchange, comprising the biggest companies of Central and Eastern Europe. Share of TAURON in CECE index: 2.27%.

The table below presents the key data related to the Company shares in the years 2011–2014.

Table no. 27. Key data related to TAURON shares in the years 2011–2014

No.	2011	2012	2013	2014
1. Maximum price (PLN)	6.81	5.61	5.39	5.69
2. Minimum price (PLN)	4.65	4.08	3.85	4.04
3. Last price (PLN)	5.35	4.75	4.37	5.05
4. Capitalisation at the end of the period (PLN million)	9,376	8,325	7,659	8,850

No.		2011	2012	2013	2014
5.	Capitalisation at the end of the period (%)	2.10	1.59	1.29	1.50
6.	Book value (PLN million)	15,922.47	16,839.41	17,675.34	18,106.79
7.	C/Z	8.10	5.50	5.50	7.80
8.	C/WK	0.59	0.49	0.43	0.49
9.	Rate of return at the end of the period (%)*	-16.73	-5.03	-3.64	+20.07
10.	Dividend rate (%)	2.8	6.5	4.6	3.8
11.	Trade value (PLN million)	5,574.82	3,198.94	3,103.56	3,134.81
12.	Share in trade (%)	2.21	1.70	1.41	1.53
13.	Trade ratio (%)	58.80	41.80	43.90	39.20
14.	Average volume per session	3,721,539	2,667,725	2,793,020	2,489,329
15.	Average number of transactions per session	1,373	960	1,022	1,106

* The return rate calculated, including the income of the investor due to dividend, and assuming that the additional income gained is reinvested. Methodology compliant with the GPW Statistical Bulletin.

Source: GPW Statistical Bulletin

The figures below present the historic developments of TAURON share price and the value of trade, including, in comparison with WIG20 and WIG-Energia indices.

Figure no. 19. Graph of TAURON share price and value of trade in 2014

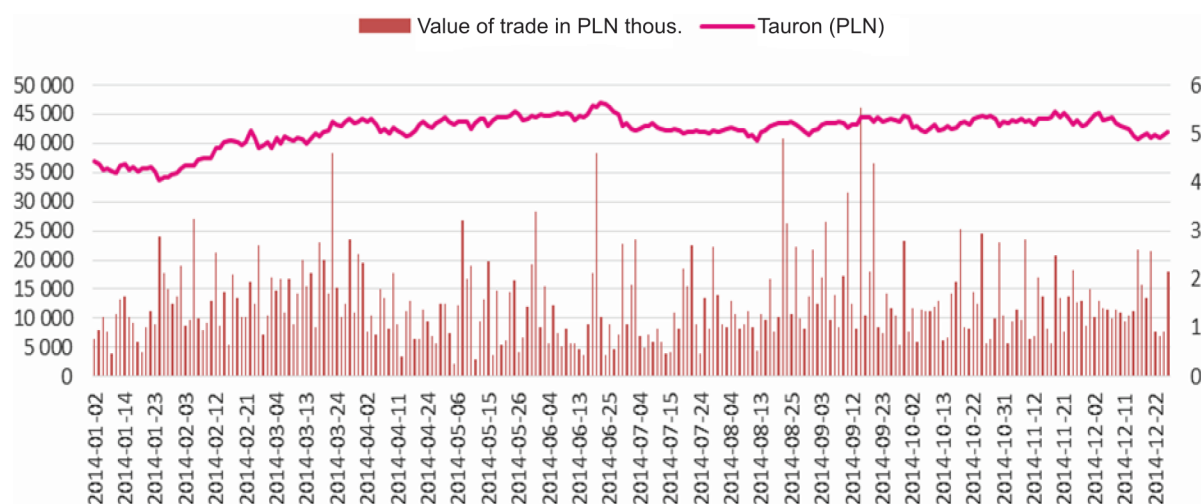


Figure no. 20. Graph of TAURON share price and value of trade from the exchange debut until 31 December 2014

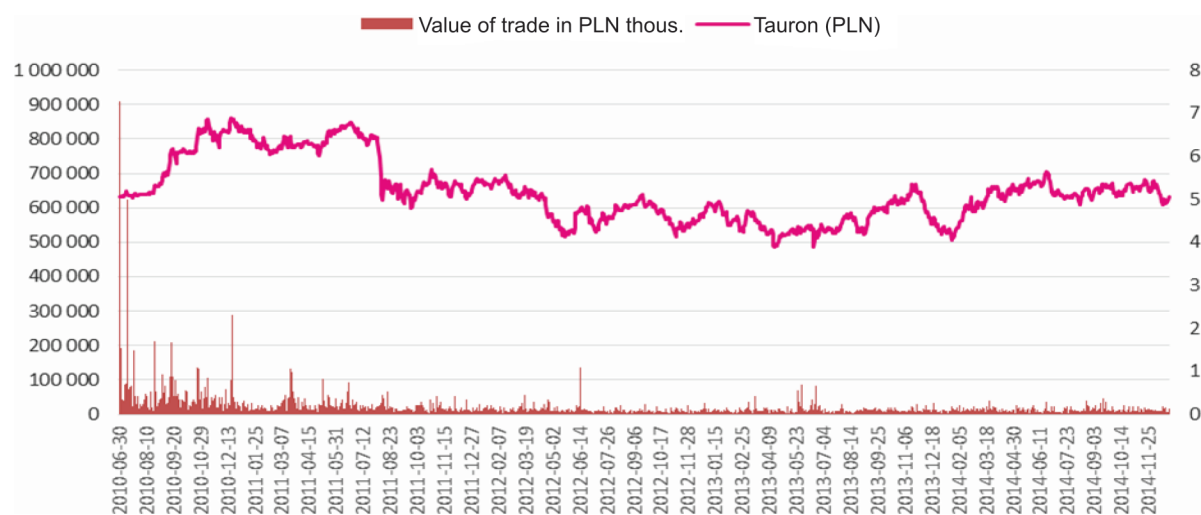


Figure no. 21. Graph of TAURON share price compared to WIG20 and WIG-Energia indices in 2014

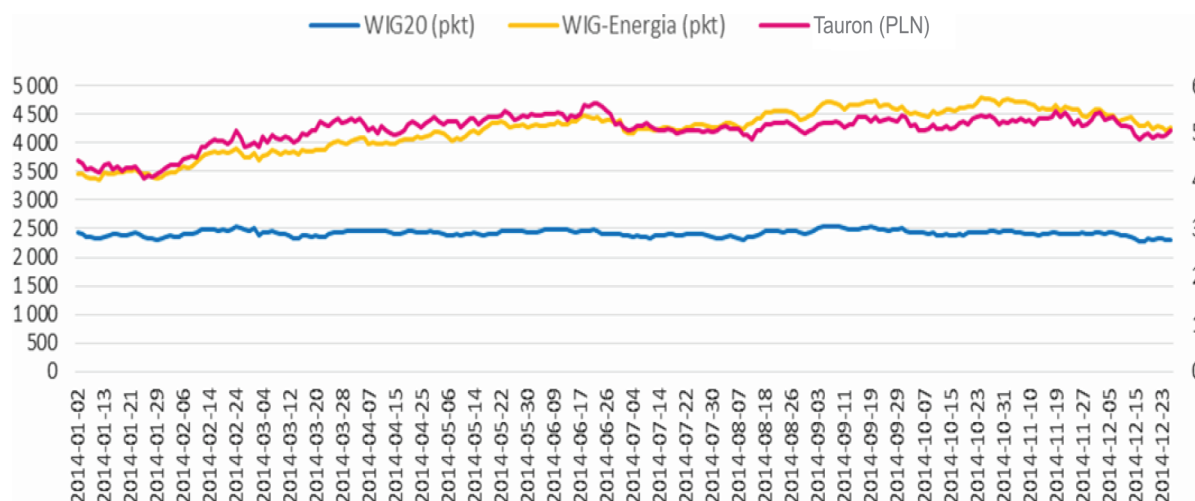
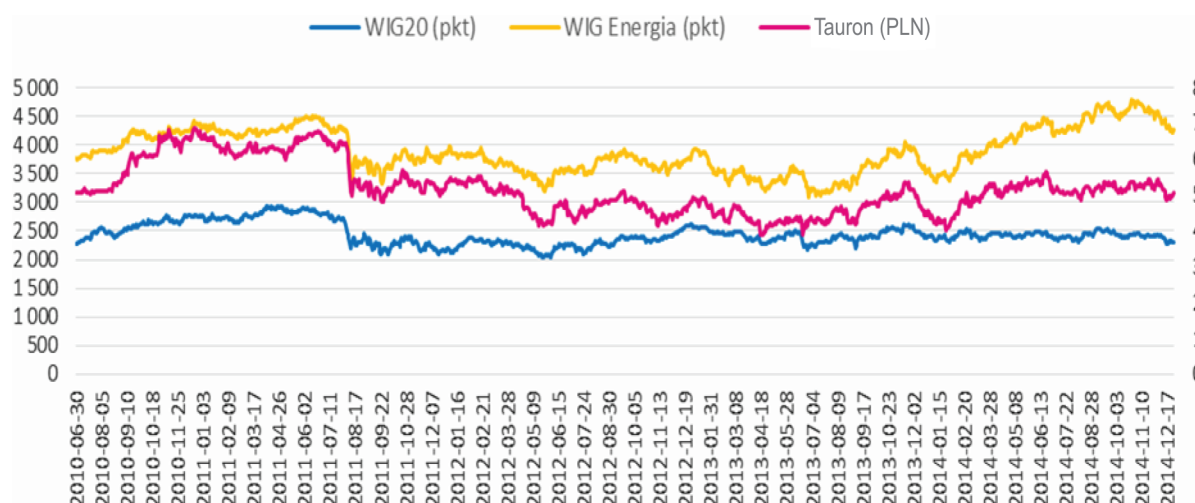


Figure no. 22. TAURON share price as compared to WIG20 and WIG-Energia indices from the exchange debut until 31 December 2014



Recommendations for TAURON Polska Energia S.A. shares

In 2014, analysts of brokerage houses and investment banks issued 33 recommendations in total (excluding the updates of target prices) for TAURON shares, including:

- 1) twelve “buy” recommendations,
- 2) fourteen “keep” recommendations,
- 3) seven “sell” recommendations.

Recommendations issued in 2014

The table below presents the list of recommendations issued in 2014.

Table no. 28. Recommendations issued in 2014

No.	Date of recommendation	Recommendation/target price	Recommending institution
1.	30 January 2014	Buy / PLN 5.65	Goldman Sachs
2.	30 January 2014	Keep / PLN 4.70	DM BZ WBK
3.	7 February 2014	Keep / PLN 4.60	Citi
4.	7 February 2014	Buy / PLN 5.00	Societe Generale

No.	Date of recommendation	Recommendation/target price	Recommending institution
5.	7 February 2014	Keep / PLN 4.20	ING Securities
6.	13 February 2014	Buy / PLN 5.80	J.P. Morgan
7.	28 February 2014	Keep / PLN 4.90	DM PKO BP
8.	5 March 2014	Keep / PLN 5.00	DM IDM
9.	13 March 2014	Keep / PLN 5.30	Raiffeisen
10.	20 March 2014	Buy / PLN 5.90	Goldman Sachs
11.	28 March 2014	Keep / PLN 4.60	Credit Suisse
12.	11 April 2014	Buy / PLN 5.94	mBank
13.	22 May 2014	Buy / PLN 6.60	Goldman Sachs
14.	13 June 2014	Buy / PLN 6.60	Goldman Sachs
15.	16 June 2014	Sell / PLN 6.00	Wood & Company
16.	23 June 2014	Keep / PLN 5.40	J.P. Morgan
17.	26 June 2014	Sell / PLN 4.50	Trigon
18.	16 July 2014	Sell / PLN 4.80	Citi
19.	16 July 2014	Buy / PLN 6.20	Deutsche Bank
20.	21 July 2014	Keep / PLN 5.00	DM BOŚ
21.	12 August 2014	Buy / PLN 6.20	J.P. Morgan
22.	8 September 2014	Keep / PLN 5.30	Bank of America Merrill Lynch
23.	10 September 2014	Sell / PLN 4.62	UniCredit
24.	18 September 2014	Buy / PLN 6.45	DM BZ WBK
25.	12 October 2014	Sell / PLN 4.80	DM BOŚ
26.	29 October 2014	Sell / PLN 4.60	ING Securities
27.	30 October 2014	Keep / PLN 5.30	DM PKO BP
28.	5 November 2014	Keep / PLN 5.00	Espirito Santo
29.	5 November 2014	Buy / PLN 6.20	Raiffeisen
30.	17 November 2014	Buy / PLN 6.90	Goldman Sachs
31.	19 November 2014	Keep / PLN 5.60	Deutsche Bank
32.	24 November 2014	Keep / PLN 5.60	Societe Generale
33.	5 December 2014	Sell / PLN 4.89	Erste

6. STATEMENT ON APPLICATION OF CORPORATE GOVERNANCE

Acting pursuant to § 91 item 5 p. 4) of the *Regulation of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state* (Journal of Laws no.33 item 259 as amended), the Company Management Board submits the Statement on Application of Corporate Governance in 2014.

6.1. Indicating the applied set of corporate governance rules

In 2014 the Company was subject to the corporate governance rules, described in the document *Good Practices of Companies Listed at GPW* (Good Practices), constituting the Appendix to the Resolution of the GPW Council no 12/1170/2007 of 4 July 2007, amended by the following resolutions of GPW Council: No 17/1249/2010 of 19 May 2010, No 15/1282/2011 of 31 August 2011, No 20/1287/2011 of 19 October 2011 and No 19/1307/2012 of 21 November 2012, which entered into force on 1 January 2013. The document also contains the rules of corporate governance which the Company adopted on voluntary basis.

The Good Practices were adopted for application by the Company Management Board. In 2014 the Company did not apply only the rule contained in Chapter IV item 10 of Good Practices. Other rules specified in the aforementioned document in Chapters II, III and IV were applied by the Company.

The text of the aforementioned set of Good Practices the Company is subject to, and the application of which could have been decided by the Company on voluntary basis is published at the GPW website at (<http://www.corp-gov.gpw.pl>).

6.2. Indicating the abandoned rules of corporate governance

In 2014 the Company did not apply only the rule contained in Chapter IV item 10 of Good Practices (in its wording applicable as of 1 January 2013), concerning the provision of a possibility for shareholders to participate in the General Meeting by means of electronic communication means, consisting in:

- 1) transmission of the General Meeting session in real time,
- 2) bilateral communication in real time, where Shareholders may speak during the General Meeting while being at a different location than the venue of the General Meeting.

On 2 January 2013 the Company submitted current report no. 1/2013, by means of EIB system (Electronic Information Base), containing information on abandoning the application of the aforementioned corporate governance rule, due to the fact that the provisions of the Company Articles of Association did not include the provisions enabling the participation in the GM by means of electronic communication means, pursuant to the provisions of the Code of Commercial Companies (Ksh). In order to enable the application of the aforementioned rule, the Management Board of the Company applied to the Ordinary GM of the Company for adopting of the resolution concerning the amendment to TAURON Articles of Association, suggesting the provisions enabling participation of shareholders in the GM by means of electronic communication means, including, in particular: transmission of the GM session in real time, bilateral communication in real time, where shareholders may speak during the GM while being at a different location than the venue of the GM, exercising the voting right personally or through a proxy, before or during the GM. The Ordinary General Meeting of the Company convened on 16 May 2013 did not adopt the aforementioned resolution.

Accordingly, also in 2014, the Company did not apply the rule contained in Chapter IV item 10 of Good Practices and the recommendation contained in Chapter I item 12 of Good Practices. Other rules specified in Chapters II, III and IV of Good Practices were applied by the Company. In the period since the day of commencement of public listing of the Company shares until 31 December 2014, there have been no occurrences of infringement of the corporate governance regulations adopted.

The Company shall also endeavour to implement the recommendations contained in Part I of Good Practices. The issues described below are particularly important.

Recommendation concerning the remuneration policy

With the aim of implementing recommendation I.5 of Good Practices, the Company has adopted the *Remuneration Policy for Members of supervisory and management bodies, including the description of the rules of defining the policy in TAURON Polska Energia S.A.* (Remuneration Policy), considering the EC Recommendation of 14 December 2004 *fostering an appropriate regime for the remuneration of directors of companies listed at the stock exchange* (2004/913/EC), supplemented by the EC recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC). The above policy determines the objectives and rules of remuneration policy for members of Supervisory Board and the Management Board of the Company, with the application of general regulations as well as

the relevant resolutions of the General Meeting and the Supervisory Board of the Company. The Remuneration Policy has, among others, the following objectives:

- 1) providing the motivating and consistent system of remuneration policy for members of Supervisory Board and the Management Board,
- 2) associating the remuneration rules with monitoring of implementation of the adopted strategic plans and implementation of the financial plans,
- 3) adjusting the level of remuneration of members of corporate bodies of the Company in connection with implementation of the tasks delegated.

Simultaneously, in fulfilment of the information obligations specified in the provisions of the Regulation of the Minister of Finance of 19 February 2009 on *current and periodical information submitted by issuers of securities and conditions to acknowledge as equivalent information required by legal regulations of a country not being a member state*, the Company publishes information regarding the remuneration of members of Supervisory Board and the Management Board in its annual reports.

Recommendation concerning the balanced participation of women in performing the functions of management and supervision

In accordance with recommendation I.9 of Good Practices, GPW recommends that the public companies and their shareholders should provide for the balanced participation of women and men in performing the management and supervisory functions in enterprises. In the Company, members of Supervisory Board are appointed in accordance with the provisions of the Articles of Association, by the GM and the State Treasury, under its personal powers, whereas the members of the Management Board are appointed by the Supervisory Board. The rules applicable in the Company in this scope do not restrict a possibility of participation in the Company governance bodies due to gender. Simultaneously, in fulfilment of the requirements specified in Section II p. 1 subsection 2a) of Good Practices, in the 4th quarter of 2014 the Company published information on participation of men and women in the Supervisory Board and the Management Board of TAURON in the period of the last two years, on its website.

6.3. Description of main characteristics of internal control and risk management systems in relation to the process of generating the financial statements and consolidated financial statements

The internal control and risk management system in relation to the process of generating financial statements and consolidated financial statements is implemented through:

Supervision over application of coherent accounting principles by companies of TAURON Capital Group while compiling the consolidated financial statements of TAURON Capital Group

In order to ensure coherent accounting principles based on IFRS, approved by the EU, in TAURON Capital Group the *Accounting Policy of TAURON Polska Energia S.A.* was developed and implemented (Accounting Policy). The document is subject to relevant amendments and updates in case of amendments to the regulations. The rules contained in the Accounting Policy are applicable to separate financial statements of TAURON and consolidated financial statement of TAURON Capital Group. Companies of TAURON Capital Group are obliged to apply the Accounting Policy while preparing the reporting packages which provide basis for compiling of the consolidated financial statement of TAURON Capital Group. The reporting packages are verified by the Office for Consolidation and Reporting in the parent company as well as by the independent auditor during examination or review of consolidated financial statements of TAURON Capital Group.

Procedures of authorisation and reviewing of financial statements of the Company and consolidated financial statements of TAURON Capital Group

In the Company, procedures of authorisation of financial statements have been implemented. Quarterly, semi-annual and annual financial statements of the Company as well as consolidated financial statements of TAURON Capital Group are approved by the Company Management Board before publication. The annual financial statements of the Company as well as consolidated financial statements of TAURON Capital Group are additionally presented for review by the Company Supervisory Board before publication. The Vice President of the Board, Chief Financial Officer supervises the preparation of financial statements, whereas management boards of companies covered by consolidation are responsible for compiling of the reporting packages for the TAURON Capital Group consolidated financial statement.

In the structures of the Company Supervisory Board, the Audit Committee of the Supervisory Board of TAURON Polska Energia S.A. operates, whose composition, competence and description of activities is included in item 6.11.3 of this report.

IT systems and financial and accounting processes

Companies of TAURON Capital Group keep ledgers providing basis for the preparation of financial statements in the computer financial and accounting systems of ERP class. The consolidated financial statements are prepared using the IT tool designed for consolidation of financial statements.

In the companies of TAURON Capital Group IT and organizational solutions operate which control the access to financial-accounting systems and provide adequate protection and archiving of the ledgers. Access to IT systems is restricted by relevant authorisations for the entitled employees.

In connection with the on-going integration of the accounting function and the transfer of the financial and accounting service of individual companies of TAURON Capital Group to CUW R, gradual harmonisation of financial and accounting processes in TAURON Capital Group takes place. Companies adjust own procedures to the financial and accounting processes, taking into account the specific character of individual segments.

Internal audit

In the Company Internal Audit Department operates whose objective is to plan and implement the auditing tasks, among others, of advisory nature, as well as to perform the commissioned temporary inspections. The procedures and rules of implementation of the audit are specified in *Regulations of Internal audit in TAURON Group* as well as in rules of cooperation binding in individual companies of TAURON Capital Group. While implementing the function of internal audit, the Company acts in compliance with the Code of Ethics and International Standards of Internal Audit Professional Practice.

Submission of financial statements of the Company and consolidated financial statements of TAURON Capital Group to examination or review by an independent chartered accountant

Annual financial statements of the Company and consolidated statements of TAURON Capital Group are subject to examination by an independent auditor. Semi-annual financial statements of the Company and semi-annual consolidated statements of TAURON Capital Group are subject to review by a chartered accountant. In 2013 the Company selected one entity authorised to examine and review financial statements for significant companies of TAURON Capital Group as well as the consolidated financial statement. The agreement with the entity authorised to examine financial statements was concluded for the examination of financial statements for years 2013–2015.

Rule concerning the change of the entity authorised to examine financial statements of the Company and TAURON Capital Group

Pursuant to the resolution of the Supervisory Board of the Company No 343/II/2010 of 27 August 2010, the rule was adopted concerning changing of the entity authorised to audit the financial statements of the Company and TAURON Capital Group at least once during 5 financial years. The entity authorised to audit the financial statements of the Company and TAURON Capital Group may perform these activities again after two financial years.

6.4. Shareholders holding large blocks of shares

The table below presents shareholders holding, as at 31 December 2014 and as at the day of the present report, directly or indirectly large blocks of shares of the Company

Table no. 29. Shareholders holding large blocks of shares, directly or indirectly

No.	Shareholders	Number of shares held	Percentage share in share capital	Number of votes held	Percentage share in general number of votes
1.	State Treasury*	526,848,384	30.06%	526,848,384	30.06%
2.	KGHM Polska Miedz S.A.**	182,110,566	10.39%	182,110,566	10.39%
3.	ING Otwarty Fundusz Emerytalny***	88,742,929	5.06%	88,742,929	5.06%

* In accordance with the shareholder's notification of 28.02.2013.

** In accordance with the shareholder's notification of 23.03.2011.

*** In accordance with the shareholder's notification of 28.12.2011.

Since the day of submission of the previous periodical report, i.e. 13 November 2014, until the date of publication of this report, the Company has not received any notifications from shareholders concerning changes in proprietary structure of significant blocks of shares of TAURON.

6.5. Owners of securities providing special control rights

In the financial year 2014, the Company did not issue securities which would provide special control rights towards to the Company.

6.6. Limitations on performing of the voting right

Limitations on performing the voting right have been included in § 10 of the Company Articles of Association which is available at the Company website <http://www.tauron-pe.pl/>.

The aforementioned limitations on performing of the voting right have been formulated in the following way:

1. The voting right of shareholders holding over 10% of total votes in the Company shall be limited in the way that none of them can exercise more than 10% of the total votes in the Company at the GM.
2. Voting right limitation included in point 1 above does not apply to the State Treasury and entities subsidiary to the State Treasury in the period of time in which the State Treasury together with subsidiary entities subsidiary of the State Treasury has a number of the Company's shares entitling to performing at least 25% of total votes in the Company.
3. Shareholders' votes, between which there is a controlling or dependence relationship within the meaning of § 10 of the Articles of Association (Association of Shareholders) are cumulated; in case when the cumulated number of votes exceeds 10% of total votes in the Company, it is subject to reduction. Rules of votes accumulation and reduction have been defined in 6 and 7 below.
4. A shareholder, within the meaning of § 10 of the Articles of Association is every person, including its parent company and subsidiary company, which is entitled directly or indirectly to a voting right at the GM on the basis of any legal title; it also applies to a person who does not hold the Company's shares, and in particular to a user, pledgee, person entitled on the basis of a depositary receipt under regulations of the *Act of 29 July 2005 on financial instruments trading*, as well as a person entitled to take part in the GM despite the disposal of shares after the date of establishing the right to take part in the GM.
5. A parent company and subsidiary company, for the purposes of § 10 of the Articles of Association, is, respectively, understood as a person:
 - 1) holding a status of a dominating entrepreneur, subsidiary or has both the status of a dominating entrepreneur and a subsidiary, within the meaning of the provisions of the *Act of 16 February 2007 on competition and consumers' protection* or,
 - 2) holding the status of a parent company, higher level parent company, subsidiary company, lower level subsidiary company or which has both the status of a parent company (including a parent company of higher status and subsidiary (including a subsidiary company of lower level status or co-subsidiary) within the meaning of *Accounting Act of 29 September 1994*, or
 - 3) which has (parent company) or one which is under (subsidiary company) decisive influence within the meaning of the *Act of 22 September 2006 on the transparency of financial relationships between public bodies and public entrepreneurs and on financial transparency of some entrepreneurs*, or
 - 4) whose votes resulting from the Company's shares owned directly or indirectly are subject to accumulation with votes of another person or other persons on conditions defined in the *Act of 29 July 2005 on public offering and conditions of introducing financial instruments to an organized trading system and on public companies* in connection with holding, disposing of or acquiring large blocks of the Company shares.
6. Accumulation of votes is based on aggregating of the number of votes held by particular shareholders of Shareholders' Group.
7. Reduction of votes is based on decreasing the total number of votes in the Company that shareholders, who are a part of Association of Shareholders, are entitled to at the General Meeting to the level of 10% of total votes in the Company. Reduction of votes takes place in accordance with the following rules:
 - 1) number of votes of a shareholder who holds the highest amount of votes in the Company among all shareholders who are members of Association of Shareholders is subject to being decreased by a number of votes equal to surplus of over 10% total votes in the Company that all shareholders in total are entitled to and who are members of the Association of Shareholders,
 - 2) if, despite the aforementioned reduction, the total number of votes that shareholders who are members of the Association of Shareholders are entitled to exceeds 10% of the total votes in the Company, a further reduction of votes belonging to other shareholders who are members of the Association of Shareholders takes place. Further reduction of particular shareholders' votes takes place in order established on the basis of the amount of votes that particular shareholders who are members of the Association of Shareholders hold (from the highest to the lowest one). Further reduction takes place until the moment when the total number of votes held by shareholders who are members of the Association of Shareholders does not exceed 10% of the total votes in the Company,

- 3) in each case the shareholder whose voting right has been limited shall have to right to perform at least one vote,
- 4) limitation on performing the voting right applies also to a shareholder absent at the General Meeting.
8. Each shareholder who is going to take part in the General Meeting, in person or through a proxy is obliged to, without a separate notice stipulated in item 9 below, notify the Management Board or the Chairperson of the General Meeting that she/he holds, directly or indirectly, more than 10% of the total votes in the Company.
9. Notwithstanding the provisions of item 8 above, in order to establish the basis for accumulation and reduction of votes, the Company's shareholder, the Management Board, the Supervisory Board or particular members of these bodies have the right to demand that the Company shareholder provides information whether she/he is a person holding the status of an entity dominating or subordinate towards other shareholder within the meaning of § 10 of the Articles of Association. The aforementioned entitlement includes also the right to demand revealing the number of votes that the Company's shareholder has independently or jointly with other shareholders of the Company.
10. A person who has failed to fulfil or fulfilled the information obligation stipulated in items 8 and 9 above improperly, until the moment of improvement of the information obligation performed improperly shall have the voting right from one share only; performing voting rights from other shares by such a person shall be null and void.

6.7. Limitations on transfer of securities property rights

As at 31 December 2014 and as at the day of this report, there are no limitations in the Company on the transfer of proprietary rights of Company securities.

6.8. Rules on appointing and dismissing managing and supervising persons and their powers

6.8.1. Management Board

Rules on appointing and dismissing members of the Management Board

The Management Board of the Company consists of one to six persons, including the President and Vice-Presidents. Members of the Management Board are appointed for the period of a joint term of office which lasts three years, except for the first term of office which lasts two years.

Members of the Management Board or the whole Management Board are appointed and dismissed by the Supervisory Board. Each of the members of the Management Board can be dismissed or suspended in office by the Supervisory Board or the General Meeting.

Competence of the Management Board

The Management Board handles the Company's affairs and represents the Company in all court and out-of-court activities. All issues connected with managing of the Company not restricted by the regulations of law and provisions of the Company Articles of Associations for the General Meeting or Supervisory Board lie within the competences of the Company's Management Board.

The Extraordinary GM of TAURON held on 7 January 2014 adopted the resolution on amendments to the Articles of Association, aimed at updating the scope of activities and distribution of competence between the statutory corporate bodies of the Company, i.e. the Supervisory Board and the Management Board as well as the streamlining of the text of the Articles of Association and its adjustment to the current needs of the Company.

Pursuant to its decision of 15 January 2014, the District Court Katowice-Wschód in Katowice, 8th Commercial Department of the National Court Register entered the aforementioned amendments to the Company Articles of Association to the register of entrepreneurs of the National Court Register.

In accordance with the Company Articles of Association, all issues which exceed the regular scope of Company activities require the resolution of the Management Board, in particular the following issues listed in the table below:

Table no. 30. Competence of the Management Board

Issues requiring the Resolution of the Management Board as at 31 December 2014 and as at the day of this report
1. Management Board bylaws,
2. organizational regulations of the Company enterprise,
3. establishment and liquidation of branches,
4. appointment of a proxy,
5. raising credits and loans,

Issues requiring the Resolution of the Management Board

as at 31 December 2014 and as at the day of this report

6. adopting the annual material and financial plans of the Company and the Capital Group, and the Corporate Strategy of the Capital Group,
7. incurring contingent liabilities within the meaning of the *Accounting Act of 29 September 1994*, including granting guarantees and sureties by the Company as well as issuing bills of exchange, subject to § 20 item 2 p. 4 and 5 of the Company Articles of Association,
8. making donations, redemption of interest or discharge from debt, subject to § 43 item 3 p.1 and 2 of the Company Articles of Association,
9. purchase of real property, perpetual usufruct or shares in property or in perpetual usufruct, subject to § 20 item 2 p. 1 of the Company Articles of Association,
10. purchase of the components of fixed assets excluding real property, perpetual usufruct or share in real property or perpetual usufruct, with the value equal to or exceeding the equivalent of EUR 10 thousand in PLN, subject to the provisions of § 20 item 2 p. 2 of the Company Articles of Association,
11. disposal of the components of fixed assets including real property, perpetual usufruct or share in real property or perpetual usufruct, with the value equal to or exceeding the equivalent of EUR 10 thousand in PLN, subject to the provisions of § 20 item 2 p. 3 of the Company Articles of Association,
12. defining the right to exercise a vote at the GM or at Shareholders' Meetings of companies in which the Company holds stocks or shares, on issues covered by the competence of the General Meetings or Shareholders' Meetings of such companies, subject to § 20 item 3 p. 9 of the Company Articles of Association,
13. rules of conducting sponsoring activity,
14. adoption of the annual plan of sponsoring activity,
15. issues, whose examination the Management Board refers to the Supervisory Board or the General Meeting.

6.8.2. Supervisory Board

Rules on appointing and dismissing members of the Supervisory Board

The Supervisory Board consists of five to nine persons, appointed for the joint term of office which lasts three years, except for the first term of office which lasts one year. In accordance with the Company Articles of Association, members of the Supervisory Board are appointed and dismissed by the GM, subject to the following provisions:

- 1) in the period, in which the State Treasury, together with entities dependent on the State Treasury within the meaning of § 10 item 5 of the Articles of Association, has a number of shares of the Company entitling to perform at least 25% of the total votes in the Company, the State Treasury is represented by the minister competent for the issues of the State Treasury, is entitled to appoint and dismiss the members of the Supervisory Board in the amount equal to half of the maximum number of the composition of the Supervisory Board defined in the Articles of Association (in case when the number is not integral it is rounded down to an integral number, for example 4.5 is rounded down to 4 increased by 1, provided that the State Treasury:
 - a) is obliged to vote at the General Meeting on establishing the number of members in the Supervisory Board representing the maximum number of members of the Supervisory Board defined in the Articles of Association or in case of submitting such a motion to the Management Board by a shareholder or shareholders who have a number of votes entitling to perform at least 5% of the total votes in the Company,
 - b) is excluded from the voting right at the General Meeting on appointing and dismissing of other members of the Supervisory Board, including independent members of the Supervisory Board; it does not, however, apply to the case when the Supervisory Board cannot act due to a composition minor than required by the Articles of Association, and the shareholders present at the General Meeting other than the State Treasury do not supplement the composition of the Supervisory Board in accordance with the distribution of places in the Supervisory Board defined in this item;
- 2) in the period of time in which the State Treasury, together with entities dependent on the State Treasury within the meaning of § 10 item 5 of the Articles of Association, has a number of the Company's shares entitling to perform under 25% of total voting rights in the Company, the State Treasury, represented by a minister competent for the issues of the State Treasury shall be entitled to appoint and dismiss one member of the Supervisory Board.
- 3) appointing and dismissing of members of the Supervisory Board by the State Treasury pursuant to the aforementioned item 1) or item 2) takes place by means of a statement submitted to the Company.

At least two members of the Supervisory Board shall meet the criteria of independence in relation to the Company and subsidiaries significantly related to the Company (independent members of the Supervisory Board). The definition of an "independent member of the Supervisory Board" shall mean an independent member of the Supervisory Board within the meaning the EC Recommendation of 15 February 2005, on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC) taking into consideration Good Practices.

Independent members of the Supervisory Board provide the Company, before being appointed to the composition of the Supervisory Board, with a written statement of having fulfilled the prerequisites of independence. In case of

a situation causing failure to fulfil the of independence, a member of the Supervisory Board is required to immediately notify the Company of this fact. The Company shall inform shareholders of the present number of independent members of the Supervisory Board.

Competence of the Supervisory Board

The Supervisory Board carries out continuous supervision over the Company's activities in all areas of its operations. In accordance with the Company Articles of Association, the tasks and competences of the Supervisory Board include, in particular the following issues listed in the table below:

Table no. 31. Competence of the Supervisory Board

Issues requiring the Resolution of the Supervisory Board	
as at 31 December 2014 and as at the day of this report:	
Opinion-making competence	
1.	assessment of the Management Board report on the Company operations as well of the financial statement for the previous financial year in the scope of their compliance with the books, documents as well as with the actual status. It also applies to the consolidated financial statement of the Capital Group, provided that it is generated,
2.	assessment of the Management Board conclusions on profit distribution or loss coverage,
3.	submitting of a written report to the General Meeting on the results of operations covered by items 1 and 2,
4.	preparing, together with the report on results of the annual financial statement of the Company, an opinion of the Supervisory Board on the issue of economic legitimacy of involving the Company capital committed in a given financial year in other entities of commercial law,
5.	giving opinions on the Corporate Strategy of the Capital Group,
6.	giving opinions and approval of the rules of conducting sponsoring activity,
7.	giving opinions on the annual plan of conducting of the sponsoring activity as well as annual reports on its implementation,
Decision-making competence	
1.	selecting of the chartered accountant to carry out the examination of the Company financial statement and consolidated financial statement of the Capital Group,
2.	determining the scope and deadlines of submitting of annual material and financial plans as well as long-term strategic plans of the Company and the Capital Group, by the Management Board,
3.	adopting of consolidated text of the Company Articles of Association, prepared by the Company Management Board,
4.	approving of the bylaws of the Company Management Board,
5.	approving of the organisational regulations of the Company enterprise.
6.	purchase of real property, perpetual usufruct or shares in property or in perpetual usufruct with the value exceeding the equivalent of EUR 5,000 thousand in PLN, excluding the real property or perpetual usufruct, or share in real property or in perpetual usufruct purchased from Companies of the Capital Group,
7.	purchase of the components of fixed assets excluding real property, perpetual usufruct or share
8.	in real property or perpetual usufruct, bonds issued by the companies of the Capital Group and other components of fixed assets purchased from companies of the Capital Group, of the value equal to or exceeding the equivalent of EUR 5,000 thousand in PLN,
9.	disposal of the components of fixed assets, including real property, perpetual usufruct or share in real property or perpetual usufruct, of the value equal to or exceeding the equivalent of 5,000 EUR in PLN, excluding the real property or perpetual usufruct, or share in real property or in perpetual usufruct, as well as other components of fixed assets which, as a result of the disposal, shall be sold or encumbered to the benefit of Companies of the Capital Group,
10.	incur contingent liabilities, including granting guaranties and sureties by the Company with the value exceeding the equivalent of EUR 5,000 in PLN,
11.	issuing bills of exchange with the value exceeding the equivalent of 5,000 EUR in PLN,
12.	advance payment on account of the expected dividend,
13.	taking over or purchase of shares or stocks in companies other than Companies of the Capital Group, with the value exceeding the equivalent of 5,000 EUR in PLN, excluding the situations when the takeover of stocks or shares of such companies occurs in exchange for Company liabilities under the composition or bankruptcy proceedings,
14.	disposal of stocks or shares with the value exceeding the equivalent of 5,000 EUR in PLN, including the defining of the conditions and procedure for their disposal, excluding: <ol style="list-style-type: none"> disposal of shares which are traded on the regulated market, disposal of stocks or shares that the Company holds in the amount not exceeding 10% share in the initial capital of particular companies. disposal of shares or stocks to the benefit of Companies of the Capital Group,
15.	granting permission to establish Company branches abroad,
16.	defining the way of performing the right of vote at the General Meeting or at the Shareholders' Meeting of companies in which the Company holds over 50% of stocks or shares, in matters concerning: <ol style="list-style-type: none"> disposal and leasing of the company's enterprise or its organized part as well as establishing a limited proprietary right if their value exceeds the equivalent of the amount of 5,000 EUR in PLN, winding up and liquidation of a company.

Issues requiring the Resolution of the Supervisory Board

as at 31 December 2014 and as at the day of this report:

Competence of the Company Supervisory Board related to the Management Board

1. appointing and dismissing members of the Management Board,
2. establishing the rules of remuneration and the amount of remuneration for the Members of the Management Board, subject to § 43 item 2 p.1 of the Company Articles of Association,
3. suspending members of the Management Board in performance of their duties, due to material reasons,
4. delegating members of the Supervisory Board to temporarily perform actions of the members of the Management Board who cannot perform their duties and establishing their remuneration subject to the provision that the total remuneration of the person delegated as the Supervisory Board's member as well as on account of being delegated to temporary performing actions of a member of the Management Board shall not exceed the remuneration established for the member of the Management Board, for whom the member of the Supervisory Board was delegated,
5. conducting recruitment proceedings for the position of a member of the Management Board,
6. conducting of a competition in order to select a person with whom an agreement to perform management in the Company shall be concluded,
7. granting permission to the members of the Management Board to take positions in governing bodies of other companies,

Other competences of the Company Supervisory Board

1. preparing of reports of the Supervisory Board on supervision of implementation of investments by the Management Board, including the purchase of fixed assets, and in particular, giving opinions on the correctness and effectiveness of spending of financial resources related to the above expenditures,
2. passing of by-laws describing in details the procedures of performance of the Supervisory Board,

6.9. Description of the procedure of amendment of the Company Articles of Association

Amendments to the Company Articles of Association in accordance with the provisions of the Ksh, in particular: amendments to the Company Articles of Association take place by means of resolution of the GM, at the majority of two thirds of the votes, and then requires issuing a decision by a proper court on entering the change into the register of entrepreneurs. The consolidated text of the Company Articles of Association, including amendments passed by the General Meeting, shall be adopted by the Supervisory Board by means of a resolution.

In accordance with the Company Articles of Association, a material amendment to the subject of activities requires two thirds of votes under the presence of persons representing at least a half of the share capital.

6.10. Operation of the General Meeting, its fundamental authorities and description of shareholders' rights and mode of their performance

The operating procedures of the Company General Meeting and its authorities are included in the Company Articles of Association and in the *Regulations of the General Meeting of TAURON Polska Energia S.A.* which are available at the Company website <http://www.tauron-pe.pl/>.

Operation of the General Meeting

The General Meeting is convened by announcement on the Company website and in the manner defined for providing current information by public companies. In case the GM is convened by an entity or body other than the Management Board on the basis of provisions of the Ksh, and the convening of the GM requires cooperation with the Management Board, the Management Board is obliged to perform all actions defined by law regulations in order to summon, organize and conduct the GM which shall take place in the Company registered office or in Warsaw.

The General Meeting is opened by the Chairperson of the Supervisory Board, and in case of his/her absence to open the General Meeting shall be authorized the following persons in the following order: Vice-Chairperson of the Supervisory Board, President of the Management Board, a person appointed by the Management Board or a shareholder who registered at the General Meeting shares entitling him/her to perform the biggest number of votes. Then, among the persons entitled to take part in the General Meeting the Chairperson of the Meeting is selected.

The GM shall adopt resolutions irrespective of the number of shares represented at the Meeting, unless the provisions of the Ksh as well as provisions of the Company's Articles of Association shall state otherwise. The General Meeting may order a break in the meeting by the majority of two thirds of votes. In total, the breaks shall not exceed thirteen days.

Competence of the General Meeting

In accordance with the Company Articles of Association, the following issues require Resolutions of the General Meeting:

Table no. 32. Competence of the General Meeting

Issues which require the resolution of the General Meeting	
as at 31 December 2014 and as at the day of this report:	
1.	examination and approval of financial statement for the previous financial year as well as the Management Board's report on the Company operations,
2.	granting the acknowledgement of the fulfilment of duties to the members of the governing bodies of the Company,
3.	profit distribution and coverage of loss,
4.	appointing and dismissing of members of the Supervisory Board,
5.	suspending members of the Management Board in performance of their duties,
6.	establishing the rules of remuneration for the members of the Supervisory Board, subject to § 29 item e of the Company Articles of Association,
7.	disposal and lease of the Company enterprise or its organized part as well as establishing a limited proprietary right on them,
8.	concluding of a credit, loan, surety agreement or any other similar agreement by the Company with a member of the Management Board, Supervisory Board, proxy and liquidator or for any of these persons. Concluding of a loan, surety or any other similar agreement with a member of the Management Board, Supervisory Board, proxy, liquidator or for any by a subsidiary company,
9.	increasing and lowering the share capital of the Company,
10.	issuing convertible bonds or priority bonds as well as registered securities or bearer securities entitling its owner to subscribe or acquire the shares,
11.	purchasing of treasury shares in cases required by the regulations of the Code of Commercial Companies,
12.	compulsory redemption of shares in accordance with the stipulations of art. 418 of the Code of Commercial Companies,
13.	creating, using and liquidation of reserve capitals,
14.	using of supplementary capital,
15.	provisions concerning claims to repair damage caused at establishing of the company or serving in the board or performing supervision,
16.	merger, transformation and division of the Company,
17.	redemption of shares,
18.	amendment to the Articles of Association and change of the scope of the Company operations,
19.	dissolving and liquidation of the Company.

In accordance with the provisions of the Ksh the decision on issue and repurchase of shares is included in the competence of the General Meeting.

Description of shareholders' rights and methods of their execution

The table below presents the description of rights of the Company shareholders associated with the General Meeting, in accordance with the Company Articles of Association, Ksh and the *Regulations of the General Meeting of TAURON Polska Energia S.A.*

Table no. 33. Description of rights of the Company shareholders associated with the General Meeting

No.	Shareholder rights	Description of Shareholder rights
1.	Convening of the General Meeting	A shareholder or shareholders representing at least one twentieth of the share capital, may demand convening of the Extraordinary General Meeting. Such a demand shall include its concise justification. It can be submitted to the Management Board in writing or send in electronic form, to the Company e-mail address, indicated by the Company on at its website in "Investor Relations" tab. A shareholder or Shareholders representing at least a half of the share capital or at least a half of all votes in the Company may convene the Extraordinary General Meeting and appoint the Chairperson of this Meeting.
2.	Including issues on the agenda of the General Meeting	Shareholders representing at least one twentieth of the share capital may demand including certain issues on the agenda of the nearest General Meeting. Such a demand, including a justification or a draft of resolution on the proposed point of agenda shall be submitted to the Management Board not later than 21 days before the given date of the General Meeting in electronic form to the Company e-mail address, or in writing to the Company address.
3.	Becoming acquainted with the list of shareholders	Shareholders may become acquainted with the shareholders' list in the Company's Management Board registered office during three days directly preceding the GM. The shareholder may demand sending him/her the list of Shareholders free of charge by electronic mail, providing address to which the list shall be sent.
4.	Participation in the General Meeting	The right to take part in the GM shall be given only to persons who are Shareholders sixteen days before the date of the GM (registration date of participation in the GM). In order to participate in the GM such shareholders should report the investment company holding their securities account a request to issue a certificate with their name on the right to take part in the GM. Such a request shall be submitted not earlier than a day after the announcement on convening of the GM and not later than on the first working day after the day of registering participation in the GM.

No.	Shareholder rights	Description of Shareholder rights
5.	Representing the shareholder by a proxy	The shareholder may take part in the GM as well as perform the voting right personally or through a proxy. Persons co-authorized by means of shares may take part in the General Meeting and perform the voting right only through a joint representative (proxy). The proxy may represent more than one Shareholder and vote differently based on shares of each Shareholder.
6.	Election of the Chairman of the General Meeting	Shareholders select the Chairperson among persons entitled to take part in the GM. Each of the members of the GM shall have the right to submit one candidate to the post of the Chairperson. The election of the Chairperson takes place by secret voting, with an absolute majority of votes. In case there is just one candidate to the Chairperson, the election can take place by acclamation.
7.	Appointment of the Returning Committee	Each Shareholder shall submit no more than three candidates to the member of Returning Committee, selected by the GM and vote for maximum three candidates.
8.	Submission of draft resolution	Until closing the discussion on a certain point of the agenda of the GM shareholders shall be authorised to submit a proposal of changes to the content of a draft of resolution proposed for adoption by the GM within a given item of the agenda or to put forward his/her draft of such a resolution. The proposal of changes or a draft of the resolution may be submitted to the Chairperson or orally or in writing to the minutes of the meeting.
9.	Raising objections	The shareholder who was voting against a resolution, and after its adoption by the GM wants to raise his/her objection shall immediately after the announcement of results of voting raise his/her objection and demand its including in the minutes before proceeding to the next item of the agenda. In case of a later raising of objection, which however shall not take place later than until closing the GM, the Shareholder shall indicate to which resolution passed at this GM she/he is raising his/her objection. The shareholder raising his/her objection to the GM resolution may submit to the minutes of the GM a concise justification of the objection.

6.11. Composition of managing and supervising bodies and their committees, its changes, description of performance

6.11.1. Management Board

The current, 4th term of office of the Management Board began to run on 17 March 2014, i.e. on the day of dismissal of all members of the Management Board of the 3rd term by the Supervisory Board, and the appointment of the Management Board of the Company for the 4th common term of office. In accordance with the Company Articles of Association the common term of office lasts three years.

Personal composition of the Management Board as at 31 December 2014 and as at the day of this report

1. Dariusz Lubera – President of the Management Board, responsible for the Division of the President of the Management Board
2. Aleksander Grad – Vice President of the Board responsible for the Division of the Vice-President of the Board for Corporate Affairs,
3. Katarzyna Rozenfeld – Vice President of the Board responsible for the Division of the Vice-President of the Board, Chief Commercial Officer,
4. Stanisław Tokarski – Vice President of the Board responsible for the Division of the Vice-President of the Board for Strategy and Development,
5. Krzysztof Zawadzki – Vice President of the Board responsible for the Division of the Vice-President of the Board for Economics and Finance.

Changes in the personal composition of the Management Board in 2014

As at 1 January 2014 the Management Board consisted of the following members: Dariusz Lubera (President of the Management Board), Joanna Schmid (Vice President of the Management Board), Dariusz Stolarczyk (Vice President of the Management Board) and Krzysztof Zawadzki (Vice President of the Management Board).

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

On 17 March 2014, the Member of the Supervisory Board, delegated to the temporary performance of the duties of Vice President of the Management Board, Aleksander Grad, resigned from his function of the Member of the Supervisory Board, with the effect as of 17 March 2014.

On 17 March 2014, the Supervisory Board of the Company dismissed, upon adoption of the appropriate resolutions, all members of the Management Board of the Company, i.e.: Dariusz Lubera (President of the Management Board),

Joanna Schmid (Vice President of the Management Board), Dariusz Stolarczyk (Vice President of the Management Board), Krzysztof Zawadzki (Vice President of the Management Board).

On 17 March 2014 the Company Supervisory Board, upon adoption of the appropriate resolutions, appointed the Management Board of the Company for the 4th common term, with the following composition: Dariusz Lubera (President of the Management Board), Aleksander Grad (Vice President of the Management Board), Katarzyna Rozenfeld (Vice President of the Management Board), Stanisław Tokarski (Vice President of the Management Board) and Krzysztof Zawadzki (Vice President of the Management Board).

Until the day of submission of this report, no other changes in the composition of the Management Board have taken place.

Experience and competences of members of the Management Board



Dariusz Lubera – President of the Board

Background: Electrician, MSc Eng. Graduate of AGH Academy of Science and Technology in Kraków and University of Economics in Kraków.

Acting as the President of the Management Board of TAURON Polska Energia S.A. since 8 March 2008. Currently supervises performance of the following business units: corporate bodies, legal department, HR, management of information resources, internal audit, market communication and PR, risk management, Health & Safety Issues and Protection of Classified Information.



Aleksander Grad – Vice President of the Management Board

Graduate of Industrial Surveying Faculty at AGH Academy of Science and Technology in Kraków. Acted as the Undersecretary of State at the Ministry of Health and the Minister of Treasury. Member of Parliament of the 4th, 5th, 6th and 7th tenure. Among others, acted in the capacity of the Vice Chairman of the European Union Commission, Vice Chairman and Chairman of the Commission on State Treasury.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 17 March 2014. Currently supervises the performance of the following business units: procurement department, corporate governance and reorganisation.



Katarzyna Rozenfeld – Vice President of the Management Board

Graduate of economics at the Foreign Trade Department of Łódź University and the Catholic University of Nijmegen in the Netherlands. She also completed a training course for investment advisers.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 17 March 2014. Currently supervises the performance of the following business units: trade, market operator and trade service, portfolio management, fuels and analyses.



Stanisław Tokarski – Vice President of the Management Board

Graduate of the Faculty of Electrical Engineering, Automatics and Electronics of the AGH University of Science and Technology in Kraków. Completed also a number of post-graduate studies, including, among others, in nuclear power engineering in modern power engineering industry at the AGH University of Science and Technology in Kraków, in the European Union legislation at Jagiellonian University and in management in Warsaw School of Economics. In 2014 he obtained the title of doctor of technical sciences.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 17 March 2014. Currently supervises performance of the following business units: development strategies, strategic projects, regulations and external funds as well as investment effectiveness.



Krzysztof Zawadzki – Vice President of the Board

Background: economist. Graduate of University of Economics in Katowice and PhD Studies at the University of Economics in Kraków. Postgraduate studies, i.a. in international financial reporting standards, European standards in accountancy and finance and taxes. He is a certified auditor.

Acting as the Vice President of the Management Board of TAURON Polska Energia S.A. since 21 August 2009. Currently supervises performance of the following business units: accounting and taxes, financial management and controlling.

The detailed description of experience and competences of the Board Members is published on the Company website <http://www.tauron-pe.pl/>.

Description of operation

The Management Board of the Company operates on the basis of Ksh and other regulations of law, provisions of the Company Articles of Association and provisions of the *Bylaws of the Management Board of TAURON Polska Energia Spółka Akcyjna z siedzibą w Katowicach*, which is available on the website of the Company <http://www.tauron-pe.pl/>. While performing their obligations the members of the Management Board are governed by regulations included in the Good Practices.

Cooperation of two members of the Management Board or one member of the Management Board together with a proxy is required for submitting of statements on behalf of the Company. Should the Management Board be single person, one member of the Management Board or a proxy shall be entitled to submit statements on behalf of the Company.

Meetings of the Management Board are convened by the President of the Management Board or a Vice-President of the Management Board appointed by him/her. Meetings of the Management Board are also convened upon the motion of the majority of Vice-Presidents of the Company as well as upon the motion of the Chairperson of the Supervisory Board. The meetings take place in the Company's seat, on the date set by the person convening the meeting. In justified cases, the Management Board's meetings may take place outside the seat of the Company. President of the Management Board or a Vice-President appointed by him/her shall chair the meeting.

The Management Board votes in an open voting. The result of voting is recorded in the minutes of the meeting. The President of the Management Board orders a secret ballot upon the request of any member of the Management Board.

Resolutions of the Management Board are passed by an absolute majority of votes in the presence of 3/5 of the composition of the members of the Management Board. In case of an equal number of votes the President of the Board has a casting vote. The Management Board may pass resolutions in a written mode or by using means of direct remote communication. Voting in the aforementioned modes is ordered by the President of the Management Board or the Vice-President appointed by him/her, defining the deadline to vote by the members of the Management Board. It is acceptable to submit a different opinion. It shall be recorded in the minutes together with justification. Decisions of the Management Board, regulating business as usual, not requiring a resolution, are recorded only in the minutes.

Under the circumstances when the number of Vice-Presidents of the Management Board is lower than the Divisions, the Vice-Presidents of the Management Board may join the capacity of directors of two divisions, or distribute the competence in any other way which would be in compliance with the distribution of responsibilities performed by the Supervisory Board.

Scope of activities of the President of the Management Board covers competence in the area of operations of business units reporting to the Division of the President of the Board, in accordance with the organisational structure of the Company.

Scope of activities of the Vice-Presidents of the Management Board covers competence in the area of operations of business units reporting to the Divisions of the Vice-Presidents of the Board, in accordance with the organisational structure of the Company.

The structure of the divisions reporting to individual members of the Management Board is specified in the organisational chart of the Company, presented in item 1.4.2 of this report.

6.11.2. Supervisory Board

The current, fourth term of office of the Supervisory Board, started on 15 May 2014, i.e. on the day of convening of the Ordinary General Meeting of the Company approving the financial statement for the last full financial year of the tenure of the members of the Supervisory Board of the third term, i.e. for the financial year 2013. In accordance with the Company Articles of Association this is a joint term of office and it shall last for three years.

Personal composition of the Supervisory Board as at 31 December 2014 and as at the date of this report

1. Antoni Tajduś – Chairman of the Supervisory Board,
2. Agnieszka Woś – Vice Chairperson of the Supervisory Board,
3. Jacek Szyke – Secretary of the Supervisory Board,
4. Andrzej Gorgol – Member of the Supervisory Board,
5. Maciej Koński – Member of the Supervisory Board,
6. Leszek Koziorowski – Member of the Supervisory Board,
7. Michał Michalewski – Member of the Supervisory Board,
8. Marek Ściążko – Member of the Supervisory Board,
9. Maciej Tybura – Member of the Supervisory Board.

Changes in the personal composition of the Supervisory Board in 2014

As at 1 January 2014 the Supervisory Board consisted of the following members: Antoni Tajduś (Chairman of the Supervisory Board), Rafał Wardziński (Vice Chairman of the Supervisory Board), Leszek Koziorowski (Secretary of the Supervisory Board), Jacek Kuciński (Member of the Supervisory Board), Marcin Majeranowski (Member of the Supervisory Board), Jacek Szyke (Member of the Supervisory Board), Marek Ściążko (Member of the Supervisory Board) and Agnieszka Trzaskalska (Member of the Supervisory Board).

On 7 January 2014 the Extraordinary General Meeting of the Company appointed Aleksander Grad as a member of the Supervisory Board of the Company of the 3rd term as of 1 February 2014.

On 22 January 2014 the State Treasury, acting pursuant to its personal authority specified in § 23 item 1 p. 3 of the Company Articles of Association, dismissed Mr. Rafał Wardziński who acted as the Deputy Chairman of the Supervisory Board, from the Supervisory Board of TAURON.

On 22 January 2014 the State Treasury, acting pursuant to its personal authority specified in § 23 item 1 p. 3 of the Company Articles of Association, appointed Ms Agnieszka Woś as a member of the Supervisory Board of TAURON.

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

On 17 March 2014, Member of the Supervisory Board, Aleksander Grad, resigned from his function of the Member of the Supervisory Board, with the effect as of 17 March 2014.

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

The Ordinary GM of the Company convened on 15 May 2014 appointed Jacek Szyke as a member of the Supervisory Board of the 4th common term.

On 1 September 2014 the Extraordinary General Meeting of the Company, acting pursuant to § 22 item 1 of the Company Articles of Association, adopted the resolution on appointment of the following persons to the Company Supervisory Board for the fourth common term of office as of 1 September 2014: Maciej Koński, Leszek Koziorowski, Maciej Tybura.

Until the day of submission of this report, no other changes in the composition of the Supervisory Board have taken place.

Experience and competences of members of the Supervisory Board

Antoni Tajduś – Chairman of the Supervisory Board

Academic and scientific worker of the AGH Academy of Science and Technology in Kraków During his employment at the AGH, he obtained the following scientific degrees: PhD in technical sciences (1977), DSc in technical sciences (1990) and professor of technical sciences (1998). In the years 2005–2012 acted in the capacity of the Rector of the AGH Academy of Science and Technology in Kraków.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 31 January 2008. Currently acting in the capacity of the Chairman of the Supervisory Board and the Chairman of the Committee on Nominations and Remunerations of the Supervisory Board.

Agnieszka Woś – Vice Chairperson of the Supervisory Board

Graduate of the College of Information Technology and Management in Rzeszów, specialisation: accounting and finance and the University of Economics in Kraków, specialisation: performance and development of enterprises. Obtained a title of doctor of economic sciences in 2010 in the scope of management sciences, at the University of Economics in Kraków.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 22 January 2014. Currently acting in the capacity of the Vice Chairperson of the Supervisory Board and the Chairperson of the Audit Committee of the Supervisory Board.

Jacek Szyke – Secretary of the Supervisory Board

Graduate of Faculty of Economics at Łódź University and Electric Faculty of Technical University in Poznań, where he also obtained PhD in technical sciences.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 14 September 2010. Currently acting in the capacity of the Secretary of the Supervisory Board and the Member of the Audit Committee of the Supervisory Board.

Andrzej Gorgol – Member of the Supervisory Board

Graduate of the Faculty of Law and Administration at the Maria Curie-Skłodowska University. Obtained the scientific title of Doctor of Sciences in law. He is also a certified solicitor.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 15 May 2014. Currently acting as a member of the Committee on Nominations and Remunerations of the Supervisory Board.

Maciej Koński – Member of the Supervisory Board

Graduate of the Warsaw School of Economics, faculty of Finance and Banking. In 2014 he obtained the title of doctor of technical sciences at Wrocław University of Technology.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 1 September 2014. Currently acting as a member of the Strategy Committee of the Supervisory Board.

Leszek Kozirowski – Member of the Supervisory Board

Graduate of Faculty of Law and Administration of Warsaw University, legal counsel in the Regional Chamber of Attorneys in Warsaw.

Appointed as the member of the Supervisory Board of TAURON Polska Energia S.A. as of 14 September 2010, he acted as the member of the Supervisory Board in the period until 15 May 2014, i.e. the day of termination of the 3rd common term of the Supervisory Board. In the aforementioned period he acted as the secretary of the Supervisory Board and member of the Audit Committee of the Supervisory Board. Re-elected to the Supervisory Board as of 1 September 2014. Currently acting as a member of the Committee on Nominations and Remunerations of the Supervisory Board.

Michał Michalewski – Member of the Supervisory Board

Graduate of the University of Economics in Katowice where he majored in finance and banking. The MBA degree at Nottingham Trent University in Great Britain. A graduate of numerous post-graduate courses in the field of management.

In the years 2008–2012 he acted as the Member of Supervisory Board of TAURON Polska Energia S.A.

Appointed as a member of the Supervisory Board of TAURON Polska Energia S.A. as of 15 May 2014. Currently acting as the member of the Strategy Committee of the Supervisory Board and Audit Committee of the Supervisory Board.

Marek Ściążko – Member of the Supervisory Board

Graduate of Faculty of Technology and Chemical Engineering, Technical University in Gliwice – speciality: chemical engineering, he obtained the PhD title at the same university.

Moreover, Marek Ściążko holds the title of Doctor of Sciences and a University Professor.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 31 January 2008. Currently acting as the member of the Strategy Committee of the Supervisory Board and Committee on Nominations of the Supervisory Board.

Maciej Tybura – Member of the Supervisory Board

A graduate of the University of Economic in Poznań, faculty of Enterprise Finance and Accounting.

Appointed to the Supervisory Board of TAURON Polska Energia S.A. as of 1 September 2014. Currently acting as a member of the Audit Committee of the Supervisory Board.

The detailed description of experience and competences of the Supervisory Members is published on the Company website <http://www.tauron-pe.pl/>.

Description of operation

A detailed description of the Supervisory Board operations is included in the Ksh, in the Company Articles of Association, which is available on the Company website <http://www.tauron-pe.pl/> and in the *Bylaws of the Supervisory Board of TAURON Polska Energia S.A. z siedzibą w Katowicach*.

The main form of performing supervision by the Supervisory Board over the Company's operations are meetings of the Supervisory Board. The Supervisory Board performs its obligations jointly. Meetings of the Supervisory Board are convened by the Chairperson of the Supervisory Board or Vice-Chairperson of the Supervisory Board by presenting a detailed agenda.

- 1) in accordance with decisions adopted by the Supervisory Board,
- 2) on his/her own initiative,
- 3) upon a written proposal of each member of the Supervisory Board,
- 4) upon a written proposal of the Management Board.

Meetings of the Supervisory Board take place in the Company's seat. In justified cases the venue of the meeting may be changed.

In order to convene a meeting, written invitation of all members of the Supervisory Board at least 7 days before the date of the Supervisory Board's meeting is required. Due to material reasons the Chairperson of the Supervisory Board may shorten this period to 2 days, defining the mode of giving the invitation. Notifications of the Supervisory Board meeting are sent by means of fax or electronic mail and are confirmed by phone. In the notification of the Supervisory Board meeting the Chairperson defines the date of the meeting, venue of the meeting as well as detailed draft of the agenda. The Supervisory Board shall meet when the need arises, however, not less frequently than once in every two months. The Supervisory Board may meet without convening a formal meeting if all members of the Supervisory Board are present and nobody appeals against the fact of holding the meeting or against the agenda.

A change of the proposed agenda may take place when all members of the Supervisory Board are present at the meeting and nobody appeals against the agenda. An issue not included on the agenda shall be included into the agenda of the next meeting.

Taking part in meetings of the Supervisory Board is the Supervisory Board Member's duty. A Member of the Supervisory Board shall give reasons of his/her absence in writing. Justification of the Supervisory Board Member's absence requires the Supervisory Board resolution. Members of the Management Board of the Company may take part in the Supervisory Board's meetings unless the Supervisory Board raises an objection. Participation of the Management Board members in the Supervisory Board meetings is compulsory if they were invited by the Chairperson of the Supervisory Board. Other persons may also take part in the meetings if they were invited in the above mentioned way.

The Supervisory Board may seek opinion of legal advisers who render regular legal advice for the Company, as well as, in justified cases, it may appoint and invite to meetings of the Supervisory Board appropriate experts in order to ask their advice and make an appropriate decision. In the aforementioned cases the Supervisory Board shall pass a resolution concerning commissioning the work to a chosen expert (audit or consulting company) obliging the Company's Management Board to conclude an appropriate agreement.

Meetings of the Supervisory Board shall be chaired by the Chairperson of the Supervisory Board, and in the case of his/her absence by the Vice-Chairperson. Due to material reasons, with the consent of the majority of the members of the Supervisory Board present at the meeting, the person chairing the meeting is obliged to submit to voting a motion to stop the meeting and establish a new date of resuming the Supervisory Board meeting. The Supervisory Board makes decisions in the form of resolutions. The Supervisory Board resolutions are passed mainly at the meetings. The Supervisory Board passes resolutions if at least half of its members are present at the meeting and all its members were invited in the way defined in the Regulations. Subject to absolutely binding regulations of law, including the Ksh as well as provisions of the Company's Articles of Association, the Supervisory Board passes resolutions by an absolute majority of votes of the persons present at the meeting, where the absolute majority of votes is understood as more votes submitted "for" than "against" and "abstain". Resolutions cannot be passed in issues not included in the agenda unless all members of the Supervisory Board are present and nobody voices an objection. It shall not apply to resolutions on justifying the Supervisory Board's member absence at the meeting. Voting of the resolutions is open. A secret ballot is ordered:

- 1) upon the request of at least one of the members of the Supervisory Board,
- 2) in personnel-related issues.

The Supervisory Board, in accordance with the Articles of Association, may pass resolutions in writing or by using means of direct remote communication. Passing a resolution in such a mode requires a justification and a prior submitting of the draft of the resolution to all members of the Board. Passing resolutions in this mode does not apply to the appointing the Chairperson, the Deputy Chairperson and the Secretary of the Board, appointing or suspending in the activities of a member of the Supervisory Board and dismissing these persons as well as other issues the settlement of which requires a secret voting. Voting on a resolution passed in the aforementioned mode, a member of the Supervisory Board indicates the mode of his/her voting, "for", "against" or "abstain". In case of failure to express the vote by a Member of the Supervisory Board in the time period defined by the Chairperson the resolution shall not be passed. Resolution with a note that it was passed in a written mode or by mode of voting using means of direct distance communication shall be signed by the Chairperson of the Supervisory Board. Resolutions passed in this mode shall be submitted at the first coming meeting of the Supervisory Board with announcing the result of the voting.

A possibility is allowed for members of the Supervisory Board to participate in the meeting and vote on the resolutions adopted within such a meeting using means of direct remote communication, i.e. tele- or videoconferences, provided that at the venue of the session, indicated in the notice of the meeting, at least half of the members is present as well as the technical possibility to ensure secure connection is provided.

Members of the Supervisory Board shall take part in meetings and perform their duties in person, and while performing their duties they are obliged to exercise due diligence. Members of the Supervisory Board are obliged to keep information connected with the Company activity which they have acquired in connection with holding their seat or at other occasion secret. The Supervisory Board performs its obligations jointly.

The Supervisory Board may, due to material reasons, delegate particular members to perform certain actions independently for a defined period of time. The Supervisory Board may delegate its members, for a period no longer than three months, to temporarily perform duties of the members of the Management Board who have been dismissed, submitted their resignation or if due to other reasons they cannot perform their functions. The aforementioned delegation requires obtaining permission from the member of the Supervisory Board who is to be delegated.

The detailed description of activities of the Supervisory Board in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the General Meeting and then published on the Company website <http://www.tauron-pe.pl/>.

The Supervisory Board may appoint among its members permanent or temporary working groups or committees to perform particular actions. The permanent committees of the Supervisory Board include:

- 1) Audit Committee,
- 2) Nominations and Remuneration Committee of the Supervisory Board of TAURON Polska Energia S.A. (Nominations and Remuneration Committee),
- 3) Strategy Committee of the Supervisory Board of TAURON Polska Energia S.A. (Strategy Committee).

Composition, tasks and rules of operation of the aforementioned committees are defined in their regulations adopted by the Supervisory Board.

6.11.3. Audit Committee

In connection with the commencement, as of 15 May 2014, of the 4th common term of the Supervisory Board of the Company and the appointment of its members by the State Treasury and the General Meeting, on 2 June 2014 the Supervisory Board established the Audit Committee among its members.

Composition of the Audit Committee as at 31 December 2014 and as at the day of this report

1. Agnieszka Woś – Chairperson of the Audit Committee,
2. Michał Michalewski – Member of the Audit Committee,
3. Jacek Szyke – Member of the Audit Committee,
4. Maciej Tybura – Member of the Audit Committee.

Changes in the personal composition of the Audit Committee

As at 1 January 2014 the Audit Committee consisted of the following members: Marcin Majeranowski (Chairman), Leszek Kozirowski, Jacek Kuciński and Jacek Szyke.

On 2 June 2014, the Supervisory Board appointed the following members of the Audit Committee: Michał Michalewski, Jacek Szyke and Agnieszka Woś. On the same day, the Audit Committee elected Agnieszka Woś as the Chairperson of the Audit Committee among its members.

In connection with the appointment of new members of the Supervisory Board by the GM on 1 September 2014, on 28 October 2014 the Supervisory Board appointed Maciej Tybura as a member of the Audit Committee.

Until the day of submission of this report, no other changes in the composition of the Audit Committee have taken place.

Tasks and competences of the Audit Committee

The table below presents the tasks and competences of the Audit Committee as at 31 December 2014 and as at the day of this report.

Table no. 34. Competence of the Audit Committee

Issues requiring the resolution of the Audit Committee
as at 31 December 2014 and as at the day of this report:
1. monitoring of financial reporting process;
2. monitoring of the accuracy of financial information presented by the Company;
3. monitoring of the efficiency of internal control, internal audit and risk management systems existing in the Company;
4. monitoring of performing of financial revisions;
5. monitoring of independence and impartiality of the chartered accountant and the entity entitled to examine financial statements, including rendering by them services other than financial audit;
6. recommending of an entity entitled to examine financial statements to perform financial audit to the Supervisory Board.

The detailed description of activities of the Audit Committee in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the GM and then published on the Company website <http://www.tauron-pe.pl/>.

6.11.4. Nominations and Remuneration Committee

In connection with the commencement, as of 15 May 2014, of the 4th common term of the Supervisory Board of the Company and the appointment of its members by the State Treasury and the General Meeting, on 2 June 2014 the Supervisory Board established the Nominations and Remuneration Committee among its members.

Personal composition of the Nominations and Remuneration Committee as at 31 December 2014 and as at the day of this report

1. Antoni Tajduś – Chairman of the Nominations and Remuneration Committee,
2. Andrzej Gorgol – Member of the Nominations and Remuneration Committee,
3. Leszek Koziarowski – Member of the Nominations and Remuneration Committee,
4. Marek Ściążko – Member of the Nominations and Remuneration Committee.

Changes in the personal composition of the Nominations and Remuneration Committee

As at 1 January 2014 the Nominations and Remuneration Committee consisted of the following members: Antoni Tajduś (Chairman), Jacek Kuciński, Marek Ściążko and Agnieszka Trzaskalska.

On 2 June 2014, the Supervisory Board appointed the following members of the Nominations and Remuneration Committee: Andrzej Gorgol, Michał Michalewski, Marek Ściążko and Antoni Tajduś. On the same day the Nominations and Remuneration Committee elected Antoni Tajduś as the Chairman of the Nominations and Remuneration Committee among its members.

In connection with the appointment of new members of the Supervisory Board by the GM on 1 September 2014, on 28 October 2014 the Supervisory Board appointed Leszek Koziarowski as a member of the Nominations and Remuneration Committee.

On 28 October 2014, Michał Michalewski resigned from his function of the member of the Nominations and Remuneration Committee.

Until the day of submission of this report, no other changes in the composition of the Nominations and Remuneration Committee have taken place.

Tasks and competence of the Nominations and Remuneration Committee

The table below presents the tasks and competences of the Nominations and Remunerations Committee as at 31 December 2014 and as at the day of this report.

Table no. 35. Competence of the Nominations and Remuneration Committee

Issues requiring the resolution of the Nominations and Remunerations Committee	
as at 31 December 2014 and as at the day of this report:	
1.	recommendations to the Supervisory Board on a recruitment procedure for the positions of members of the Company Management Board,
2.	assessing candidates for members of the Management Board as well submitting an opinion in this scope to the Supervisory Board,
3.	recommendations to the Supervisory Board on the form and contents of agreements concluded with members of the Management Board,
4.	recommendations to the Supervisory Board on remuneration and bonus system of the members of the Management Board,
5.	recommendations to the Supervisory Board on the need to suspend a member of the Management Board due to material reasons,
6.	recommendations to the Supervisory Board on the need to delegate a member of the Supervisory Board to temporarily perform the duties of members of the Management Board who cannot perform their duties together with a proposal of remuneration.

The detailed description of activities of the Nominations and Remuneration Committee in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the GM and then published on the Company website <http://www.tauron-pe.pl/>.

6.11.5. Strategy Committee

In connection with the commencement, as of 15 May 2014, of the 4th common term of the Supervisory Board of the Company and the appointment of its members by the State Treasury and the General Meeting, on 2 June 2014 the Supervisory Board established the Strategy Committee among its members.

Composition of the Strategy Committee as at 31 December 2014 and as at the day of this report

1. Jacek Szyke – Chairman of the Strategy Committee,
2. Maciej Koński – Member of the Strategy Committee,
3. Michał Michalewski – Member of the Strategy Committee,
4. Marek Ściążko – Member of the Strategy Committee.

Changes in the Strategy Committee personal composition

As at 1 January 2014 the Strategy Committee consisted of the following members: Jacek Szyke (Chairman), Jacek Kuciński, Marek Ściążko, Agnieszka Trzaskalska, Rafał Wardziński.

Due to the dismissal of Rafał Wardziński from the Supervisory Board by the State Treasury on 22 January 2014, the composition of the Strategy Committee was reduced to four persons.

On 2 June 2014, the Supervisory Board appointed the following members of the Strategy Committee: Michał Michalewski, Jacek Szyke and Marek Ściążko. On the same day, the Strategy Committee elected Jacek Szyke as the Chairman of the Strategy Committee among its members.

In connection with the appointment of new members of the Supervisory Board by the GM on 1 September 2014, on 28 October 2014 the Supervisory Board appointed Maciej Koński as a member of the Strategy Committee.

Until the day of submission of this report, no other changes in the composition of the Strategy Committee have taken place.

Tasks and competences of the Strategy Committee

The table below presents the tasks and competences of the Strategy Committee as at 31 December 2014 and as at the day of this report.

Table no. 36. Competence of the Audit Committee

Issues requiring the resolution of the Strategy Committee
as at 31 December 2014 and as at the day of this report
1. assessment of the Corporate Strategy and presenting its results to the Supervisory Board;
2. recommending the scope and terms of submitting the strategic multi-annual plans to the Supervisory Board;
3. assessment of impact of the planned and undertaken strategic investments on assets of the Company;
4. monitoring the implementation of the strategic investment tasks;
5. assessment of activities concerning availability of significant Company assets;
6. opinion on strategic documents submitted to the Supervisory Board by the Management Board.

The detailed description of activities of the Strategy Committee in the previous financial year is contained in the Report on Activities of the Supervisory Board, submitted on annual basis to the GM and then published on the Company website <http://www.tauron-pe.pl/>.

6.11.6. Description of activities of the Committees of the Supervisory Board

A detailed description of the activities of the Supervisory Board is included in the Regulations of individual Committees of the Supervisory Board of TAURON Polska Energia S.A.

The Committees of the Supervisory Board are advisory and opinion-making bodies acting collectively as a part of the Supervisory Board and perform support and advisory functions towards the Supervisory Board. The tasks of the Committees of the Supervisory Board are carried out by submitting motions, recommendations, opinions and statements on the scope of its tasks to the Supervisory Board, by means of resolutions. The Committees of the Supervisory Board are independent of the Management Board of the Company. The Management Board may not issue binding orders to the Committees of the Supervisory Board concerning performing their duties.

The Committees of the Supervisory Board consist of three to five members. The activities of the individual Committees are managed by their Chairpersons.

Meetings of the Committees are convened by the Chairperson of the specific Committee on his/her own initiative or upon the motion of a member of the Committee or Chairperson of the Supervisory Board and they are held as needed. In case of the Audit Committee the meetings are convened at least on a quarterly basis. The Chairpersons of the Committees may invite members of the Supervisory Board, who are not members of the specific Committee, members of the Management Board and employees of the Company as well as other persons working or cooperating with the Company to the meetings of the Committees. The Chairperson of the specific Committee or a person appointed by him/her submits motions, recommendations and reports to the Supervisory Board.

The Committees of the Supervisory Board pass resolutions if at least a half of their members were present at the meeting and all their members have been duly invited. The resolutions of the Committees of the Supervisory Board are adopted by an absolute majority of votes present at the meeting, where the absolute majority of votes is understood as more votes given "for" than "against" and "abstain". The Committees of the Supervisory Board may pass resolutions in writing or by using means of direct remote communication.

Members of the Committees of the Supervisory Board may also participate in meetings and vote of the adopted resolutions by using means of direct remote communication, i.e. tele- or videoconferences.

The Company Management Board shall be informed about recommendations and assessments submitted to the Supervisory Board by the Committees of the Supervisory Board. Every year, the Committees of the Supervisory Board provide public record information, through the Company, on the composition of the Audit Committee, number of meetings held and participation in the meetings during the year as well as on main activities. In addition, the Audit Committee confirms its positive assessment of the independence of financial audit process and submits a short description of steps taken to formulate such a motion.

The Company Management Board provides the possibility to use the services of external advisers by the Committees in the scope required for performing the obligations of the specific Committee.

6.12. Remuneration of key management and supervisory personnel

Remuneration of key management personnel

The total amount of remuneration understood as the value of salaries, awards and benefits received in cash, in kind or in any other form, due or paid by the Company to the Management Board Members in 2014 amounted to PLN 7,440 thousand gross.

The model of remuneration of Board Members consists of two components for determining the remuneration, the fixed part (monthly basic salary) and the floating part, depending on fulfilment of specific target criteria (implementation of the task commissioned).

The members of the Management Board of the Company are not covered by the incentive or bonus programme based on the capital of the Company, neither do they receive any remuneration or awards due to performance in governing bodies of subsidiaries of TAURON Capital Group.

The table below presents the remuneration of members of the Company Management Board for 2014, divided into components.

Table no 37. Remuneration of members of the Company Management Board for 2014, divided into components (in PLN thousand)

No.	Surname and name	Period of holding the function in 2014	Remuneration*	Bonus*	Other benefits*	Total
1.	Dariusz Lubera	1 January 2014 – 31 December 2014	1,044	657	211	1,912
2.	Aleksander Grad	11 February 2014 – 16 March 2014** 17 March 2014 – 31 December 2014	801	175	87	1,063
3.	Katarzyna Rozenfeld	17 March 2014 – 31 December 2014	714	132	72	918
4.	Stanisław Tokarski	17 March 2014 – 31 December 2014	714	132	99	945
5.	Krzysztof Zawadzki	1 January 2014 – 31 December 2014	924	507	140	1,571
6.	Joanna Schmid	1 January 2014 – 17 March 2014	189	203	64	456
7.	Dariusz Stolarczyk	1 January 2014 – 17 March 2014	227	270	78	575
Total			4,613	2,076	751	7,440

* Excluding overheads.

** A period of delegating Aleksander Grad, Member of the Supervisory Board to the temporary performance of activities of the Vice-President of the Company Management Board.

Remuneration of key supervising personnel

The model of remuneration of the Supervisory Board members consists in single component, fixed part.

The table below presents the remuneration of members of the Company Supervisory Board Members for 2014

Table no 38. Remuneration of members of the Supervisory Board of the Company for 2014 (in thousand PLN)

No.	Surname and name	Period of holding the function in 2014	Payroll and awards
1.	Antoni Tajduś	1 January 2014 – 31 December 2014	143
2.	Agnieszka Woś	22 January 2014 – 31 December 2014	122
3.	Jacek Szyke	1 January 2014 – 31 December 2014	115
4.	Andrzej Gorgol	15 May 2014 – 31 December 2014	68
5.	Maciej Koński	1 September 2014 – 31 December 2014	36
6.	Leszek Koziorowski	1 January 2014 – 15 May 2014 1 September 2014 – 31 December 2014	81
7.	Michał Michalewski	15 May 2014 – 31 December 2014	68
8.	Marek Ściążko	1 January 2014 – 31 December 2014	108
9.	Maciej Tybura	1 September 2014 – 31 December 2014	36
10.	Aleksander Grad*	1 February 2014 – 16 March 2014	3
11.	Jacek Kuciński	1 January 2014 – 15 May 2014	40
12.	Marcin Majeranowski	1 January 2014 – 15 May 2014	40
13.	Agnieszka Trzaskalska	1 January 2014 – 15 May 2014	40
14.	Rafał Wardziński	1 January 2014 – 22 January 2014	8
Total			908

* Member of the Supervisory Board delegated to temporary performance of the activities of the Vice President of the Management Board of the Company in the period from 11 February 2014 to 16 March 2014.

6.13. Agreements concluded with managing persons which envisage compensation in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation is caused by merger of the Company through takeover

Between the Company and managing persons no agreements were concluded which envisage compensation in case of their resignation or dismissal from the position held, without material reason, or if their dismissal or resignation is caused by merger of the Company through takeover.

7. OTHER SIGNIFICANT INFORMATION AND EVENTS

7.1. Proceedings pending before the court, competent arbitration authority or public administration authority

During the reporting period no proceedings were pending before any court, competent arbitration authority or public authority body, related to the Company or subsidiaries of TAURON Capital Group, whose single or aggregate value would exceed at least 10% of the equity of the Company.

7.2. Important achievements in research and development

In 2014 the Company, jointly with partners from the EU countries, started the implementation of the first project entitled *An Integrated Collaborative Platform for Managing the Product-Service Engineering Lifecycle – ICP4Life*, financed under the Horizon 2020 programme. Project deliverables may support companies of TAURON Capital Group in their works associated with renovations and maintaining the generation equipment and distribution grids.

In December 2014 the Feasibility Study of the Sectoral Programme for Power Industry was submitted to NCBiR, developed by the Company in cooperation, among others, with other enterprises from the energy sector, trade organisations and leading national universities. It is expected that the launch of the Programme shall provide support for the intensification of innovation in the energy sector, and competitions announced under the Programme shall also influence the directions of activities undertaken by TAURON Capital Group. At present, the evaluation of the application submitted is in progress.

The Company also conducted active measures in the scope of building the cooperation mechanisms between industry and science. In 2014, TAURON and 22 institutions, including: 18 universities, 2 institutes and 2 enterprises signed the consortium agreement establishing the Motorway of Technology and Innovation Institute, which provides a new platform for cooperation between industry and Polish universities.

In 2014 the Company continued its activities implemented under KIC InnoEnergy, in particular, the Polish node of CC Poland Plus sp. z o.o. with its seat in Kraków (one of six in the EU). TAURON has the status of Associated Partner in the structures of KIC InnoEnergy. The main area of interest of the Company covers the so-called clean coal technologies. At the same time, conducting research and coordination of activities in this area are the main activities of the company CC Poland Plus sp. z o.o., in which the Company is one of the shareholders. In 2014 representatives of the Company were involved in the activities of KIC InnoEnergy, associated with the evaluation of projects/initiatives proposed for implementation by other partners acting within KIC InnoEnergy structures.

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

- the first task – *Development of technologies for high-performing “zero-emission” coal units integrated with CO₂ capturing from flue gas,*
- the third task – *Development of coal gasification technology for highly effective production of fuels and electric energy.*

Within implementation of the first task, activities are continued aimed at using the mobile pilot installation for CO₂ capturing, constructed in the previous year. In 2014 the installation was transported and installed at the fluidised bed boiler at Jaworzno III Power Plant (Power Plant II). The scientific partner of the project – Instytut Chemicznej Przeróbki Węgla (Institute of Chemical Coal Processing) conducted a series of tests at the installation, after which the installation was transported to Łaziska Power Plant. The follow-up projects are also planned, allowing for effective use of the research infrastructure held in the form of mobile pilot installation.

In the reporting year, activities initiated in 2012 were also continued in the Company, resulting from the signed Consortium Agreement – HTRPL High Temperature Nuclear Reactor in Poland. The participation of the Company is associated with the implementation of the stage called, the *Analysis of the experience of the energy operator in application of cogeneration systems from the perspective of potential implementation of the technology of high temperature reactors*, under the research project on *Technologies supporting the development of safe nuclear power industry*, within the scope of Research Task no. 1 entitled: *Development of high temperature reactors for industrial application*. The leader of the Consortium is the AGH University of Science and Technology (Akademia Górniczo-Hutnicza) in Kraków.

In order to improve the coordination of the research and development activities in TAURON Capital Group, in 2014 the Research and Development Office commenced its activities, established in 2013 within the structures of the Department of Regulation and External Funds of the Company. The office, among others, coordinates the activities

in the scope of research and development in TAURON Capital Group and conducts cooperation with universities and research and development centres in the country and abroad.

In accordance with the assumptions, the establishment of the new organisational unit will be reflected in better adjustment of the research and development programmes conducted to the challenges faced by TAURON Capital Group, reduction of own R&D expenditure incurred, due to the effective use of the external funds, simultaneously benefiting from the support of the best specialists employed at universities and in research institutes as well as industrial partners from Poland and abroad.

At present, the activities aimed at development and implementation of the *Research and development policy in TAURON Group* are ongoing, which shall define the target model of research and development activity functioning in TAURON Capital Group, in particular, in the scope of:

- 1) indicating future competitive advantages of TAURON Capital Group, associated with the research and development activity,
- 2) indicating priority areas and development directions of the research and development activity, compliant with the current and predicted development trends in Europe and worldwide,
- 3) optimum use of the potential of both companies of TAURON Capital Group and the former economic and scientific partners,
- 4) optimum use of the support for research and development activity available under the public funds.

7.3. Issues concerning natural environment

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

7.4. Policy on Corporate Social Responsibility (CSR)

In 2011, in acknowledgement that communication of CSR actions is particularly important in case of companies listed at stock exchange, within Corporate Strategy, the need to develop and implement the CSR strategy (within integration of PR function), at the level of the Company and "TAURON Group". Accordingly, in 2012 the *Strategy of Corporate Social Responsibility, i.e. the Strategy of Sustainable Development of TAURON Group for 2012-2015, with estimates up to the year 2020* was developed.

The strategic objectives defined by the Corporate Strategy and the strategies of Business Areas, provided basis for provisions of this document. The Strategy of sustainable development indicates two leading directions: ensuring the energy safety and client, as well as three supporting directions: involvement of employees in organisation development, environmental protection in the value chain and management of economic and social impacts. All key companies of TAURON Capital Group have been engaged in implementation of the strategy of sustainable development, appointing coordinators within their structures, to be responsible for supervising the implementation of the strategy and reporting of results to the corporate centre. On the other hand, in TAURON the coordinator for sustainable development was appointed, responsible, among others, for preparation of CSR reports.

The strategy of sustainable development is directly related to all areas of activities of TAURON Capital Group, consolidating both the approach to CSR and the methodology of assessment of actions undertaken based on the indicators of the Global Reporting Initiative. In 2014 the second report on sustainable development was published, presenting the measures undertaken by TAURON Capital Group in the area of Corporate Social Responsibility in 2013 as well as data summing up the implementation of the goals planned in the sustainable development strategy up to 2015. The report has been prepared in accordance with the latest reporting standards – GRI G.4, which was confirmed by the certificate – GRI Materiality Matters' Check. The report was subject to the external verification by an independent auditor. The Company was also audited in connection with joining the RESPECT Index – the index comprising companies listed at the stock exchange, operating in accordance with the rules of sustainable development. For the second time TAURON received a positive result and was included in the index.

One of the directions of the strategy of sustainable development is the management of the economic and social effects. The resulting goals are implemented, among others, through the activities of TAURON Foundation which enables even more effective implementation of CSR actions in the scope of care for safety of local communities and actions for public benefit.

In 2014 TAURON Foundation and the Company implemented, based on the employee voluntary programme, the next issue of the action *Houses of Positive Energy*, dedicated to 24-hours custody and caretaking facilities, aimed at improvement of the living conditions of children from orphanages. The action covered all the facilities within the area of operations of TAURON Capital Group. The project attracted substantial interest – over 70 establishments looking after almost 3,000 children participated in the event. In 2014 the Foundation also continued the project called *Heroes day by day*, the aim of which is to build awareness of potential donors of bone marrow and increase the number of potential donors. The volunteers of TAURON Foundation organised several information actions and days of bone marrow donor in companies of TAURON Capital Group, and during the events sponsored by TAURON, as a result of which 1975 potential bone marrow donors were registered.

TAURON Capital Group, acting in the area of southern Poland, has a leading position in energy sales and generation. These conditions cause that the scope of actions conducted for the benefit of the communities in which companies of TAURON Capital Group operate, is very broad. Many projects are supported which are important for inhabitants of the regions of Upper and Lower Silesia, Opolskie, Małopolska and Podkarpackie Regions. Among others, TAURON cooperates with the Mountain Voluntary Emergency Service (GOPR), the goal of which is to increase safety in the mountains. The Company is the strategic partner of the project, actively participating both in its summer and winter edition.

In 2014 TAURON also launched the cooperation with the SIEMACHA Association – one of the leading NGOs in the country focusing on implementation of projects in the area of education, sports and therapy, providing systemic assistance to children and teenagers. In the scope of the established cooperation, TAURON's patronage covered sports activities of the association, gaining the title of *TAURON – SIEMACHA's sports partner*. In 2014 such projects were supported as *Football Children's Day with TAURON*, *Juliada 2014* or *I swim with TAURON*.

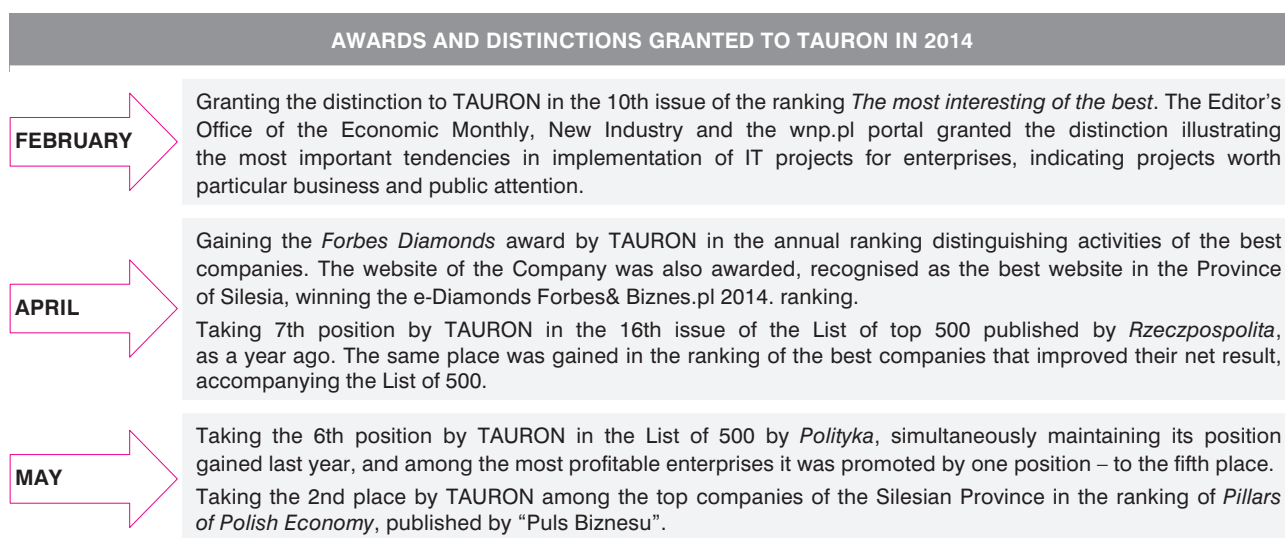
Activities of companies of TAURON Capital Group are also worth mentioning. In 2014 the campaign called *TAURON Fuses* was continued. The part of the action implemented by TAURON Sprzedaż focused on raising awareness of clients on the energy market, in particular, in order to protect against practices of unfair sellers. On the other hand, a part of the project related to education of children and teenagers was conducted by TAURON Dystrybucja, teaching the rules of safe electric energy use. A new stage of the *TAURON Fuses* campaign was also launched, *Switch on at work* addressed mainly to employees of construction companies who have contact with electric energy and electricity supplied equipment in their work.

The Company is also the signatory of the declaration signed on 17 June 2009 during the national conference under the cycle *Responsible Energy*, comprising the principles of sustainable development in energy sector in Poland. In 2013 the Company joined a group of signatories of the *Business declaration for the sustainable development*, consequently undertaking to get involved in the implementation of strategic goals of the *Vision of sustainable development for the Polish business 2050*.

7.5. Awards and distinctions

In 2014 TAURON received the following awards and distinctions.

Figure no. 23. Awards and distinctions



JUNE	TAURON gaining the distinction in the plebiscite: <i>Hero of the Capital Market 2014</i> , organised by the Association of Individual Investors – the biggest and the most important organisation associating persons investing in the capital.
SEPTEMBER	Taking the 24th place by TAURON in the list of top 500 comprising the biggest companies from Central and Eastern Europe, developed by “Rzeczpospolita” daily and Deloitte. TAURON was also included among TOP 25 among the biggest companies listed on the stock exchange.
OCTOBER	Receiving of the main award by TAURON in the category of enterprises for the annual report for 2013 and the distinction for the annual report on Internet, granted by the jury of the competition <i>The Best Annual Report</i> , organised by the Institute of Accounting and Taxes. Distinguishing TAURON with the title “New Impulse 2014” for the commencement of the implementation of 910 MW coal-fired unit construction at Jaworzno III Power Plant.

7.6. Investor relations

Since the beginning of its stock exchange listing, the motto of the Company has been the effective and transparent information policy. Therefore, TAURON Capital Group pays special attention to communication with the investor environment. It is conducted not only at the level obligatory activities required by law (current and periodical reports) but also through many additional activities addressed directly to institutional and individual investors. The Company participates in many investor conferences, road shows in Poland and abroad, where the participants of the capital market may get acquainted with the situation of TAURON Capital Group and the condition of the energy sector and its perspectives.

Each publication of periodical reports in 2014 was combined with organisation of conferences for analysts and managers, during which members of the Company Management Board discussed financial results published in the reports and presented key achievements in the reported periods, followed by question and answer sessions. The conferences were broadcast on Internet in Polish and in English and it was possible to listen to them by phone. Owing to these activities, investors interested in the Company had a possibility to follow these events directly and acquire information at the same time as the participants of the conferences.

In 2014 the Members of the Management Board participated in fifteen conferences and road shows during which about 100 meetings were held with managers and analysts. Meetings with corporate investors were held not only in Poland but also in the financial centres of Europe and North America, among others, in New York, London, Paris and Vienna.

On 22 October 2014, the Company organised the second issue of the Individual Investor’s Day. Several dozen of individual investors interested in TAURON Capital Group had the opportunity to meet the Management Board and the management staff, and visit Jaworzno III Power Plant – a new biomass burning unit of 50 MW capacity and the pilot CCS installation designed for capturing, transport and storage of CO₂. During this event presentations were also held concerning the updated Corporate Strategy and financial results gained in the 1st half of 2014.

In 2014 the Company continued its activities oriented towards practical aspects of communication with individual investors. For many years TAURON has been the strategic partner of the programme initiated by the Ministry of Treasury, under the name “Civic Shareholding”. The objective of the Programme is to encourage the Poles to active and aware participation in economic life of the country, through active saving and investing in shares of privatised companies and stock exchange instruments. Under the “Civic Shareholding” programme representatives of the Company conducted training in the scope of investor relations for other listed companies and actively participated in the preparation of the scenario and promotion of the educational video “Everything you would like to know about the exchange”.

Activities have also focused on technical aspects of communication with investors. In 2014 the Company launched the application for mobile devices dedicated for investors and organised two chats with individual investors. Activity in the scope of contacts with individual investors resulted in joining the programme of Individual Investors’ Association “10 of 10 – company friendly to investors” and receiving of the distinction “Hero of the Capital Market” in June 2014.

The Company also participated in other events addressed to small investors, among others, it was a partner of sports competitions of the capital market, “Capital Market Games” and supported the conference for individual investors “Wall Street” in Karpacz.

TAURON cares for the content and validity of the information placed on the website related to investor relations which is the first contact with TAURON Capital Group for many investors. The Investor Relation section is updated on

an on-going basis and contains a lot of useful information about important events, financial results, general meetings and video broadcasts of conferences summarising the financial results.

The high quality of investor relations conducted is confirmed by numerous awards and distinctions, granted to the Company in three last issues of the competition on *The Best Annual Report* organised by the Institute of Accounting and Taxes. In the last year's issue of the competition, TAURON received the first main award in the category of enterprises, for the report for 2013, and the distinction for the interactive annual report on Internet. Furthermore, Krzysztof Zawadzki – Vice President of the Board of Economics and Finance of TAURON, took the first place in the ranking of Thomson Reuters Extel 2014 for the best CFO (Chief Financial Officer) in investor communication among Polish listed companies.

The following table presents the timeline of events and activities carried out within investor relations which took place in 2014.

Table no. 39. The timeline of events and activities carried out within investor relations in 2014

No.	Date	Event
1.	7 January 2014	Extraordinary General Meeting of TAURON
2.	30 January 2014	Participation in DM mBank conference in Warsaw
3.	18 March 2014	Publication of the separate and consolidated annual report for 2013
4.	18 March 2014	Meeting of the Management Board with analysts managing funds associated with the publication of the financial results for 2013
5.	26 March 2014	Participation in the CEE Energy Day, WOOD & Company conference, Warsaw
6.	3–4 April 2014	Participation in the Polish Capital Market Conference, DM PKO BP and GPW, London
7.	7 April 2014	Participation in the Energy & Mining Conference, UniCredit, Warsaw
8.	15 April 2014	Publication of recommendations of the Management Board concerning the profit distribution for 2013 and defining of the amount allocated for the payment of the dividend
9.	14 May 2014	Publication of the extended consolidated report for the 1st quarter of 2014
10.	14 May 2014	Meeting of the Management Board with analysts managing funds, associated with the publication of the financial results for the 1st quarter of 2014
11.	16 May 2014	Ordinary General Meeting of TAURON
12.	10 June 2014	Participation in the Utilities & Renewables Conference, Bank of America Merrill Lynch, London
13.	11–12 June 2014	Roadshow connected with the issue of bonds in cooperation with JP Morgan
14.	14 August 2014	Day of determining the right of dividend
15.	21 August 2014	Publication of the consolidated report for the 1st half of 2014
16.	21 August 2014	Meeting of the Management Board with analysts managing funds, connected with the publication of the financial results for the 1st half of 2014
17.	22 August 2014	Chat with individual investors
18.	04 September 2014	Meeting of the Management Board with analysts managing funds, associated with the publication of the financial results for the 1st half of 2014, DM PKO BP, Warsaw
19.	4 September 2014	Date of dividend payment
20.	15–16 September 2014	Participation in the Annual Emerging Europe Investment Conference, UniCredit, Warsaw
21.	30 September 2014	Participation in the EuroLatam Infrastructure & Utilities Conference, Santander, New York
22.	2–6 October 2014	Roadshow in cooperation with Goldman Sachs, Boston, Des Moines, San Antonio, Austin
23.	8–9 October 2014	Participation in the Erste Group Investor Conference, Stegersbach
24.	13–15 October 2014	Roadshow associated with the issue of bonds in cooperation with ING
25.	22 October 2014	Day of Individual Investor in TAURON
26.	13 November 2014	Publication of the consolidated report for the Q3 2014
27.	13 November 2014	Meeting of the Management Board with analysts managing funds, associated with the publication of the financial results for Q3 2014
28.	13 November 2014	Chat with individual investors

No.	Date	Event
29.	20 November 2014	Participation in the Utilities, Mining & Industrials Conference, ING, Warsaw
30.	17–21 November 2014	Participation in the investor conference within the Polish-American Innovation Week, GPW/HSBC, Los Angeles, San Diego and San Francisco
31.	4 December 2014	Participation in the WOOD's Winter in Prague Conference, WOOD & Company, Prague

Management Board of the Company

Katowice, 10 March 2015

Dariusz Lubera – President of the Board

Aleksander Grad – Vice President of the Board

Katarzyna Rozenfeld – Vice President of the Board

Stanisław Tokarski – Vice President of the Board

Krzysztof Zawadzki – Vice President of the Board

APPENDIX A: GLOSSARY OF TERMS AND LIST OF ABBREVIATIONS

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

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

No.	Abbreviation and trade term	Full name/explanation
1.	ArcelorMittal	ArcelorMittal Poland S.A. with its seat in Dąbrowa Górnicza
2.	Biomasa GT	Biomasa Grupa TAURON sp. z o.o. with its seat in Stalowa Wola (formerly: "BUDO-TRANS" limited liability company)
3.	BZ WBK	Bank Zachodni WBK S.A. with the seat in Wrocław
4.	CAO	Central Allocation Office GmbH with the seat in Freising, Germany
5.	Cash pooling	Cash pooling operating in the Company – consolidation of balances of bank accounts through physical cross-posting of cash from accounts of TAURON Capital Group in the bank in which cash pooling operates to the bank account of Pool Leader whose function is fulfilled by the Company. At the end of each working day, from cash is cross-posted from the bank accounts of companies of TAURON Capital Group which show positive balance to the bank account of Pool Leader. At the beginning of each working day, bank accounts of companies of TAURON Capital Group are credited from the bank account of the Pool Leader with the amount demanded to maintain cash flow of the company of TAURON Capital Group on a given working day.
6.	CCS	(Carbon Capture and Storage) CO ₂ sequestration – the process based on separation and capturing of carbon dioxide from flue gases in order to reduce its emission to ambient air
7.	CER	(Certified Emission Reduction) – a unit of confirmed emission reduction – reduced emission of greenhouse gases or avoided emission of greenhouse gases, expressed as equivalent, obtained as a result of the project on mechanism of clean development
8.	Colour certificates	Property rights resulting from certificates of origin of energy generated in the way subject to support, the so-called colour certificates: <ul style="list-style-type: none"> – green – certificates of origin of electric energy from renewable energy sources, – red – certificates of origin of electric energy from co-generation (CHP certificates – Combined Heat and Power), – yellow – certificates of origin of electric energy generated in cogeneration from sources of total installed capacity below 1 MW or gas-burning, – violet – certificates of origin of electric energy generated in cogeneration, burning methane released and captured during underground mining works in active, under liquidation or liquidated hard coal mines, or burning gas acquired from biomass processing.
9.	CIRS	(Currency Interest Rate Swap) – transaction of interest rate exchange
10.	CSR	(Corporate Social Responsibility) – social responsibility of business
11.	CUW	Centre of Common Services, CUW IT – IT services, CUW R – services in the area of accounting
12.	Deloitte Polska	Deloitte Polska Sp. z o.o. Spółka Komandytowa with its seat in Warsaw
13.	Good Practices	Good Practices of Companies Listed at GPW
14.	DM	Brokerage House
15.	EIB	The European Investment Bank with the seat in Luxemburg
16.	EBIT	(Earnings Before Interest and Taxes) result on operating activity before taxing
17.	EBITDA	(Earnings before Interest, Taxes, Depreciation and Amortization) result on operating activity before taxing, increased by amortization and depreciation
18.	EC Stalowa Wola	Elektrociepłownia Stalowa Wola S.A. with the seat in Stalowa Wola
19.	EEX	(European Energy Exchange) European Energy Exchange with the seat in Leipzig
20.	Elektrownia Blachownia Nowa	Elektrownia Blachownia Nowa sp. z o.o. with its seat in Kędzierzyn Koźle.
21.	ENEA	ENEA S.A. with the seat in Poznań
22.	ENERGA	ENERGA S.A. with the seat in Gdańsk

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

No.	Abbreviation and trade term	Full name/explanation
53.	MSR	(Market Stability Reserve) stabilisation reserve on the market of allowances
54.	IFRS	International Financial Reporting Standards
55.	NCBiR	National Centre for Research and Development
56.	Business Area	Area of operations of subsidiaries included in TAURON Group, determined by the Company, constituting the business segment of TAURON Group
57.	Governance Area	Governance Area indicated in the List of Governance Areas, i.e. the document issued by the Management Board of the Company, pursuant to the Code, established based on Corporate Strategy and included in the business model of TAURON Group
58.	DSO	Distribution System Operator
59.	TSO	Transmission System Operator
60.	OTC	(over the counter) – the market operating outside the regulated exchange market
61.	RES	Renewable Energy Sources
62.	PGE	PGE Polska Grupa Energetyczna S.A. with the seat in Warsaw
63.	PGE EJ1	PGE EJ1 sp. z o.o. with the seat in Warsaw
64.	PGK	Tax Capital Group
65.	GDP	Gross Domestic Product
66.	PKO BP	Powszechna Kasa Oszczędności Bank Polski S.A.
67.	PLN	The symbol of Polish currency – Polish Zloty
68.	PMEC	Property rights for certificates of origin confirming generation of electricity in other co-generation sources
69.	PMGM	Property rights for certificates of origin confirming generation of electricity in co-generation, from gas-fired sources or sources with the total installed capacity below 1 MW
70.	PMMET	Property rights for certificates of origin confirming generation of electricity in co-generation, burning methane released and captured during underground mining works in active, under liquidation or liquidated hard coal mines, or burning gas acquired from biomass processing.
71.	PSE	Polskie Sieci Elektroenergetyczne S.A. with the seat in Konstancin-Jeziorna
72.	RB	Balancing Market
73.	Organisational Regulations/Bylaws	Document entitled Organisational Regulations of TAURON Polska Energia S.A.
74.	ROIC	Return On Invested Capital
75.	SPOT Market	In relation to electric energy, it is the place of concluding of trade transactions for electric energy, for which the period of delivery falls at the latest, three days after the date of transaction (usually one day before the date of delivery). Functioning of SPOT market for electric energy is strongly linked with RB operating provided by the TSO
76.	Company	TAURON Polska Energia S.A. with its seat in Katowice
77.	Corporate Strategy	The document entitled Corporate Strategy of TAURON Group for 2014–2017 with estimates until the year 2023, being the update of the document Corporate Strategy of TAURON Group for 2011–2015 with estimates until the year 2020.
78.	TAMEH HOLDING	TAMEH HOLDING sp. z o.o. with its seat in Dąbrowa Górnicza
79.	TAMEH POLSKA	TAMEH POLSKA sp. z o.o. with its seat in Dąbrowa Górnicza
80.	TAURON	TAURON Polska Energia S.A. with its seat in Katowice
81.	TAURON Ciepło	TAURON Ciepło sp. z o.o. with its seat in Katowice (formerly: Enpower service sp. z o.o.)
82.	TAURON Ciepło S.A.	TAURON Ciepło S.A. with its seat in Katowice (a company acquired by Enpower service sp. z o.o. which changed the enterprise name to “TAURON Ciepło sp. z o.o.” on 30 April 2014

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

APPENDIX B: LIST OF TABLES AND FIGURES

Below the list of tables and figures occurring in this report is provided.

List of Tables

Table no. 1.	General Information on TAURON	4
Table no. 2.	Specification of significant subsidiaries covered by consolidation as at 31 December 2014 in which the Company holds direct and indirect share	13
Table no. 3.	Specification of significant subsidiaries covered by consolidation as at 31 December 2014 in which the Company holds direct and indirect share	14
Table no. 4.	Statement of comprehensive income for the financial year 2014, divided into segments of activities (data in PLN thousand)	23
Table no. 5.	Volume of electric energy sales	26
Table no. 6.	Quantity of coal purchased in 2014	26
Table no. 7.	Fuel supplies executed by TAURON to entities of TAURON Capital Group	27
Table no. 8.	Specification of agreements for working capital loans effective in the Company (started and continued in 2014)	34
Table no. 9.	Balance of loans granted to the Company by subsidiaries under cash pooling system as at 31 December 2014	34
Table no. 10.	Disbursements and repayments of the VAT loan in 2014	35
Table no. 11.	The table below specifies the agreements on sureties, guarantees and commitments effective as at 31 December 2014	36
Table no. 12.	Specification of bank guaranties granted under the agreements effective as at 31 December 2014	36
Table no. 13.	Participants of the risk management process	40
Table no. 14.	Description of risk factors	42
Table no. 15.	Annual separate statement of comprehensive income in 2014–2012	45
Table no. 16.	Revenues on sales of the Company	46
Table no. 17.	Revenues on sales of the Company, divided into products	46
Table no. 18.	Level and structure of costs	47
Table no. 19.	Annual separate statement of financial standing	47
Table no. 20.	Statement of Cash Flows	49
Table no. 21.	Basic financial indicators of the Company	50
Table no. 22.	The value of issues taken over and not redeemed, divided into individual companies of TAURON Capital Group (issuers) as at 31 December 2014	52
Table no. 23.	Information on forward and derivative transactions as at 31 December 2014 (data in thousand)	52
Table no. 24.	Level of remuneration of the independent auditor due to the services provided for the Company (data in PLN thousand)	54
Table no. 25.	The level of the dividend paid in the years 2010–2013	55
Table no. 26.	Proprietary status of the Company shares – managing persons	55
Table no. 27.	Key data related to TAURON shares in the years 2011–2014	56
Table no. 28.	Recommendations issued in 2014	58
Table no. 29.	Shareholders holding large blocks of shares, directly or indirectly	62
Table no. 30.	Competence of the Management Board	64
Table no. 31.	Competence of the Supervisory Board	66
Table no. 32.	Competence of the General Meeting	68
Table no. 33.	Description of rights of the Company shareholders associated with the General Meeting	68
Table no. 34.	Competence of the Audit Committee	76
Table no. 35.	Competence of the Nominations and Remuneration Committee	77
Table no. 36.	Competence of the Audit Committee	78
Table no. 37.	Remuneration of members of the Company Management Board for 2014, divided into components (in PLN thousand)	79
Table no. 38.	Remuneration of members of the Supervisory Board of the Company for 2014 (in thousand PLN)	79
Table no. 39.	The timeline of events and activities carried out within investor relations in 2014	85
Table no. 40.	Explanation of abbreviations and trade terms applied in the text of the report	88

List of Figures

Figure no. 1.	Share capital of TAURON (paid up) as at 31 December 2014, divided by the quantity of shares . . .	4
Figure no. 2.	Structure of TAURON Capital Group, including companies subject to consolidation, as at 31 December 2014	5
Figure no. 3.	Value chain in TAURON Capital Group	5
Figure no. 4.	Effectiveness Improvement Programme for 2013–2015	8
Figure no. 5.	Organisational chart of TAURON Polska Energia S.A. as at the day of this report	13
Figure no. 6.	Growth in industrial output sold and change in electric energy consumption (YoY change)	16
Figure no. 7.	Average monthly energy prices on the SPOT and RB markets and the average temperatures	17
Figure no. 8.	Trading of BASE Y-15 contracts	18
Figure no. 9.	Average monthly gas prices on the SPOT market and in the quotations of Y-15 contracts	18
Figure no. 10.	Impact of EC activities and political events on quotations of the forward product, EUA Dec-14 . . .	19
Figure no. 11.	Indices of property rights	20
Figure no. 12.	Timeline of key events	22
Figure no. 13.	Employment the Company in 2013 and 2014 in FTEs.	37
Figure no. 14.	Employment structure in the Company according to education as at 31 December 2013 and 2014	37
Figure no. 15.	Employment structure in the Company according to age as at 31 December 2013 and 2014	38
Figure no. 16.	Employment structure in the Company according to gender as at 31 December 2013 and 2014	38
Figure no. 17.	Stages in enterprise risk management in TAURON Capital Group	40
Figure no. 18.	Structure of the shareholding as at 31 December 2014 and as at the day of this report	55
Figure no. 19.	Graph of TAURON share price and value of trade in 2014	57
Figure no. 20.	Graph of TAURON share price and value of trade from the exchange debut until 31 December 2014	57
Figure no. 21.	Graph of TAURON share price compared to WIG20 and WIG-Energia indices in 2014	58
Figure no. 22.	TAURON share price as compared to WIG20 and WIG-Energia indices from the exchange debut until 31 December 2014	58
Figure no. 23.	Awards and distinctions	83