



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

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

## TABLE OF CONTENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME . . . . .	5
CONSOLIDATED STATEMENT OF FINANCIAL POSITION . . . . .	6
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY . . . . .	8
CONSOLIDATED STATEMENT OF CASH FLOWS . . . . .	9
<b>INTRODUCTION . . . . .</b>	<b>10</b>
1. General information about the TAURON Polska Energia S.A. Capital Group and its Parent . . . . .	10
2. Composition of the TAURON Capital Group and joint ventures . . . . .	10
<b>STATEMENT OF COMPLIANCE WITH IFRS . . . . .</b>	<b>12</b>
3. Statement of compliance . . . . .	12
4. Going concern . . . . .	12
5. Functional and presentation currency . . . . .	12
<b>SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (POLICIES) APPLIED . . . . .</b>	<b>13</b>
6. Material values based on professional judgment and estimates . . . . .	13
7. New accounting standards and interpretations . . . . .	14
8. Changes to accounting policies and presentation changes . . . . .	16
9. Significant accounting policies . . . . .	17
9.1. Consolidation principles and the methods accounting for business acquisitions (including jointly-controlled entities) . . . . .	17
9.1.1. Consolidation . . . . .	17
9.1.2. Business combinations . . . . .	17
9.1.3. Acquisition of businesses under common control of the State Treasury . . . . .	17
9.2. Property, plant and equipment (Note 18) . . . . .	17
9.3. Goodwill (Note 19) . . . . .	18
9.4. Energy certificates and gas emission allowances (Note 20) . . . . .	19
9.5. Other intangible assets (Note 21) . . . . .	19
9.6. Impairment of non-financial non-current assets (Note 18 and Note 19) . . . . .	19
9.7. Borrowing costs . . . . .	20
9.8. Investments in joint ventures (Note 22) . . . . .	20
9.9. Loans granted to joint ventures (Note 23) . . . . .	20
9.10. Other non-financial assets (Note 25) . . . . .	20
9.11. Inventories (Note 26) . . . . .	20
9.12. Receivables from clients (Note 27) . . . . .	21
9.13. Cash and cash equivalents (Note 29) . . . . .	21
9.14. Non-current assets/disposal groups classified as held for sale and the related liabilities (Note 30) . . . . .	21
9.15. Issued capital (Note 31.1) . . . . .	21
9.16. Debt liabilities (Note 33) . . . . .	21
9.17. Derivative financial instruments (Note 34) . . . . .	22
9.18. Hedge accounting . . . . .	22
9.19. Provisions for employee benefits (Note 35) . . . . .	22
9.20. Provisions for dismantling of fixed assets and restoration of land (Note 36) . . . . .	23
9.21. Provision for liabilities due to gas emission allowances and energy certificates . . . . .	23
9.21.1. Provision for the obligation to surrender energy certificates (Note 37.1) . . . . .	23
9.21.2. Provision for greenhouse gas emission liabilities (Note 37.2) . . . . .	24
9.22. Other provisions (Note 36 and 38) . . . . .	24
9.23. Accruals, deferred income and government grants (Note 39) . . . . .	24
9.24. Liabilities to suppliers, capital commitments and other financial liabilities . . . . .	25
9.25. Current and deferred income tax (Note 16) . . . . .	25
9.26. Sales revenue (Note 11) . . . . .	25
9.26.1. Revenue from sales of electricity distribution services in the Distribution segment . . . . .	25
9.26.2. Revenue from sales of electricity and distribution services in the Sales segment . . . . .	26

9.26.3.	Revenue from wholesale of electricity in the Generation segment . . . . .	26
9.26.4.	Revenue from sales of heat in the Generation segment . . . . .	27
9.26.5.	Revenue from sales of coal in the Mining segment . . . . .	27
9.27.	Operating expense . . . . .	27
9.28.	Transactions in foreign currencies and translation into the presentation currency of foreign operations . . . . .	28
9.29.	Statement of cash flows . . . . .	28

**EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS . . . . . 29**

10.	Information on operating segments . . . . .	29
10.1.	Operating segments . . . . .	31
10.2.	Geographic areas of operations . . . . .	32
11.	Sales revenue . . . . .	32
12.	Cost of sales . . . . .	33
12.1.	Expenses by type . . . . .	33
12.2.	Employee benefits expenses . . . . .	33
12.3.	Depreciation and amortization charges and impairment losses . . . . .	34
13.	Other operating income and expenses . . . . .	35
14.	Finance income . . . . .	35
15.	Finance costs . . . . .	35
16.	Income tax . . . . .	36
16.1.	Tax expense . . . . .	36
16.2.	Reconciliation of the effective tax rate . . . . .	36
16.3.	Deferred income tax . . . . .	36
16.4.	Income tax receivables and payables . . . . .	37
17.	Earnings (loss) per share . . . . .	37
18.	Property, plant and equipment . . . . .	38
19.	Goodwill . . . . .	42
20.	Energy certificates and gas emission allowances . . . . .	44
20.1.	Non-current energy certificates and gas emission allowances . . . . .	44
20.2.	Current energy certificates and gas emission allowances . . . . .	44
20.3.	Balance of greenhouse gas emission allowances recorded in the National Register of Allowances . . . . .	45
21.	Other intangible assets . . . . .	46
22.	Investments in joint ventures . . . . .	47
23.	Loans granted to joint ventures . . . . .	48
24.	Other financial assets . . . . .	49
25.	Other non-financial assets . . . . .	49
25.1.	Other non-current non-financial assets . . . . .	49
25.2.	Other current non-financial assets . . . . .	50
26.	Inventories . . . . .	50
27.	Receivables from clients . . . . .	51
28.	Receivables from taxes and charges . . . . .	51
29.	Cash and cash equivalents . . . . .	51
30.	Non-current assets and a disposal group classified as held for sale . . . . .	52
31.	Issued capital and other capitals . . . . .	52
31.1.	Issued capital . . . . .	52
31.2.	Shareholders' rights . . . . .	53
31.3.	Reserve capital . . . . .	53
31.4.	Retained earnings and accumulated losses and restrictions on dividend payment . . . . .	53
31.5.	Revaluation reserve from valuation of hedging instruments . . . . .	53
31.6.	Non-controlling interest . . . . .	54
32.	Dividends paid . . . . .	54
33.	Debt . . . . .	54
33.1.	Loans and borrowings . . . . .	54

33.2.	Bonds issued	56
33.3.	Finance lease	58
34.	Derivative instruments	58
35.	Provisions for employee benefits	59
35.1.	Provisions for post-employment benefits and jubilee bonuses	59
35.2.	Provisions for employment termination benefits	61
36.	Provisions for dismantling of fixed assets and restoration of land	62
36.1.	Provision for mine decommissioning costs	62
36.2.	Provision for costs of restoration of land and dismantling and removal of fixed assets	63
36.3.	Provision for onerous contracts	63
37.	Provisions for liabilities due to gas emission and energy certificates	64
37.1.	Provision for the obligation to surrender energy certificates	64
37.2.	Provision for gas emission liabilities	64
38.	Other provisions	65
39.	Accruals, deferred income and government grants	66
39.1.	Deferred income and government grants	66
39.2.	Current accruals	66
40.	Liabilities due to taxes and charges	66
41.	Other current non-financial liabilities	66
42.	Significant items of the consolidated statement of cash flows	67
42.1.	Cash flows from operating activities	67
42.2.	Cash flows from investing activities	67
42.3.	Cash flows from financing activities	67
	<b>OTHER INFORMATION</b>	<b>69</b>
43.	Contingent liabilities	69
44.	Contingent assets and liabilities related to tax returns	71
45.	Collateral against liabilities	72
46.	Capital commitments	74
47.	Related party disclosures	74
47.1.	Transactions with jointly-controlled entities	74
47.2.	Transactions with State Treasury companies	74
47.3.	Executive compensation	75
48.	Financial instruments	76
48.1.	Carrying amount and fair value of financial instrument classes and categories	76
48.2.	Revenue, expenses, gain and loss items included in the statement of comprehensive income by category of financial instruments	78
49.	Principles and objectives of financial risk management	78
49.1.	Credit risk	79
49.1.1.	Credit risk related to receivables from clients and other financial receivables	79
49.1.2.	Credit risk related to cash and cash equivalents	81
49.1.3.	Credit risk related to originated loans	81
49.2.	Liquidity risk	81
49.3.	Market risk	82
49.3.1.	Interest rate risk	82
49.3.2.	Currency risk	84
49.3.3.	Commodity price risk related to commodity derivative instruments	86
50.	Operational risk	87
51.	Finance and capital management	87
52.	Fee of the certified auditor or the entity authorized to audit financial statements	89
53.	Events after the end of the reporting period	89

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION – continued

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

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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



## CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

## INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 2. Composition of the TAURON Capital Group and joint ventures

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

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

<sup>1</sup> TAURON Polska Energia S.A. holds indirect interest in TAURON Dystrybucja Serwis S.A. and TAURON Dystrybucja Pomiary Sp. z o.o. through a subsidiary TAURON Dystrybucja S.A. Additionally, TAURON Polska Energia S.A. uses shares held by TAURON Dystrybucja S.A.

<sup>2</sup> Business combination of EnergoPower Sp. z o.o. and Biomasa Grupa TAURON Sp. z o.o. was registered on 1 July 2015.

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

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

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

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

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

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

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

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

## **STATEMENT OF COMPLIANCE WITH IFRS**

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

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

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

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

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

### **4. Going concern**

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

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

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

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

## SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (POLICIES) APPLIED

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

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

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

Item	Value of item to which the estimate figure in the consolidated financial statements applies		Accounting policy description	Details regarding assumptions made and calculation of significant estimates
	2015	2014		
Property, plant and equipment	24 882 817	24 850 942	note 9.2 note 9.6	<ul style="list-style-type: none"> <li>Impairment loss – property, plant and equipment in the amount of PLN 3 410 726 thousand. note 18</li> <li>Estimated periods of use (depreciation rates) – reduction of depreciation expenses of PLN 6 177 thousand as a result of verification of economic useful lives. note 12.3</li> </ul>
Goodwill	92 059	195 155	note 9.3 note 9.6	<ul style="list-style-type: none"> <li>Impairment loss – goodwill in the amount of PLN 154 998 thousand. note 19</li> </ul>
Provisions for employee benefits	1 907 711	2 107 277	note 9.19	<ul style="list-style-type: none"> <li>Description of actuarial assumptions made along with the sensitivity analysis. note 35</li> </ul>
Provision for gas emission obligations	153 083	8 130	note 9.21	<ul style="list-style-type: none"> <li>Provision calculation. note 37</li> </ul>
Provision for obligation to submit energy certificates	865 051	914 926	note 9.21	<ul style="list-style-type: none"> <li>Provision calculation. note 37</li> </ul>
Provision for mine decommissioning costs	111 675	120 704	note 9.20	<ul style="list-style-type: none"> <li>Provision calculation. note 36</li> </ul>
Provision for restoration of land and dismantling and removal of fixed assets	101 244	42 774	note 9.20	<ul style="list-style-type: none"> <li>Provision calculation. note 36</li> </ul>
Provision for onerous contracts	182 877	–	note 9.22	<ul style="list-style-type: none"> <li>Provision calculation. note 36</li> </ul>
Accrued revenue from sales of electricity and distribution services in the Sales segment	16 284 291	16 319 893	note 9.26	<ul style="list-style-type: none"> <li>Additional assessment of revenue from sales of electricity and distribution services in the Sales segment at the end of the reporting period in the amount of PLN 248 098 thousand. note 11</li> </ul>
Deferred tax assets	54 184	62 108	note 9.25	<ul style="list-style-type: none"> <li>Realisation of deferred tax assets. note 16.3</li> </ul>
Derivative instruments:				
Assets	5 684	1 811	note 9.17	<ul style="list-style-type: none"> <li>Fair value measurement. note 34</li> </ul>
Liabilities	112 109	196 116		
Receivables from clients	1 830 033	1 917 060	note 9.12	<ul style="list-style-type: none"> <li>Impairment loss – as at the end of the reporting period impairment losses on receivables from clients amounted to PLN 278 374 thousand. note 27, note 49.1.1</li> </ul>

## 7. New accounting standards and interpretations

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

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

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

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

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

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

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

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

\* Annual periods beginning on or after the date.

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

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

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

## 8. Changes to accounting policies and presentation changes

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

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

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

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

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



## **9. Significant accounting policies**

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

#### **9.1.1. Consolidation**

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

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

#### **9.1.2. Business combinations**

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

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

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

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

Following the business combination, the continuity of common control is presented in the financial statements, while the fair value remeasurement of net assets (or recognition of new assets) or measurement of goodwill are not presented therein, as none of the entities combined is actually acquired. The financial statements have been prepared in such a manner so as to account for the combined entities as of the date they have become subjected to common control.

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

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

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

### **9.2. Property, plant and equipment (Note 18)**

Key fixed assets in individual segments:

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

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

The cost includes:

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

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

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

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

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

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

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

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

### 9.3. Goodwill (Note 19)

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

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

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

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

The item includes:

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

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

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

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

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

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

#### 9.5. Other intangible assets (Note 21)

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

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

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

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

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

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

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

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

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

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

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

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

#### **9.7. Borrowing costs**

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

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

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

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

#### **9.8. Investments in joint ventures (Note 22)**

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

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

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

#### **9.9. Loans granted to joint ventures (Note 23)**

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

#### **9.10. Other non-financial assets (Note 25)**

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

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

#### **9.11. Inventories (Note 26)**

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

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

#### **9.12. Receivables from clients (Note 27)**

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

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

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

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

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

#### **9.13. Cash and cash equivalents (Note 29)**

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

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

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

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

#### **9.15. Issued capital (Note 31.1)**

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

#### **9.16. Debt liabilities (Note 33)**

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

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

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

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

### 9.17. Derivative financial instruments (Note 34)

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

Derivative instruments categorized as “financial assets/liabilities measured at fair value through profit or loss” are measured at fair value, including their market value as at the end of the reporting period. Changes in the fair value of these instruments are charged to profit/loss for the period. Derivatives are recognized as assets if their amount is positive, and as liabilities, if their amount is negative.

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

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

Classification	Instrument type
Derivatives subject to hedge accounting	Interest Rate Swaps concluded to hedge against risk related to interest rate changes. Subject to hedge accounting; detailed policy presented in Note 9.18.
Derivatives not subject to hedge accounting, classified as “assets/liabilities measured at fair value through profit or loss”	<ul style="list-style-type: none"> <li>• forward contracts concluded in order to hedge against risk related to foreign exchange rate fluctuations;</li> <li>• Coupon Cross Currency Swap (CCIRS) concluded in order to hedge against risk related to foreign exchange rate and interest rate fluctuations;</li> <li>• forwards and futures for purchase and sales of emission allowances, energy and other commodities, concluded and maintained for speculation purposes.</li> </ul>
Derivatives excluded from the scope of IAS 39	Forwards and futures for purchase and sales of non-financial assets, concluded and maintained for own use purposes.

### 9.18. Hedge accounting

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

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

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

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

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

### 9.19. Provisions for employee benefits (Note 35)

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

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

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

At the reporting date the present value of provisions for post-employment benefits and provisions for jubilee bonuses is calculated by an independent actuary using actuarial methods. The accrued liabilities equal to discounted future payments, including employee rotation and pertain to the time remaining until the end of the reporting period. Demographic and employee turnover data are based on historical information.

Actuarial gains and losses on measurement of defined benefit obligations are fully charged to other comprehensive income (with the accumulated loss charged to retained earnings), while actuarial gains or losses on jubilee benefits are charged to profit or loss.

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

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

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

### **Provision for mine decommissioning costs**

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

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

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

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

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

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

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

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

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

Provision for the obligation to surrender energy certificates is recognized:

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

The provision is charged to operating expenses.

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

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

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

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

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

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

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

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

#### **9.22. Other provisions (Note 36 and 38)**

Other provisions include:

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

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

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

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



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

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

#### **9.25. Current and deferred income tax (Note 16)**

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

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

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

##### **Current tax**

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

##### **Deferred tax**

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

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

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

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

#### **9.26. Sales revenue (Note 11)**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **9.26.4. Revenue from sales of heat in the Generation segment**

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

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

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

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

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

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

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

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

#### **9.27. Operating expense**

Operating expense include:

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

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

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

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

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

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

Exchange rates applied for the purpose of balance sheet measurement:

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

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

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

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

**9.29. Statement of cash flows**

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

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

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

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

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

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

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

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

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

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

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

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




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

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

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

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

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

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

\* Entities recognized with the equity method.

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

### 10.1. Operating segments

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

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

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

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

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

## 10.2. Geographic areas of operations

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

## 11. Sales revenue

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

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

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

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

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



## 12. Cost of sales

### 12.1. Expenses by type

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

### 12.2. Employee benefits expenses

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

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

### 12.3. Depreciation and amortization charges and impairment losses

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

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

#### **Depreciation and amortization rates**

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

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

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

### 13. Other operating income and expenses

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

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

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

### 14. Finance income

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

### 15. Finance costs

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

## 16. Income tax

### 16.1. Tax expense

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

### 16.2. Reconciliation of the effective tax rate

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

### 16.3. Deferred income tax

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

### Change in deferred tax liability

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

### Change in deferred tax asset

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

#### Deferred tax asset

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

#### Deferred tax liability

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

#### 16.4. Income tax receivables and payables

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

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

### 17. Earnings (loss) per share

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

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

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

## 18. Property, plant and equipment

### Year ended 31 December 2015

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

Year ended 31 December 2014

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

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

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

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

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

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

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

### Impairment tests

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

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

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

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

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

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

- The adopted price path of power coal, other coal sizes and gaseous fuels. Approximately 5% increase of coal price was assumed until 2025, however it's been assumed that after 2025 the price level will remain the same as this year (in fixed prices);
- The adopted electricity wholesale price path for the years 2016–2025, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring CO<sub>2</sub> emission allowances; Approximately 22% increase was assumed until 2020, until 2025 more dynamic increase in prices was assumed, however it's been assumed that after 2025 the price level will remain the same as this year (in fixed prices);
- Changes in the Polish market model aimed to introduce the capacity market or other incentive mechanisms for production capacity have not been taken into account. The forecast electricity prices take into account the market impact of the new principles governing Operational Power Reserve application and settlements, implemented by PSE S.A. effective from 2014;
- Emission limits for generating electricity specified in the regulation of the Ministry of Economy, adjusted by capital expenditure incurred and the limits for heat generation compliant with the regulation of the Council of Ministers, adjusted by the level of operations, i.e. generation of heat;
- The adopted CO<sub>2</sub> emission allowance price path for the years 2016–2025. An over twofold rise of the market price is assumed by 2025 with 2025 prices thereafter (fixed);



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

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

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

Results of the sensitivity analysis carried out for individual CGU have indicated that changes in electricity prices and in the weighted average cost of capital have the most significant impact on the value in use of tested assets. The impact of changes in the prices of hard coal and CO<sub>2</sub> emission allowances on the measurement is lower. Below please find estimated changes in the impairment losses on assets in the Generation segment as at 31 December 2015, resulting from modification of key assumptions.

Parameter	Change	Impact on impairment loss in PLN millions	
		Increase of impairment loss	Decrease of impairment loss
Change of electricity prices in the entire forecast period	1%	–	200
	-1%	190	–
Change of WACC (net)	+0.1 p.p.	30	–
	-0.1 p.p.	–	30
Change of CO <sub>2</sub> emission allowances prices in the entire forecast period	1%	40	–
	-1%	–	40
Change of coal prices in the entire forecast period	1%	80	–
	-1%	–	80

## 19. Goodwill

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

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

### Impairment tests

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

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

The test was performed based on the present value of estimated operating cash flows. The calculations were based on detailed projections for the period from 2016 to 2025 and the estimated residual value, for the generating units projections cover the entire period of its functioning. Reliance on projections covering a period longer than 5 years results mainly from the fact that investment processes in the power industry are time-consuming. The macroeconomic and sector assumptions serving as the basis for projections are updated as frequently as any indications for their modification are observed on the market. Projections also take into account changes in the legal environment known as at the date of the test.

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

The discount rate used for calculation reflects the weighted average cost of capital (WACC), taking into account the risk-free rate determined by reference to the yield on 10-year treasury bonds (3.22%) and the risk premium for operations appropriate for the power industry (6%). The growth rate used for extrapolation of projected cash flows beyond the detailed planning period is at the level of 2.5% and it corresponds to the estimated long-term inflation rate.

The key assumptions affecting the estimated value in use and the discount rates adopted for individual companies are:

Goodwill in the segment (company)	Key assumptions	Discount rate (before tax)	
		Year ended 31 December 2015	Year ended 31 December 2014
Mining	<ul style="list-style-type: none"> <li>The adopted price path of power coal, other coal sizes and gaseous fuels. By 2025 an increase in prices of coal of approx. 5% has been assumed, and the 2025 level thereafter (fixed prices);</li> <li>The adopted retail price path of electricity based on the wholesale price of black energy including excise costs, cost of energy certificates surrender and a relevant markup;</li> <li>Maintaining generation capacity of the existing non-current assets as a result of replacement investments.</li> </ul>	9.05%	10.03%
Distribution	<ul style="list-style-type: none"> <li>Regulated revenue generated by distribution companies, ensuring coverage of reasonable costs and a reasonable level of return on capital. The return level depends on the so-called Regulatory Value of Assets;</li> <li>Maintenance of the electricity distribution capacity of the existing non-current assets as a result of replacement investments.</li> </ul>	7.50%	8.26%
Generation (TAURON Ekoenergia Sp. z o.o.)	<ul style="list-style-type: none"> <li>Green, red and yellow energy production volumes depending on the production capacity, along with the price path for individual energy certificates. A rise of approx. 9% in prices of electricity from renewable sources has been assumed by 2020; a more rapid growth has been assumed by 2025, with 2025 prices thereafter (fixed);</li> <li>For green energy, limited support periods have been included, in accordance with the provisions of the Act on renewable energy sources determining new mechanisms of supporting generation of electricity from renewable sources. The support period has been limited to 15 years as from the date of the first supply of electricity qualifying for an energy certificate to the distribution network. At the same time, hydropower plants with installed capacity exceeding 5 MW have been excluded from the support.</li> <li>Maintaining generation capacity using the existing non-current assets as a result of replacement investments.</li> </ul>	8.39% (for hydropower plants); 8.14% – 8.90% (for wind power plants)	9.10% (for hydropower plants); 8.51% – 9.25% (for wind power plants)
Generation (TAURON Ciepło Sp. z o.o.)	<ul style="list-style-type: none"> <li>Tariff revenue generated by heat companies, ensuring coverage of reasonable costs and a reasonable level of return on capital;</li> <li>The adopted electricity wholesale price path for the years 2016–2025, taking into account such factors as the effect of the balance of the market supply and demand for electricity, costs of fuel as well as costs of acquiring CO<sub>2</sub> emission allowances; A rise of ca. 22% is assumed by 2020 with a more dynamic growth rate by 2025 and 2025 prices thereafter (fixed);</li> <li>Generation volumes of green, red and yellow energy arising from capacity along with the price path for individual energy certificates.</li> <li>Emission limits for generating electricity and heat in line with regulations of the Council of Ministers.</li> <li>The price path for CO<sub>2</sub> emission allowances adopted for 2016–2025. An over twofold rise of the market price is assumed by 2025 with 2025 prices thereafter (fixed);</li> <li>Maintaining generation, distribution and sales of heat capacity of the existing non-current assets as a result of replacement investments.</li> </ul>	7.61% (heat and electricity generation); 7.82% (heat transmission and distribution)	7.86% (heat and electricity generation); 7.91% (heat transmission and distribution)

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

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

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

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

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

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

- Sensitivity to gross WACC changes

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

- Sensitivity to changes in wholesale electricity prices

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

## 20. Energy certificates and gas emission allowances

### 20.1. Non-current energy certificates and gas emission allowances

#### Year ended 31 December 2015

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

#### Year ended 31 December 2014

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

### 20.2. Current energy certificates and gas emission allowances

#### Year ended 31 December 2015

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

#### Year ended 31 December 2014

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

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

CO <sub>2</sub> emissions allowances	Year ended 31 December 2015	Year ended 31 December 2014
<b>Allowances recorded at the beginning of the financial year</b>	<b>26 878 236</b>	<b>23 566 799</b>
Allowances surrendered (previous year's emissions)		
in the installations of TAURON Wytwarzanie S.A.	(12 508 585)	(17 277 731)
in the installations of TAURON Ciepło Sp. z o.o.	(1 571 376)	(4 381 680)
Allocation of free-of-charge allowances	6 985 193	14 166 356
Allowances purchased on the secondary market	8 745 500	47 027 230
Allowances sold on the secondary market	(3 698 500)	(36 123 000)
Other changes – transferred to TAMEH	(1 093 020)	(99 738)
<b>Allowances recorded at the end of the financial year</b>	<b>23 737 448</b>	<b>26 878 236</b>
Allowances intended for surrender for a given year:		
in the installations of TAURON Wytwarzanie S.A.	(14 604 360)	(14 110 585)
in the installations of TAURON Ciepło Sp. z o.o.	(1 564 274)	(1 489 835)

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

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

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

## 21. Other intangible assets

### Year ended 31 December 2015

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

### Year ended 31 December 2014

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

## 22. Investments in joint ventures

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

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

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

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

### Elektrociepłownia Stalowa Wola S.A.

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

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

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

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

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

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

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

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

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

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

In 2014 the TAURON Group entered into an agreement with the ArcelorMittal Group. The shareholders agreement states that TAMEH HOLDING Sp. z o.o. shall carry out investment and operational projects related to industrial power sector. The Agreement was concluded for the period of 15 years with possible term extension. Following the transactions concluded last year, both capital groups have held 50% of shares in TAMEH HOLDING Sp. z o.o. each.

TAMEH HOLDING Sp. z o.o. holds 100% of shares in TAMEH POLSKA Sp. z o.o. composed of: Zakład Wytwarzania Nowa and Elektrownia Blachownia contributed in kind by the TAURON Group and Elektrociepłownia in Kraków contributed in kind by the ArcelorMittal Group. Moreover, TAMEH HOLDING Sp. z o.o. holds 100% of shares in TAMEH Czech s.r.o.

## **23. Loans granted to joint ventures**

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

Under the agreements of 20 June 2012 among PGNiG S.A., TAURON Polska Energia S.A. and Elektrociepłownia Stalowa Wola S.A., TAURON Polska Energia S.A. granted a subordinated loan and a VAT loan to Elektrociepłownia Stalowa Wola S.A. with a view to satisfying the necessary conditions for provision of funding to Elektrociepłownia Stalowa Wola S.A. by the European Bank for Reconstruction and Development and the European Investment Bank. As at the end of the reporting period, the amount disbursed under the subordinated loan agreement was PLN 177 000 thousand, i.e. the maximum contractual amount. The loan with interest due is to be finally repaid no later than by the end of 2032.

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

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

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



## 24. Other financial assets

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

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

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

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

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

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

## 25. Other non-financial assets

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

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

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

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

## 25.2. Other current non-financial assets

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

### Company Social Benefits Fund

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

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

## 26. Inventories

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

## 27. Receivables from clients

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

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

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

## 28. Receivables from taxes and charges

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

## 29. Cash and cash equivalents

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

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

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

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

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

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

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

### 31. Issued capital and other capitals

#### 31.1. Issued capital

#### Issued capital as at 31 December 2015

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

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

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

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

### 31.2. Shareholders' rights

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

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

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

### 31.3. Reserve capital

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

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

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

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

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

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

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

As at 31 December 2015 the Company recognized PLN (73 414) thousand of revaluation reserve from valuation of hedging instruments. It represents a liability arising from measurement of interest rate swaps as at the end of the reporting period, totaling to PLN 95 467 thousand, adjusted by a portion of measurement relating to interest accrued on bonds as at the end of the reporting period, including deferred tax.

The profit/loss for the period was charged with PLN 89 380 thousand, where PLN 88 914 thousand was the amount paid in respect of hedges used in relation to closed interest periods and PLN 466 thousand resulted from remeasurement of instruments related to interest on bonds accrued as at the end of the reporting period. The aforementioned costs of hedging IRS transactions increased financial expenses arising from interest on bonds issued in the statement of comprehensive income.

### 31.6. Non-controlling interest

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

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

### 32. Dividends paid

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

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

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

### 33. Debt

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

#### 33.1. Loans and borrowings

##### Loans and borrowings taken out as at 31 December 2015

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

Loans and borrowings taken out as at 31 December 2014

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

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

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

\* Costs of the loan have been included.

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

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

### 33.2. Bonds issued

#### Bonds issued as at 31 December 2015

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

\* Bank Gospodarstwa Krajowego.

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

#### Bonds issued as at 31 December 2014

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

\* Bank Gospodarstwa Krajowego.

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



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

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

\* Costs of issue have been included.

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

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

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

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

#### **Concluding contracts regarding the bond issue scheme**

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

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

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

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

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

### 33.3. Finance lease

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

Key finance lease items as at 31 December 2015:

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

### 34. Derivative instruments

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

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

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

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

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

### Derivative instruments used for hedging – IRS

As at 31 December 2015 the Group concluded hedging transactions subject to specific risk management policy. In March 2012 the Company hedged 80% of interest cash flows related to bonds issued under Tranche C and a portion of Tranche A having entered into 5-year IRS contracts. The aforementioned transaction was concluded due to fluctuations in the projected future cash flows from interest payments resulting from the issue of bonds in PLN with a floating interest rate based on WIBOR 6M. These instruments were subject to hedge accounting.

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

Derivative instruments CCIRS relate to the Coupon Cross Currency Swap contract entered into by the Company on 24 November 2014, which consisted in a swap of interest payments from the nominal value of EUR 168 000 thousand. In accordance with the contract, the Company pays interest accrued based on a floating interest rate in PLN and receives fixed interest-rate payments in EUR. Hedge accounting principles do not apply to the transaction in question. After the balance sheet date, on 12 February 2016 the transaction in question was closed and on 15 February 2016 it was settled in cash, hence the Company received PLN 5 400 thousand.

## 35. Provisions for employee benefits

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

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

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

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

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

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

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

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

#### Measurement of provisions for employee benefits

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

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

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

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

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

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

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

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

#### Maturities of employee benefit provisions

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

#### 35.2. Provisions for employment termination benefits

##### Year ended 31 December 2015

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

##### Year ended 31 December 2014

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

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

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

#### Year ended 31 December 2015

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

#### Year ended 31 December 2014

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

#### 36.1. Provision for mine decommissioning costs

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

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

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

### Mine Decommissioning Fund financial assets

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

### Provision for mine decommissioning costs

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

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

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

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

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

#### 36.3. Provision for onerous contracts

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

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

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

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

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

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

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

#### Year ended 31 December 2015

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

#### Year ended 31 December 2014

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

#### 37.1. Provision for the obligation to surrender energy certificates

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

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

#### 37.2. Provision for gas emission liabilities

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

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



### 38. Other provisions

#### Year ended 31 December 2015

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

#### Year ended 31 December 2014

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

#### **Provision for use of real estate without contract**

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

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

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

**39. Accruals, deferred income and government grants****39.1. Deferred income and government grants**

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

**39.2. Current accruals**

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

**40. Liabilities due to taxes and charges**

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

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

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

## 42. Significant items of the consolidated statement of cash flows

### 42.1. Cash flows from operating activities

#### *Change in working capital*

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

### 42.2. Cash flows from investing activities

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

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

#### *Acquisition of financial assets*

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

#### *Loans granted*

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

### 42.3. Cash flows from financing activities

#### *Redemption of debt securities*

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

#### *Loans and borrowings repaid*

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

**Interest paid**

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

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

**Proceeds from loans and borrowings obtained by the Company**

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

**Issuance of debt securities**

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

## OTHER INFORMATION

### 43. Contingent liabilities

Item	Description
<b>Use of real estate without contract</b>	<p>Entities of the Group do not hold legal titles to all plots of land where distribution networks, heating installation and the related devices are located. The Group may have to incur costs related to non-contractual use of property in the future; the risk of losing assets is close to nil, though. The Group has established a provision for all court disputes regarding the issue. No provision has been recognized for potential not submitted claims of owners of land with unregulated legal status, since their detailed records do not exist. As a consequence, potential claim amounts cannot be reliably estimated. In light of the history of claims submitted and the related costs incurred in the previous years, though, the risk of incurring material costs with this regard is low.</p>
Amount	As at the end of the reporting period, a provision was recognized for costs of court disputes in the amount of PLN 91 909 thousand (Note 38).
<b>Claims filed by Huta Łaziska S.A.</b>	<p>Following the Company's business combination with Górniośląski Zakład Elektroenergetyczny S.A. ("GZE"), TAURON Polska Energia S.A. has become a party to a court dispute with Huta Łaziska S.A. ("Huta").</p> <p>The key reason was the latter's failure to fulfil its obligation to pay the amounts due for electricity supplies, which led to discontinuation of electricity supplies to Huta Łaziska by GZE in 2001. Based on a decision of 12 October 2001, the President of Energy Regulatory Office (ERO) ordered GZE to resume electricity supplies to Huta until final resolution of the dispute, and on 14 November 2001 the dispute was finally resolved pursuant to a decision stating that discontinuation of electricity supplies was not unjustified. Huta appealed against that decision. On 25 July 2006 the Court of Appeals in Warsaw issued a final and binding decision ending a dispute concerning GZE's energy supplies to Huta. The court dismissed Huta's appeal against the decision of the Regional Court in Warsaw dated 19 October 2005, in which the court had dismissed Huta's appeal against the decision of the President of the Energy Regulatory Office. Huta filed a cassation appeal against the judgment of the Court of Appeals in Warsaw, which was dismissed by the judgment of the Supreme Court dated 10 May 2007.</p> <p>Due to discontinuation of electricity supplies, Huta has raised a claim against GZE for damages amounting to PLN 182 060 thousand. Currently, an action is pending under Huta's suit of 12 March 2007 against GZE and the State Treasury represented by the President of ERO for the payment of PLN 182 060 thousand together with interest from the date of filing the suit to the date of payment, in respect of damages for alleged losses resulting from GZE's failure to comply with the decision of the President of the Energy Regulatory Office dated 12 October 2001. In this case, the courts of the first and second instance passed judgments favorable for GZE; however, in its judgment of 29 December 2011 the Supreme Court overruled the judgment of the Court of Appeals and remanded the case for reexamination by that Court. On 5 September 2012, the Court of Appeals overruled the decision of the Regional Court and remanded the case for reexamination.</p> <p>The first hearing before the first instance court was held on 27 November 2012. In May 2015 a court expert prepared an opinion on correctness of settlements between the parties to the dispute. On 30 June 2015 TAURON Polska Energia S.A. lodged complaints against the opinion in question. Complaints against the opinion were also filed by Huta and the State Treasury. In its decision dated 16 September 2015 the court admitted an additional court expert's opinion concerning charges levelled by both parties as evidence. In the most recent pleading lodged, the Company's representative requested that the court expert be promptly excluded from attending the following hearing and that the court expert evidence be rejected. The most recent court hearing was held on 20 January 2016. The next court hearing has been scheduled for 20 May 2016.</p> <p>Based on the Company's legal analysis of the claims raised by Huta and by its main shareholder, GEMI Sp. z o.o., the Company believes that they are groundless and the risk of their satisfaction is remote. As a result, no provision has been recognized by the Company for any costs associated with those claims.</p>
Amount	Claim regarding payment of damages of PLN 182 060 thousand.
<b>Litigation related to termination of long-term contracts</b>	<p>On 18 March 2015, Polska Energia Pierwsza Kompania Handlowa Sp. z o.o. in liquidation, a subsidiary, terminated long-term contracts concerning purchases of electricity and energy certificates from wind farms. Therefore, proceedings were instigated against the company, to consider its termination statements ineffective and to secure non-monetary claims resulting from the above purchase contracts. Since proceedings regarding the above cases are pending, the final claim amount of the potential financial effects on the company and the capital group cannot be estimated.</p>

Item	Description
<b>Registered pledges and a financial pledge on shares of TAMEH HOLDING Sp. z o.o.</b>	<p>On 15 May 2015 TAURON Polska Energia S.A. established a financial pledge and registered pledges of 3 293 403 shares in the issued capital of TAMEH HOLDING Sp. z o.o., with the unit face value of PLN 100 and the total face value of PLN 329 340 thousand, constituting ca. 50% of shares in the issued capital of the entity for the benefit of RAIFFEISEN BANK INTERNATIONAL AG.</p> <p>The Company established a first lien registered pledge of shares with the maximum collateral amount of CZK 3 950 000 thousand and a first lien registered pledge of shares with the maximum collateral amount of PLN 840 000 thousand for the benefit of RAIFFEISEN BANK INTERNATIONAL AG. The Company also agreed to establish a financial pledge and registered pledges of new shares acquired or taken. Moreover, the Company assigned the rights to dividend and other payments.</p> <p>Agreement on establishing registered pledges and a financial pledge was concluded to secure transactions including the agreement for term loans and working capital loans, entered into by TAMEH Czech s.r.o. and TAMEH POLSKA Sp. z o.o. as original borrowers, TAMEH HOLDING Sp. z o.o. as the parent and the guarantor, and RAIFFEISEN BANK INTERNATIONAL AG as the agent and the collateral agent. Registered pledges are valid in the collateral period, i.e. until the total repayment or until release of the pledge by the pledgee. The financial pledge is valid in the entire collateral period or until a release by the pledgee, not later than on 31 December 2028.</p>
Amount	<p>As at 31 December 2015 the carrying amount of investments in joint venture recognized using the equity method in the TAMEH HOLDING Sp. z o.o. capital group was PLN 399 666 thousand.</p>
<b>Administrative proceedings instigated by the President of the Office for Competition and Consumer Protection (UOKiK)</b>	<p>President of UOKiK has instigated the following procedures:</p> <ul style="list-style-type: none"> <li>- On 12 December 2012 against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in charging interest for overdue payments for projected use of electricity groundlessly. Such interest was determined by the automatic payment management system as a result of linking payments made by electricity users with amounts payable in future and marking the oldest liabilities as unpaid. On 16 April 2013 the President of UOKiK issued a decision that obliged the company to discontinue the activities. On 30 June 2015 the company filed a report concerning obligations met.</li> <li>- On 17 September 2013 against TAURON Sprzedaż Sp. z o.o. with regard to the company's alleged use of practices violating collective consumers' interests. The practices consisted in quoting electricity prices in pricing lists and information materials without VAT, which constituted a breach of the Act of counteracting unfair market practices of 23 August 2007 (Journal of Laws No. 171 item 1206) and therefore constitutes a breach of the Act on competition and consumer protection of 16 February 2007 (Journal of Laws of 2007, No. 50, item 331 as amended; the "Act on competition and consumer protection"). The company committed to discontinue practices violating the Act on competition and consumer protection. Further, it motioned for proceedings aimed at the issue of a binding decision. On 22 December 2014 the company received a decision of UOKiK closing the evidentiary proceedings. On 14 December 2015 the President of UOKiK requested the company to indicate whether the practices had been discontinued, to which the company responded in February 2016, informed UOKiK about the practices being discontinued and requested refraining from imposing the fine.</li> <li>- Under a decision of 19 December 2014 anti-trust proceedings were instigated regarding the alleged abuse of the dominant position by TAURON Sprzedaż Sp. z o.o. and TAURON Sprzedaż GZE Sp. z o.o. on the reserve electricity distribution market. In 2015 the companies applied for a decision requesting the entities to discontinue activities violating the Act on competition and consumer protection and to take steps preventing the alleged violations. In July 2015 the President of the Office for Competition and Consumer Protection, issued a decision requesting the entities to take appropriate steps to prevent the alleged infringements within four months from the date when the decision becomes final and binding. The entities were obliged to report on fulfilling the obligations within 6 months from the date the decision becomes final and binding.</li> <li>- On 27 January 2015 explanatory proceedings were instigated to provisionally determine if actions taken by TAURON Sprzedaż Sp. z o.o. towards small hydropower plants involving enforcing unfair terms of purchase of electricity generated using renewable sources and conditioning the energy purchase on meeting with the commercial balancing requirement, which may constitute a breach of the Act on competition and consumer protection. Under a decision of 15 October 2015 anti-monopoly proceedings were instigated by the President of UOKiK. On 1 February 2016, UOKiK accepted the company's statement regarding presentation of a determined liability, at the same time determining a 21-day deadline to present a relevant proposal.</li> </ul> <p>The companies do not recognize provisions for potential fines arising from the above proceedings, since according to their Management Board, the risk of issuing an unfavorable ruling and imposing a fine is remote.</p>
<b>Explanatory proceedings instigated by the President of UOKiK</b>	<p>Explanatory proceedings have been instigated against companies from the Sales segment to preliminarily determine whether their actions have been in breach of the Act on competition and consumer protection. The companies provided requested documents and explanations and responded to statements included in the letters of UOKiK. The companies' Management believe that, considering the explanatory nature of the proceedings instigated, the probability of an unfavorable outcome of the above-mentioned cases is low; hence no provision has been recognized for these events.</p>

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

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

**44. Contingent assets and liabilities related to tax returns**

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

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

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

#### 45. Collateral against liabilities

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

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

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

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

##### Other forms of collateral

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

Agreement	Collateral form	Collateral amount
Bond Issue Scheme dated 16 December 2010 with subsequent annexes	declaration of submission to enforcement	<ul style="list-style-type: none"> <li>up to PLN 1 560 000 thousand, valid until 31 December 2016 – as regards repaid Tranche A and Tranche B</li> <li>up to PLN 6 900 000 thousand, valid until 31 December 2018 – as regards Tranche C, Tranche D and Tranche E (not disbursed)</li> </ul>
Long-term Bond Issue Scheme in Bank Gospodarstwa Krajowego	declaration of submission to enforcement	up to PLN 2 550 000 thousand, valid until 20 December 2032
Framework bank guarantee agreement with PKO Bank Polski S.A. The bank guarantee limit securing transactions may be used by the Company and the TAURON Group companies. As at 31 December 2015 the maximum limit of bank guarantees granted reached PLN 100 000 thousand.	authorization to debit the bank account maintained by PKO Bank Polski S.A.	up to PLN 125 000 thousand
Agreement concluded with Bank Zachodni WBK S.A. concerning bank guarantees for Izba Rozliczeniowa Gield Towarowych S.A.	authorization to debit the bank account maintained by BZ WBK S.A.	up to PLN 150 000 thousand
Overdraft agreements with PKO Bank Polski S.A. (up to PLN 300 000 thousand and an intraday limit up to PLN 500 000 thousand)	authorizations to debit the bank account maintained by PKO Bank Polski S.A.	up to the total amount of PLN 800 000 thousand
Overdraft agreement with Bank Gospodarstwa Krajowego (in EUR, up to EUR 25 000 thousand)	<ul style="list-style-type: none"> <li>authorization to debit the bank account maintained by Bank Gospodarstwa Krajowego</li> <li>declaration of submission to enforcement</li> </ul>	<ul style="list-style-type: none"> <li>up to PLN 106 538 thousand (EUR 25 000 thousand)</li> <li>up to EUR 50 000 thousand valid until 31 December 2019</li> </ul>

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

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

- Blank promissory notes



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

- Collateral of finance lease agreements

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

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

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

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

#### 46. Capital commitments

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

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

#### 47. Related party disclosures

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

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

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

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

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

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

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

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

##### 47.2. Transactions with State Treasury companies

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

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

#### Revenue and expense

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

## Receivables and liabilities

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

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

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

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

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

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

### 47.3. Executive compensation

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

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

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

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

## 48. Financial instruments

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

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

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

Financial derivatives measured at fair value as at the end of the reporting period, i.e. assets and liabilities measured at fair value through profit or loss and hedging derivatives were measured in line with the method described in Note 34 to these financial statements. Disclosures of fair value hierarchy of derivative instruments are also discussed in Note 34.

Financial instruments classified to other categories of financial instruments:

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

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

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

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

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

##### Year ended 31 December 2015

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

##### Year ended 31 December 2014

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

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

#### 49. Principles and objectives of financial risk management

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

are applied to keep the risks at a predetermined and acceptable level. The key objective of financial risk management is to minimize the cash flow sensitivity of the TAURON Group to financial risks and to minimize finance cost and costs of hedging with the use of derivative instruments. The policy for management of specific risk in the area of finance determines the strategy of managing financial risk regarding currency and interest rate risk.

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

Further, the TAURON Group has also implemented:

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

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

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

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

#### 49.1. Credit risk

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

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

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

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

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

	As at 31 December 2015	As at 31 December 2014
Institutional clients	75.39%	74.70%
Individual clients	24.61%	25.30%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

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

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

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

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

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

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

#### Write-downs for receivables from clients and other financial receivables

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

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

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

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



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

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

**49.1.2. Credit risk related to cash and cash equivalents**

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

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

**49.1.3. Credit risk related to originated loans**

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

**49.2. Liquidity risk**

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

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

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

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

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

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

## Financial liabilities as at 31 December 2015

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

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

## Financial liabilities as at 31 December 2014

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

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

### 49.3. Market risk

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

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

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

#### 49.3.1. Interest rate risk

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

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

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

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

#### Financial instruments by interest rate type at 31 December 2015

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

#### Financial instruments by interest rate type at 31 December 2014

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

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

#### Sensitivity analysis

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

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

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

The Group identifies exposure to the risk of changes in WIBOR and EURIBOR, but as at 31 December 2015 the EURIBOR interest rate risk was insignificant. The tables below present sensitivity of the gross financial profit/loss as well as other comprehensive income (gross) to reasonably possible changes in interest rates within a horizon until the date of the next financial statements, assuming that all other risk factors remain unchanged.

#### Year ended 31 December 2015

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

#### Year ended 31 December 2014

Classes of financial instruments	31 December 2014		Sensitivity analysis for interest rate risk as at 31 December 2014			
	Carrying amount	Value at risk	WIBOR		EURIBOR	
			WIBOR + 69 bp	WIBOR -69 bp	EURIBOR + 97 bp	EURIBOR -97 bp
			Profit or loss / other comprehensive income		Profit or loss / other comprehensive income	
Deposits	35 823	35 823	247	(247)	-	-
Loans granted	204 699	204 699	1 412	(1 412)	-	-
Cash and cash equivalents	1 420 909	1 420 909	9 606	(9 606)	237	(237)
Derivatives (assets)	1 811	1 499	(4 624)	4 624	(223)	223
Preferential loans	55 222	55 222	(381)	381	-	-
Arm's length loans	1 164 892	4 481	(31)	31	-	-
Bank overdrafts	11 918	11 918	-	-	(116)	116
Issued bonds	6 821 830	6 110 631	(42 163)	42 163	-	-
Obligations under finance leases	59 904	59 904	(413)	413	-	-
Derivatives (liabilities)	196 116	195 554	(4 439)	4 439	(26 016)	26 016
<b>Total</b>			<b>(40 786)</b>	<b>40 786</b>	<b>(26 118)</b>	<b>26 118</b>

#### 49.3.2. Currency risk

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

### Currency position as at 31 December 2015

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

### Currency position as at 31 December 2014

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

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

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

### Sensitivity analysis

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

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

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

**Year ended 31 December 2015**

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

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

**Year ended 31 December 2014**

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

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

**49.3.3. Commodity price risk related to commodity derivative instruments**

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

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

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

## Sensitivity analysis

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

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

## 50. Operational risk

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

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

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

## 51. Finance and capital management

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

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

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

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

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

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

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

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

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

Change in the balance of debt has been presented below.

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



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

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

## 53. Events after the end of the reporting period

### Issuance of debt securities

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

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

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

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

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

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

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

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

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

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

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

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

#### **Redemption and issuance of debt securities**

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

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

**Management Board of the Company:**

Katowice, 8 March 2016

Remigiusz Nowakowski – President of the Management Board .....

Jarosław Broda – Vice-President of the Management Board .....

Kamil Kamiński – Vice-President of the Management Board .....

Marek Wadowski – Vice-President of the Management Board .....

Piotr Zawistowski – Vice-President of the Management Board .....

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